Empirical research on relationship of urbanization and residents' income gap to consumer demand—Based on a Pannel Data model analysis covering the data in western China during 2000-2014

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Abstract: Residents' income gap to consumer demand in western China since 2000 was selected as the object of study. An empirical study was conducted by using the Pannel Data model and methodology to analyze the data collected from 11 provinces and regions in Western China during 2000-2014. The findings show that urbanization in western China has a positive effect on promoting consumer demand, and the residents' income gap is the root cause that directly influences consumer demand. On this basis, it is suggested to attract more people to settle   in   cities   and   towns   and   improve urbanization rate by optimizing urban layout and increasing   input   into   urban   infrastructure. Furthermore, it is necessary to narrow the residents' income gap in western China and improve the consumer   demand,   so   as   to   support   the improvement of urbanization quality in western China.
Keywords: western China; urbanization; consumer demand

1 INTRODUCTION

The development experience worldwide indicates that   urbanization   is   closely   bound   up   with consumer demand, as evidenced by the fact that the consumption level of residents improves rapidly when urbanization accelerates, and increases slowly when urbanization develops slowly. In particular, with   the   acceleration   of   urbanization,   a   large amount of rural surplus labor surges into cities and continuously creates consumer demand, especially in the tertiary industries such as real estate, logistics, finance, wholesale and retail. As the urbanization in China continued to grow from 29.04% in 2000 to 52.57% in 2012, the people's consumption level considerably improved from 2,355 yuan per capita in 2000 to 14,098 yuan per capita in 2012. In 2012,

the consumption level of the residents in eastern China with a higher urbanization rate was 20,452 yuan per capita, far more than 9,593 yuan in western   China.   In   recent   years,   with   the implementation   of   the   Western   Development, repositioning of the Silk Road economic belt and the   further   implementation   of   urbanization development in western China, the urbanization in western China has ushered in a good era of continuous   growth.   Meanwhile,   the   residents' consumption level and power has continued to improve, although a gap exists. Therefore, under the new normal, the key to how to promote the coordinated development of urbanization and the residents' consumer demand and orderly narrow the residents' income gap is to scientifically judge the relationship between urbanization in western China and residents' consumption, and propose specific measures for urbanization in western China, which is of great theoretical and practical significance.

2. LITERATURE REVIEW

In   recent   years,   more   and   more   research   on urbanization has been conducted. Scholars have examined   urbanization-related   factors   from different   perspectives   and   those   who   have examined urbanization from the perspective of demand have also made some achievements and reached different conclusions. Some scholars raised question   about   the   relationship   between urbanization in China and residents' consumption and even believed that urbanization was not highly related to residents' consumption level or demand. For example, Fan Jianping et al. (1999) carried out an empirical research of the relationship between urbanization in China and residents' consumption since the reform and opening-up, in which they examined and confirmed the tiny contribution that the improvement in urbanization made to the improvement of consumption[1], and concluded that

the two were lowly related. Liu Zhifei et al. (2004) analyzed the relationship between urban residents' consumption ratio and urbanization, and also found the two were lowly related [2] Chen Nanyue (2004) studied the role of urbanization in promoting residents' consumption since the reform and opening-up and concluded through empirical methods that urbanization had a very limited impact on consumer demand[3].However, more research believed that urbanization was closely related to residents' consumption demand and that urbanization played a positive role in promoting consumer demand. In foreign countries, W. A. Liews (1954) proposed the theory of urban-rural dual economic structure and held that differences in agricultural and industrial productivity were the main driving force for the transfer of rural surplus labor to cities and towns, that rural population entering cities to work would earn an income more than they would through agricultural production, hence their consumption power and demand would be gradually improved, and that this in a sense inferred that urbanization had an active impact on consumer demand[4] Rostow (1990) noted in the theory of the stage of economic growth that in the course of economic development, the proportion of residents' consumption to GDP showed a U shape (decrease before increase), and that the increase in urban population was the primary reason for the late increase of the aforesaid proportion[5]. Krugman (1991) analyzed the effect of the impact of urbanization on residents' consumption and believed that the promotion of urbanization would lead to a growing population, boost consumer demand and result in an increase in the size of consumption, so urbanization had a positive impact on consumer demand[6].In China, Wang Li'na (2001) stated that residents' income gap was an important cause of insufficient consumer demand, rural consumer demand should be increased by increasing residents' income, and that farmers entering cities to work was an important way of increasing income and would have a direct impact on the improvement of urbanization in the long run [7] Li Pumin et al. (2009) argued that the urban-rural dual economic structure was the root cause of the lagging behind of urbanization development, and that promoting the increase of urban employment, and attracting the rural population into the cities was the fundamental way to improve the urbanization rate as well as the key to enhancing consumer demand[8].Li Tongping et al. (2013) held through research that urbanization had a certain positive impact on consumer demand and that improving the quality of urbanization could promote a benign interaction between urbanization and expansion of the consumption rate[9]. Wen Xue (2015) established the Pannel Data model, conducted an empirical test of indicators and data

