

Towards China's Urban-Rural Integration: Issues and Options

*Zhong Sheng**
National University of Singapore

Abstract

The paper discusses China's urban-rural disparity as well as the national and local policies implemented to tackle the problem in recent years. It is shown that in the reform era, China's urban-rural divide had been narrowed initially but later became widened again. Fearing social instability, the Central Government initiated a series of policies to forge "coordinated urban-rural development" (CURD). These policies touch on public finance, local public administration, social systems, rural land use, physical development and *hukou* policies. At the same time, the National Comprehensive CURD Experimental Zones was set up in Chongqing and Chengdu. The paper reviews Chongqing's major CURD policy innovations, namely *hukou* reform, the establishment of the rural land exchange, affordable housing programmes and the development of the poor hinterland. It is argued that China's CURD reforms face three major challenges, including defining ends and means, policy coordination and costs of reforms.

Keywords: *urban-rural disparity, coordinated urban-rural development, Chongqing*

JEL classification: *H75, J61, R58, Z13*

1. Introduction

Over three decades of hyper economic growth in China has turned the country into the world's second largest economy by 2010. However, growth has not benefited the country equally. Fan *et al.* (2009) summarizes three types of regional inequality in China: rural/urban, inland/coastal and provincial. This paper deals with the first type of spatial inequality as well as recent policy initiatives to address the problem. The emphasis is laid on public policies rather than theoretical explanations for the spatial disparity, although the

latter is briefly discussed. In the sections that follow, I will first present some evidence of China's widening urban-rural gap followed by a summary of recent policy development to tackle the issue under the Coordinated Urban-Rural Development (CURD, *chengxiang tongchou* 城乡统筹) initiatives. In particular, I will discuss major national efforts as well as local experiments in Chongqing, a National Comprehensive CURD Experimental Zone (*quanguo tongchou chengxiang zonghe peitao gaige shiyan qu* 全国统筹城乡综合配套改革试验区). At the end, I will comment on challenges facing CURD reforms and offer a few recommendations.

2. Widening Urban-Rural Gap

Before discussing any evidence of urban-rural divide, it is necessary to clarify the meaning of "urban" and "rural". If China's household registration system (*hukou* 户口) and large-scale rural-urban migration were absent, things would be quite straight-forward. However, the Chinese institutional constraints, namely the ease of migration relative to rural-urban *hukou* conversion has created a hybrid type of population: migrant workers, who have physically resided in cities for an extended period of time but are nevertheless still officially regarded as rural citizens. This paper uses *hukou*-based criterion and classifies this group of people as rural population. This is because the disparity between entitled urban *hukou* residents and migrant workers within cities constitute an important dimension of China's urban-rural duality. Categorizing migrant workers as urban citizens would oversimplify China's inequality problems.

It is also important to point out that regional differences complicate China's urban-rural divide. An average household in prosperous regions, such as the Pearl River Delta Region or the Lower Yangtze Delta Region, may enjoy more abundant material wealth than an average household living in the cities of western provinces. For example, in numerous *chengzhongcun* (城中村) found in southern cities, such as Guangzhou and Shenzhen, indigenous farmers who have lost their cultivated land, earn their living from several sources, including land compensations, rents from overbuilt home spaces and dividends from village collective enterprises. And these combined incomes can provide local farmers with a comfortable living standard commensurate with that enjoyed by urban *hukou* residents in their cities – which is among the highest in China.

