In the last three decades, China has undergone rapid and massive urbanization. Today, more than 700 million people live in cities and towns, more than triple the nearly 200 million in 1980 (see graph.) While this epic rural-urban shift has many of the trappings of urbanization, as observed elsewhere in the world, the Chinese case is much more complex.

Underlying China’s glittering modern urban facade and prosperity is one crucial dynamic that is unique in modern times and yet largely ignored in the popular literature: its institutionalized two-tier, rural-urban divide. This outcome of Mao-era social engineering continues to this day. This division not only manifests itself in economic and social terms, as in many Third World countries in the throes of urban transition, but also in tightly enforced clear legal terms, mainly through a system of hereditary residency rights called the hukou, or household registration.

The hukou system differentiates the population into two classes: an urban class whose members have access to basic social welfare programs and full citizenship, and an underclass of peasants with neither of these privileges. In Mao’s era, peasants were forbidden to go into the cities and confined to tilling the soil to grow food for urban workers. When China opened up in the late 1970s, peasants were allowed to enter the cities to work in low-paying factory and service jobs, many of which involve dirty and dangerous work. At the same time, however, peasants were and still are denied access to urban services and other opportunities because the great majority of them are not allowed to change their hukou from rural to urban.

Rural migrants work and live in the city but are not part of the urban class—not now and not in the future, no matter how many years and how hard they have worked in the city. Together with their families, they form a mammoth “floating population,” in the range of about 220 million and still growing. The fact that they are purposely held down as a massive permanent underclass is precisely why China has a huge and almost inexhaustible pool of super-exploitable labor. Perhaps that explains why China is the world’s largest—and most “competitive”—manufacturing powerhouse!

China’s rapid urban population growth, as represented by the thin line in the accompanying graph, is familiar to many. But that single-line depiction leaves out an important point: the majority of migrants to the city do not have urban rights. Alarmingly, the gap between the total population living in cities and those who possess urban rights (the thick line) has widened as the country moves forward. If this trend continues, the colossal underclass will definitely spell trouble for the country in the years to come.

The media has often portrayed rapid urbanization in China as leading to a larger middle class and greater consumption rates. That narrative, however, seems problematic given China’s current configuration of economic and legal inequities. There are many myths behind the perception and sustainability of China’s recent economic rise. Urbanization remains one of the biggest.