related to urbanization and residents' consumption during 1995-2012, and found that urbanization had a positive role in promoting residents' consumption[10].

Quite a number of scholars have carried out research and exploration of urbanization development in western China. Wu, Cao, Deng et al. found through research that as western China differed hugely from eastern China in the location conditions, natural environment and natural resources for urbanization construction, western China should explore a proper urbanization development path instead of directly referring to the development model of eastern China, promote urbanization construction through resources-based development, tourism-based development in poor areas and by relying on main transport lines, establish a long-term, stable green urban development strategy, promote green culture and the construction of green cities, and develop the green urban industry in western China by raising green urban development funds.

In summary, extensive domestic and foreign research has shown that the mainstream opinion holds that urbanization is closely related to consumer demand, and that consumer demand is mainly affected by residents' income. However, China has a vast area with distinctive differences between four major regions including western China and eastern China, but existing research is mostly based on a national perspective without considering regional differences, and obviously has certain limitations. Therefore, it's necessary to scientifically judge the relationship of urbanization to residents' consumption and income based on the characteristics and development trends of different regions, and to propose scientific countermeasures against problems. To this end, to make up for the deficiency of the existing research, this paper will carry out a specific research on the relationship of urbanization in western China and residents' income gap to consumer demand based on actual conditions in western China.

3 CURRENT STATE OF URBANIZATION DEVELOPMENT AND CONSUMER DEMAND IN WESTERN CHINA

(1) Current state of urbanization development in western China

First, both the urbanization rate and residents' consumption level show a steady growth trend. With the implementation of the Western Development since the 21st century, and the great importance the central work conference on urbanization has attached to urbanization in western China, the urbanization rate in western China grew from 28.7% in 2000 to more than 45% in 2014, up nearly 20%. Meanwhile, the per capita consumption level of residents in western China

increased from 944.2 yuan in 2000 to more than 10,000 yuan in 2014, which grew by more than 10 times in the past more than 10 years. Second, there remains a marked gap between western China and eastern China in urbanization rate, residents' income gap and consumer demand. For example, the residents' income gap grew from 7,000 yuan in 2000 to 20,000 yuan in 2014, which was quite evident. Besides, despite some improvement, the urbanization rate in western China was far less than the country's average level of 56.1% in 2015 and the urbanization gap continued to expand. As the widening of residents' income gap has led to the fact that farmers recently entering cities have a limited consumption power of consumer goods as they couldn't afford to buy a house in the short term and that their consumption demand improves more slowly, it has become an important factor restricting urbanization development in western China in the current stage.