And today, rural population is no longer farmers in the traditional sense as a lot of income for rural population comes from occupations other than agriculture.¹ It is estimated that the share of income from nonagricultural sources in a rural household increased from 22.3 per cent in 1990 to 52.4 per

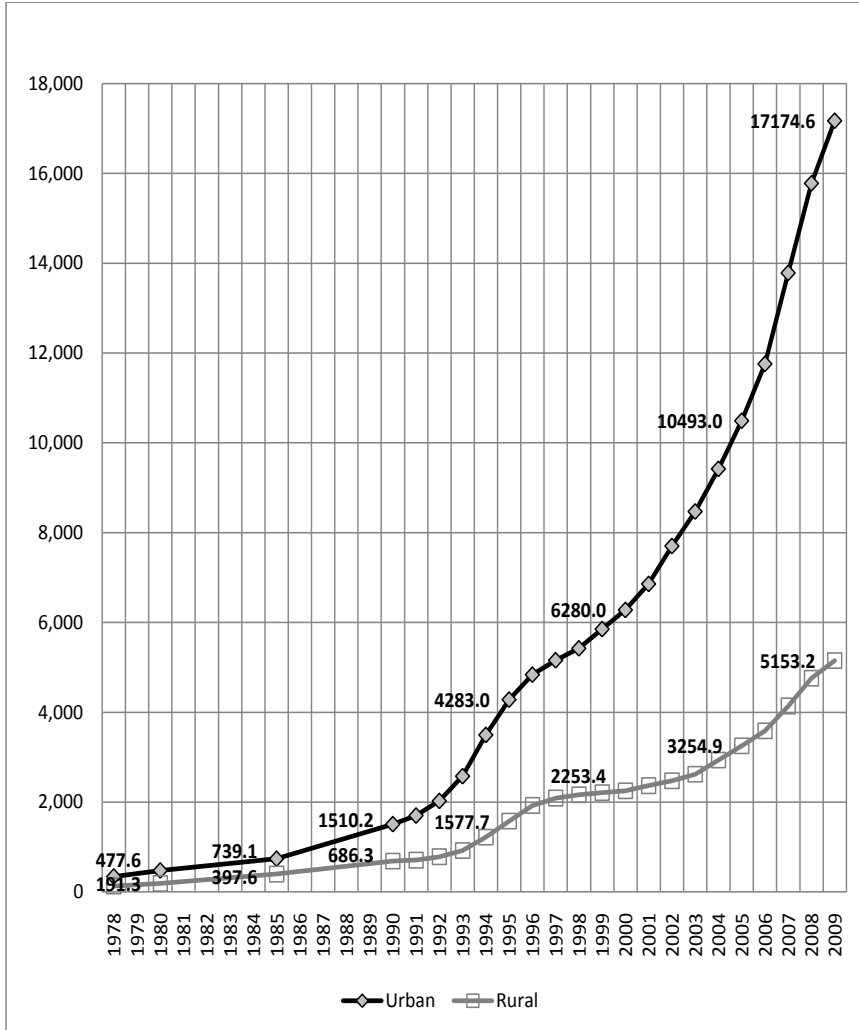
cent in 2004 and most of such income was from wages (Park, 2008). For rural workers, the choices among moving to big metropolises, moving to small cities or simply working in the village enterprises without relocation (*li tu bu li xiang* 离土不离乡) may make a big difference to their economic fortunes. In addition, wages are generally higher in coastal than in inland regions. To simplify the discussion, this paper focuses on the macro conditions of the rural population with regional nuances discussed only at some points. However, it is clear that regional variations in terms of causes, forms and severity are a persistent feature of China's urban-rural disparity.

China had a huge urban-rural divide before the economic reform due to many policy biases in favour of urban citizens in the central planning era. For example, under the central planning system, agricultural prices were artificially set at very low levels to help support the manufacturing sector in cities. Such policies redistribute wealth in favour of urban areas. And *hukou* policy also privileged urban residents by attaching certain critical entitlements such as guaranteed supply of life necessities (food, cloth, fuel, etc.) and social welfare (healthcare, education, life-time employment, pension, etc.) only to urban *hukou*. In 1978, China's per capita income for urban residents was about 2.56 times of that for rural residents.² Although in the early years of the economic reform, overall urban-rural inequality declined following the institution of the rural household responsibility system, relaxation of the control over rural sideline production, the development of cottage industries as well as township and village industries (Luong and Unger, 1998); in more recent years, however, urban-rural divide has widened. As Figure 1 shows, in 1985, per capita income ratio between urban and rural households had decreased to 1.86 (from 2.56 in 1978). However in the 2000 decade, income growth for urban households was far more dramatic than that for rural households. By 2009, the per capita urban-rural income ratio escalated to 3.33.² The absolute gap is even more striking as it increased from RMB4,027 in 2000 to RMB12,021.5 in per capita terms (both current prices). Even after adjusting urban-rural price differences, which serves to shrink the disparity to some extent, China's urban-rural income ratio is still large relative to that of most other countries. In addition, inequality between urban and rural areas is more severe in western China than in both central and eastern part of the country (Sicular *et al.*, 2005).