(2)Development issues

The particularity of western China determines the unique relationship of its urbanization to residents' income gap and consumer demand. First, the degree of urbanization affects the consumption structure. Western cities are mainly small and medium-sized cities due to seriously insufficient development of big cities, so western China is lacking in the guiding and promoting role of big cities. For example, the capital cities in western China mostly have a population of below 5 million and prefecture-level cities have an even smaller population, which makes it hard to give play to the agglomeration and scale effects of urbanization development. Meanwhile, western China has a distinct urban-rural dual economic structure and consumer demand varies significantly. Compared with the consumption structure of urban residents, rural residents mainly consume survival-based material goods and have a narrow consumption model. In addition, due to the shortage of big cities and the lack of high-end urban facilities, residents' consumption level is difficult to upgrade. Second, outdated urban infrastructure affects farmers entering cities as well as the urbanization rate. There is a wide gap between eastern China and western China in infrastructure construction. Moreover, the small urban population density in western China requires a large amount of unit investment in infrastructure and makes it difficult to improve the speed of infrastructure construction. Unsound provision of infrastructure leads to a cost of living in western China not lower than that in eastern China and given the widening of residents' income gap, the overall consumer demand in eastern China has been seriously restricted. Third, policies and ideas hindering urbanization development still exist in some areas. The gap between eastern and western China is narrowing as overall economic and social development improves, but there remains a major gap between them in some ideas. For example, the idea of "never truly leaving one's homeland" and the traditional consumption idea of "emphasis on deposits over consumption" haven't been considerably changed in western China. Many rural residents still feel reluctant to leave the countryside and even though they have increased income by working in towns and cities, their role in improving the urbanization rate is not particularly evident[11]. In addition, new consumption ideas of "adjusting one's expense to one's income", "attention to consumption benefits" and "emphasis on spiritual satisfaction brought by consumption" are hard to be recognized by the public in a short term. In summary, due to insufficient urbanization, lack of infrastructure, and lagging behind of institutional changes in western China, the residents' consumption rate continues to decline, the consumption structure upgrades slowly, and the outdated consumption patterns and ideas are hard to be effectively curbed in a short term, which have to some extent restricted consumer demand and affected the course of urbanization.

4 THEORETICAL HYPOTHESES AND MODEL ETTING

(1)Theoretical hypotheses

Zeng Linghua (2001) studied and found that the increase in the urbanization rate is directly related to the rural population entering cities, improving the resident's income was a key factor driving the rural population into cities, and that the population entering cities would certainly create more demand[12]. FanGang (2004) found that per capita consumption level of residents had a direct impact on the urbanization rate[13]. FangHuizeng (2010) &Fang (2010) believed that the increase in the urbanization rate would bring more investment and demand such as urban infrastructure investment and consumer demand[14]. Yang Mingcan (2010) studied and found that with the widening of the income gap between urban and rural residents, urban consumer demand improved somewhat, but the force driving rural residents into cities was still insufficient. Zhang Yonghao (2013) studied and found that capital formation rate had a long-term stable relationship with consumer demand as evidenced by the fact that the increase in fixed assets investment in rural areas had an impact on the increase in consumer demand. Xiao Wangchun (2015) held that urbanization development should not only be reflected in the increase in the urbanization rate, but attach importance to urbanization quality such as the improvement of urban and rural infrastructure and optimization of residents' consumption environment[15]. Based on the above major ideas, this paper makes the following hypotheses about the relationship of

urbanization to residents' income and consumption level in western China:

Hypothesis 1: The urbanization rate has a positive impact on consumer demand. That is, the agglomeration effect brought by a higher urbanization rate plays a role in promoting the overall consumer demand.

Hypothesis 2: Residents' income gap has a negative impact on consumer demand. That is, the widening of residents' income gap will lead to a decline in the overall consumer demand. For example, the widening of residents' income gap in western China will hold rural residents back from entering cities and hinder the improvement of the urbanization rate, thereby inhibiting the agglomeration effect brought by urbanization, and affecting the overall consumer demand.

Hypothesis 3: The capital formation rate and fixed assets investment in rural areas have a positive impact on consumer demand. A higher capital formation rate and fixed assets investment in rural areas means more investment in the area. More investment can improve the local living and production environment, make the area more suitable for living and working for residents, attract more residents to the area, and increase the urbanization rate while stimulating consumer demand.

(2) Variables and model setting

This paper focuses on examining the impact of urbanization and residents' income gap on consumer demand. Considering the traceability and comparability of data, consumer demand is measured by residents' consumption rate, the proportion of per capita consumption level of residents to per capita GDP, urbanization is measured by population urbanization rate, and income gap between urban and rural residents, as an intermediate variable influencing consumer demand and urbanization, is expressed by the ratio of net income per urban household to net income per rural household. Meanwhile, based on the hypothesis of their impact on the income gap between urban and rural residents and consumer demand, the capital formation rate (investment rate, the proportion of total investment in the fixed assets to GDP) and rural fixed assets investment ratio (the proportion of rural fixed assets to total fixed assets) are selected as two control variables. To remove heteroscedasticity, a natural logarithmic transformation is applied to all the above variables. In summary, the models set in this paper are described below:

$$\ln(RC_{it}) = \alpha_0 + \alpha_1 \ln(UR_{it}) + \Sigma \beta_i X_{it} + u_i + \varepsilon_{it}$$

Where, i and t represent a certain province in western China and a certain time point during 2000-2014 respectively, RC_{it} represents the

consumption rate of residents of province i in the tth year, UR is the urbanization rate, X means control variables, including urban and rural income gap, capital formation rate and rural fixed assets investment ratio, u_i is the fixed effect of non-observable provinces, and ε_{it} is a stochastic disturbance term.