Consumption level is more reflective of the living conditions of households. Figure 2 shows the elevation of consumption levels of both rural and urban populations. The consumption levels for the base year of 1978 are denoted as 100 and the figures are indicative of the improvement of living standard over the base year levels. It can be seen that between 1978 and 1985, consumption for rural population increased 95.7 per cent while that for the

urban population increased only 41.3 per cent. However since the early 1990s, the growth of urban consumption levels began to accelerate. By year 2009, per capita consumption of an urban *hukou* resident was 7.12 times of its 1978 level while for the rural case, it was only 6.16 times.

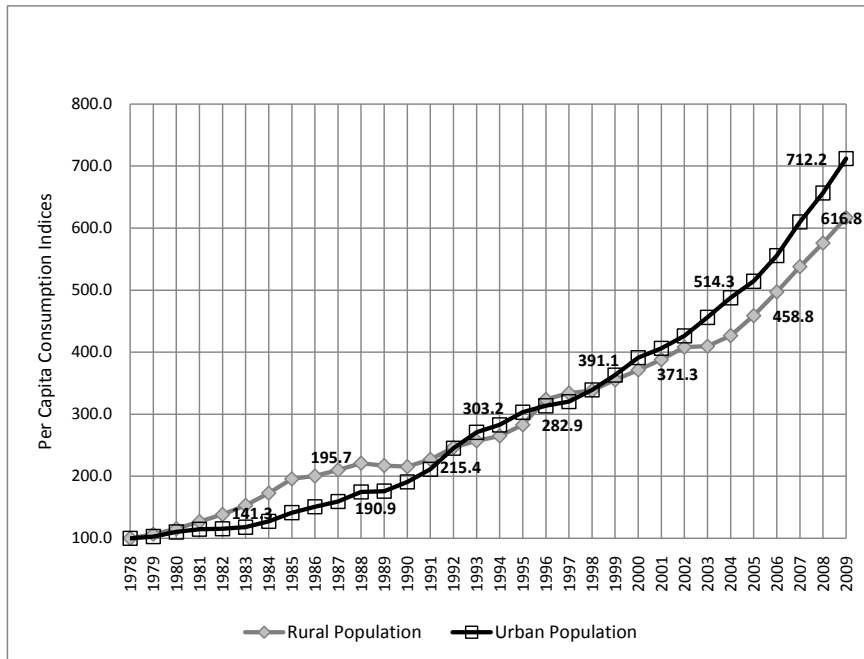
Figure 1 Per Capita Household Income (RMB)



Notes: Incomes are based on current prices. Urban population is inclusive of migrants who have been living in the city for more than 6 months.

Source: Data from *China Statistical Yearbook 2010*.