(3) Data description

The data sources are China Population Statistics Yearbook, China City Statistical Yearbook, China Statistical Yearbook and statistical bulletins of western provinces. The selected sample contains annual data of in 11 western provinces and municipalities (Tibet is not included due to the lack of data) during 2000-2014. Due to a limited space, this research only prepares descriptive statistics of original data as shown in Table 1 below.

Table 1 Statistical description of variables

variable	LLC	IPS-W	ADF	PP	conclusion
lnRC	-1.28 (0.10)	1.61 (0.95)	11.18 (0.97)	10.11 (0.99)	non-stationary
ΔlnRC	-11.67*** (0.00)	-10.41*** (0.00)	128.90*** (0.00)	204.14*** (0.00)	stationary
lnUR	1.78 (0.96)	5.82 (1.00)	7.67 (0.99)	7.17(0.99)	non-stationary
ΔlnUR	-5.51*** (0.00)	-4.15*** (0.00)	66.79*** (0.00)	72.47*** (0.00)	stationary
lnGAP	-1.15 (0.13)	-0.14 (0.45)	23.92 (0.35)	23.03 (0.40)	non-stationary
ΔlnGAP	-9.97*** (0.00)	-9.00*** (0.00)	111.48*** (0.00)	135.82*** (0.00)	stationary
lnCF	-1.22 (0.11)	1.78 (0.96)	14.49 (0.88)	9.73 (0.99)	non-stationary
ΔlnCF	-8.49*** (0.00)	-6.78*** (0.00)	86.56*** (0.00)	159.32*** (0.00)	stationary
lnRF	4.88 (1.00)	4.79 (1.00)	7.30 (0.99)	4.84 (1.00)	non-stationary
Δln RF	-6.17*** (0.00)	-7.15*** (0.00)	90.70*** (0.00)	76.88*** (0.00)	stationary

5 MODEL ESTIMATION AND RESULT ANALYSIS

(1) Unit root test

In this paper, the lag length of the unit root is automatically selected according to the Schwarz standard and the unit root test results of the panel data are obtained as shown in Table 2. The results show that the original sequence of each variable is not stationary, but becomes stationary after the first order difference, which is significant at the level of 1%, and that all the variables are integrated of order I (1).

(2) Co-integration test

A co-integration analysis of urbanization and residents' consumption is carried out by using the panel data with consideration to the possibility of "spurious regression". Given the fact that the sample data in this paper covers a time span of 2000-2014 (T=15), Pedroni test, Kao test and Fisher test are carried out for the co-integration test and the test results are provided in Table 3. The results show that there is a certain relationshipal model between the variables and that the variables

vari	LLC	IPS-W	ADF	PP	concl
lnR	-1.28	1.61	11.18	10.11	non-
Δln	-	-	128.90**	204.14*	statio
lnU	1.78	5.82	7.67	7.17(0.	non-
Δln	-5.51***	-4.15***	66.79***	72.47**	statio
lnG	-1.15	-0.14	23.92	23.03	non-
Δln	-9.97***	-9.00***	111.48**	135.82*	statio
lnC	-1.22	1.78	14.49	9.73	non-
Δln	-8.49***	-6.78***	86.56***	159.32*	statio
lnR	4.88	4.79	7.30	4.84	non-
Δln	-6.17***	-7.15***	90.70***	76.88**	statio
Δln RF	-6.17*** (0.00)	-7.15*** (0.00)	90.70*** (0.00)	76.88*** (0.00)	stationary

lnC	-1.22	1.78	14.49	9.73	non-
Δln	-8.49***	-6.78***	86.56***	159.32*	statio
lnR	4.88	4.79	7.30	4.84	non-
Δln	-6.17***	-7.15***	90.70***	76.88**	statio

can be estimated using the model.