Figure 2 Urban-Rural Consumption Indices in China (Base Year 1978: 100)

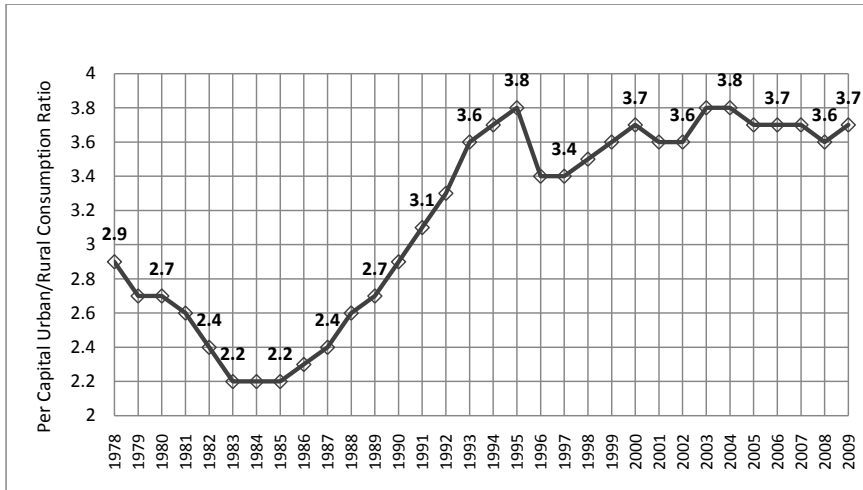


Notes: Urban population is inclusive of migrants who have been living in the city for more than 6 months. Indices are calculated at constant prices with data for the base year of 1978 set at 100 for both urban and rural population. But figures do not take into consideration the urban-rural price differentials.

Source: Data from *China Statistical Yearbook 2010*.

Figure 3 measures the consumption gap between urban and rural population. It is clear that the living standard in urban areas has been consistently higher than that for rural areas as per capita urban-rural consumption ratio has never been lower than 1. However, the period between 1978 and 1983 saw the most consistent reduction in urban-rural disparity while the years between 1985 and 1995 had experienced alarming widening of the gap. In recent years, despite fluctuations⁴, consumption gap between urban and rural population remain much higher than the 1978 level. In 2009, per capita consumption of an urban *hukou* resident was 3.7 times of that for a rural *hukou* resident. If we assume that price differentials between urban and rural areas remain unchanged, urban-rural divide had widened a great deal after three decades of economic reform.

Figure 3 Urban-Rural Consumption Gap in China



Notes: Urban population is inclusive of migrants who have been living in the city for more than 6 months. Per capita urban/rural consumption ratio has not taken into consideration the price differentials between urban and rural areas.

Source: Data from *China Statistical Yearbook 2010*.

There are many explanations for China's widening urban-rural income and consumption gaps. Income differences between urban and rural population is not unique to China as labour productivity in manufacturing and services that cities specialize are generally higher than that in agriculture. But the productivity gap only explains a minor proportion of China's urban-rural inequality (Sicular *et al.*, 2005). Regional economic development theories suggest that under perfect market conditions, productivity gaps across localities would propel migration which helps to narrow the income gap over time. However, perfect market condition rarely exists in real situations. Moving is very costly financially, socially and emotionally for households. So even without any institutional control on migration, urban-rural labour productivity and income gaps would persist. But in China, in addition to the "natural" factors that deter migration, the administrative control on *hukou* conversion constitutes a big obstacle to labour mobility. This unique institutional feature may help explain the larger urban-rural income gap in China than that observed in most other countries (Park, 2008).

In addition to income and private consumption, rural-urban inequality is also reflected in the quantity and quality of physical infrastructure and public services. China's hierarchical public finance system privileges higher

administrative tiers and budgetary funds are usually siphoned away during the course of the hierarchical transfer. Hence only a meager part can reach the township and village coffers (Fock and Wong, 2008).⁵ On the other hand, in rural areas, local sources of funding are very limited. Urban governments can derive large revenue from land sales. However, things are very different for the rural communities as the use-right of rural land cannot be directly sold in the land market by their owners – rural collectives. Even when rural land is sold or leased in the black market, a quite common practice in rural China (Ho, 2001; Ho and Lin, 2003), land prices are usually depressed because of the periphery locations of the plots concerned⁶ as well as the illegal nature of such transactions. In many places, village collective enterprises and special levies, including many unauthorized levies on rural households had become important funding sources for local infrastructure and public services. However, the low levels of economic development in rural areas means that very limited funds can be collected from local collective enterprises and individual households even if they are forced to pay.