Table 2 Unit root test results of panel data
Note: The values in brackets are P values. ***, ** and *mean 1%, 5% and 10% level of significance respectively.

vari	LLC	IPS-W	ADF	PP	concl
lnR	-1.28	1.61	11.18	10.11	non-
Δln	-	-	128.90**	204.14*	statio
lnU	1.78	5.82	7.67	7.17(0.	non-
Δln	-5.51***	-4.15***	66.79***	72.47**	statio
lnG	-1.15	-0.14	23.92	23.03	non-
Δln	-9.97***	-9.00***	111.48**	135.82*	statio
lnC	-1.22	1.78	14.49	9.73	non-
Δln	-8.49***	-6.78***	86.56***	159.32*	statio
lnR	4.88	4.79	7.30	4.84	non-
Δln	-6.17***	-7.15***	90.70***	76.88**	statio

Table 3 Co-integration test results of panel data

Note: The values in brackets are standard deviations. ***, **, and * mean 1%, 5% and 10% level of significance respectively.

Table 4 Model estimation results

vari	LLC	IPS-W	ADF	PP	concl
lnR	-1.28	1.61	11.18	10.11	non-
Δln	-	-	128.90**	204.14*	statio
lnU	1.78	5.82	7.67	7.17(0.	non-
Δln	-5.51***	-4.15***	66.79***	72.47**	statio
lnG	-1.15	-0.14	23.92	23.03	non-
Δln	-9.97***	-9.00***	111.48**	135.82*	statio

Note: The values in brackets are standard deviations. ***, **, and * mean 1%, 5% and 10% level of significance respectively.

(3) Model results

Given the static property of data, the fixed effect is more proper for estimation, so Hausman test is carried out as shown in Table 4. The test results show that R2 reaches 0.88, indicating that this model plays a certain role in explaining the relationship of urbanization to income gap between urban and rural areas and consumer demand in western China.

(4) Empirical result analysis

First, urbanization has a positive impact on consumer demand. The research results show that the urbanization rate in western China has a 1% level of significance to consumer demand, and that each increase of 1% in the urbanization rate represents an increase of 0.337% in consumer demand. This shows that the urbanization rate brings a significant agglomeration of consumer demand. In recent years, with the thorough implementation of the Western Development, the urbanization rate has continued to improve. Especially after the central work conference on urbanization that has made clear requirements for future development of western China, medium and large cities in western China will achieve a breakthrough in the future, and the aggregation and scale effects of cities will be highlighted and play a role in promoting the improvement and expansion of the consumption environment in western China. Meanwhile, residents' disposable income improves steadily and will promote the upgrading of the consumption structure, which will create a steady stream of jobs, provide more jobs for the rural population entering cities, attract more rural population into cities and promote the growth of urban consumption demand and steady improvement of urbanization. It can be seen that consumer demand can be increased by promoting the upgrading of the consumption structure, boosting urbanization development, improving industrial supporting capacity of cities and creating more employment opportunities. But western China still faces many problems. For example, the institutional construction in western China lags behind its urban construction; western China cannot attract much quality investment due to a major gap with eastern China in the investment and financing environment; western China is lacking in urban infrastructure, and has an urban functional failure, a

weak economic foundation, a low quality of urban development, a slowly-upgrading industrial structure and poor comprehensive competitiveness. These are practical difficulties western China faces in the course of urbanization development.

Second, for the control variables, the income gap between urban and rural residents has a negative impact on consumer demand. Data shows that each increase of 1% in the income gap between urban and rural residents represents a decrease of 0.211% in consumer demand. This indicates that urban residents will reduce consumption due to the widening income gap, which is quite in line with the actual conditions in western China. The current consumption level is not high in western China. For example, the consumption of houses and vehicles, etc. in western China is much less than that in eastern China. This to some extent affects the consumption agglomeration effect brought by urbanization. The results show that both the capital formation rate and rural fixed assets investment ratio have a positive impact on residents' consumption. In particular, infrastructure construction in western China not only facilitates the improvement of infrastructure, but narrows the gap between urban and rural areas in western China. Meanwhile, with the improvement of infrastructure, it becomes more convenient for the rural population to get in and out of cities, which will inevitably stimulate some potential demand, change the traditional consumption concepts and encourage bold consumption. Furthermore, this will strongly promote the increase in consumer demand in western China.