While financial resources are deficient in the rural areas, the cost of infrastructure and public service provision is significantly higher in the countryside than in cities because of the former's lower population density and its inability to realize economies of scale in service provision. The revenue and cost factors combined to widen the gap of infrastructure and public service levels in urban and rural areas. Healthcare provides an angle to gauge the public service gaps between urban and rural areas. Table 1 shows that before 2000, the disparity between urban and rural areas has been declining dramatically but in the past decade it has widened again. The trend is consistent with the income and consumption gaps.

Urban *hukou* population is also better covered by social safety net while rural *hukou* population, including rural migrant workers to cities, has to mainly rely on their own devices (for example, rural land) or on rural collective enterprises of various levels of profitability for social protection. The need for rural population to use land as a last resort leads to the reluctance of migrant workers to give up the use-right of land in their home villages even if they have acquired stable jobs in cities and have left their village land fallow for extended period of time.

Despite the importance of land to the livelihood of rural population, land is frequently grabbed by urban governments to fuel urban economic growth because it is the most important financing vehicle for China's large scale urban development. Although China's Land Administration Law and Property Law stipulate that rural collectives should be properly compensated when their land is requisitioned, the compensation standards that have been set administratively are far from sufficient to help land-losing farmers. And to aggravate the situation, land requisition deals are usually made in a non-

Table 1 Availability of Healthcare Services in Urban and Rural Areas

Year	Licensed (Assistant) Doctors (per 1,000 population)			Registered Nurses (per 1,000 population)		
	City	County	City/County	City	County	City/County
1978	2.99	0.73	4.10	1.74	0.18	9.67
1980	3.22	0.76	4.24	1.83	0.20	9.15
1985	3.35	0.85	3.94	1.85	0.30	6.17
1990	2.95	0.98	3.01	1.91	0.43	4.44
1995	2.39	1.07	2.23	1.59	0.49	3.24
2000	2.31	1.17	1.97	1.64	0.54	3.04
2005	2.20	1.06	2.09	1.66	0.51	3.25
2008	2.35	1.05	2.23	2.02	0.60	3.39
2009	2.47	1.10	2.24	2.22	0.65	3.44

Notes: Compared with cities, counties have higher proportion of rural population. One of their main responsibilities is to manage rural populations. Generally, county and township governments are considered as rural governments.

Source: *China Statistical Yearbook 2010*.

transparent way. Instead of helping farmers to tide over economic difficulties, land compensations frequently end up lining the pockets of village cadres. Therefore, in recent years, disputes related to land requisition has become a contributing factor to the uneasy urban-rural relationships and social instability (Xie and Shan, 2011).

Land, income, infrastructure and public services are interconnected with one another and under China's unique institutional framework, a vicious cycle can form if things went wrong in one aspect. Loss of land can depress rural economic development (both in agriculture and rural industries) and hence household income. Low levels of economic development also lead to funding shortage in infrastructure and public services when transfer payment is limited. While poor infrastructure further retards economic development, public service deficiencies cause the deterioration of human capital (e.g. low education level, poor health), which will eventually compromise labour productivity and economic efficiency in the long term. The *sannong* 三农 issue (agriculture, farmers and rural society) is a manifestation of the interconnectedness of various aspects of China's rural woes.

Although migration helps uplift the living standard of many rural households both in cities and back home⁷, it has its own problems in the Chinese context. As rural migrants generally perform low-paying 3D (dirty, dangerous

and demeaning) jobs in cities shunned by urban incumbents and are deprived of the urban social welfare protection and many public services (pension, healthcare, education, housing, etc.), a similar vicious cycle exist in cities as well. This vicious cycle not only replicates within the urban boundary⁸ a similar divide formed between urban and rural areas, but also extends the inequality further into future generations⁹.