(5) Means of impact

Urbanization is an important stage in the process of integration of urban and rural areas and requires the support of residents' consumption, which requires residents' income. Compared to industrialization that creates supply, urbanization creates demand. Based on the above analysis, this paper describes the means of impact of urbanization on residents' consumption from the following four aspects.

First, urbanization improves the income of urban and rural residents. Cities offer more employment opportunities and a higher labor wage rate due, which will greatly improve the income of those working there. Moreover, as a growing amount of labor force gathers in cities, more information, capital and technology produce agglomeration and scale effects, provide more jobs and enrich the urban labor market to improve the income of urban residents.

Second, urbanization promotes the upgrading of the consumption structure. The deepening of urbanization will inevitably bring about the flow of commerce and trade, and the improvement of infrastructure, as well as facilitate the communication between regions, and lead to the

changes in the consumption concepts, consumption patterns and consumption culture. Especially with the leading role of medium and big cities, a growing number of business districts will emerge and stimulate commercial development and consumption potential. Urbanization promotes continuous upgrading of consumer psychology and varieties and create more consumer demand.

Third, urbanization promotes industrial upgrading and expands market demand. Urbanization is the process of redistribution of main production elements in cities. As urban areas have more elements such as capital than rural areas, the agglomeration effect enables the urban market size to grow continuously and boosts the development of the tertiary industries such as commerce & trade, catering, insurance and logistics in order to promote continuous industrial upgrading and create more consumer demand.

Fourth, urbanization offers more employment opportunities, and attracts more rural population into cities, producing a cyclical effect. With continuous improvement of residents' income, the urban population continues to increase, and the market capacity of cities will further expand. Meanwhile, the enhanced appeal of industry will also create more employment opportunities and attract more rural surplus labor into the cities, thus forming a benign interaction between urbanization and consumer demand.
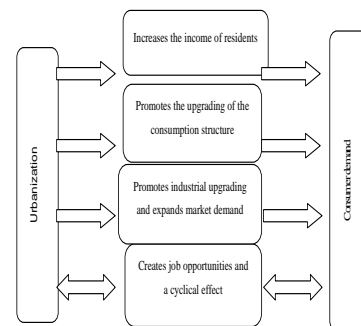

Figure 1 Means of impact of urbanization on consumer demand

6 CONCLUSION

This paper analyses the development trends and problems of urbanization and residents' consumption in western China since 2000, and conducts an empirical analysis using data of urbanization and residents' consumption level in 11 provinces and municipalities in western China during 2000-2014 and finds that the improvement of the urbanization rate has a positive impact on the increase in residents' consumption level in western China. Based on the empirical analysis results, we draw the following conclusions and policy recommendations:

In western China, urbanization construction progresses slowly, and the residents' consumption level is persistently low. Although urbanization

plays a positive role in promoting the residents' consumption level in western China, its role is limited due to an unreasonable urban structure, scarcity of infrastructure, and backwardness of urban institutional construction. Given the unique characteristics of its urbanization development, western China should explore its own urbanization development path in the new era according to its development characteristics and problems.

First, optimizing the urban structure and promoting the upgrading of the consumption structure. Western China should accelerate urbanization construction to attract more urban surplus labor into cities. Efforts should be made to establish a proper urban structure in western China, form a reasonable echelon of large, medium and small cities and develop network-based multi-center peripheral urban clusters supported by related industries to promote the upgrading of the consumption structure and create diversified consumption patterns.

Second, promoting the construction of infrastructure, and making residents' consumption more convenient. Efforts should be continued to optimize the urban commercial outlet layout in western China and create a good environment for consumer demand, such as offering some means of public transport in urban and rural areas and establishing urban and rural information communication websites in order to transform the backward consumption patterns in western China to moderate consumption, green consumption and sustainable consumption patterns and enable people to have the money, means and desire for consumption.

At last, valuing institutional construction and upgrading the consumption concepts. Efforts should be made to further emancipate the mind, break the institutional and mechanism barriers, and intensify reforms in investment attraction to create a more appealing investment environment in western China, and attract and retain foreign investment and rural population. Measures should be taken to stimulate consumption and consumer demand, encourage consumption of houses and cars, truly steadily improve the urbanization rate in western China and bring consumer demand to a new leve.

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