The enormous urban-rural divide is said to be a substantial contributor to China's overall inequality.¹⁰ Sicular *et al.* (2005) show that after adjusting many statistical biases, urban-rural gap contributes 26-27 per cent of overall inequality in China but the figure for western China was as high as 50 per cent. Alarmed by the possibility of social instability, the Chinese government has in recent years embarked on a series of initiatives to tackle the developmental imbalances.

3. Addressing Urban-Rural Disparity

At the 16th Party Congress in 2002, Jiang Zemin, then President of China, stated that a widening urban-rural gap impedes China's efforts to build a well-off (*xiaokang* 小康) society and this trend must be reversed (Fan, 2008). And since being formalized in the 16th Party Congress report, "coordinated urban-rural development" (CURD, *chengxiang tongchou* 城乡统筹) has become a major national policy to combat the country's huge urban-rural divide. CURD forms part of the idea of the "socialist scientific development" (SSD), which calls for balancing (1) regional development, (2) urban and rural development, (3) social and economic development, (4) human needs and nature, and (5) domestic development and opening-up of the country. In 2004, the 4th Plenary Session of the 16th Party Congress proposed to build China into a "socialist harmonious society". To achieve the goal, the 11th Five-Year Plan (2006-2010) floated the idea of building the "new socialist countryside" (NSC, *shehuizhuyi xin nongcun* 社会主义新农村). In 2008, a Station Council circular on rural reforms called for achieving urban-rural integration.¹¹ In the latest 12th Five-Year Plan (2011-2015), CURD and NSC policies were further asserted.

As rural development lagged behind urban development in various aspects, CURD policies must tackle the issue from multiple fronts, covering economic, social, human as well as physical development. Industrialization, urbanization and agricultural modernization are considered paths towards urban-rural integration. Under the CURD framework, socioeconomic as well as spatial planning is expected to take into consideration the urban and rural areas as parts of an integrated whole and to assess their needs simultaneously. Cities, acting as magnets of productive resources are also expected to use their industrial and economic power to help uplift the socioeconomic conditions

of their less developed rural hinterland, for example, through investment, exchange of personnel, dissemination of information, urban-rural cooperation and so on.

So far, efforts towards CURD have been made in the correction of the institutional biases (in *hukou*, land use, finance, public investment, etc.) that have shaped China's urban-rural duality for decades. By removing the distortions, or in other words, by equalizing rights, opportunities and welfare enjoyed by urban and rural populations, the Chinese government hopes to solve the deeply entrenched *sannong* problems. In some aspects, more progressive policies are tried to give rural areas priority in development. In the following, I will provide a brief account of the reforms or policy-making at the national level.

3.1. Public Finance

Since 2001, the rural fee reform abolished all administrative fees levied on farmers. To avoid funding shortages, agricultural tax and agricultural special products tax were raised moderately and the Central Government also increased its fiscal transfer to rural areas. The overall effect was a reduction of financial burdens on rural households. Since 2004, the government began to phase out agricultural tax and slaughter tax and by 2006, these two taxes were formally abolished. Again the Central Government increased the transfer to local governments. It is estimated that the rural fee and tax reform helped reduce the financial burden of farmers by about RMB140 per person (Pan and Wei, 2010: 78) although in many places, increased fiscal transfer is insufficient to offset the local revenue decline and hence public revenue shortfalls ensued (Fock and Wang, 2008).

3.2. Public Administration

For a long period of time, *xiang* 乡 and town governments acted as state organs to control rural people rather than serving them. And government functions and business functions usually entangle with each other. Under such circumstances, local governments always play predatory rather than facilitative roles in local development. As part of the rural comprehensive complementary reforms (*nongcun zonghe peitao gaige* 农村综合配套改革), administrative reform of the *xiang* and town governments was launched in 2007.¹² The reform is intended to separate the administrative functions from the business functions and restructure the latter into true market players. At the same time, the reform also attempts to strengthen the governments' capacities in public service provision. To streamline public administration, *xiang* and town governments are encouraged to consolidate social service agencies and

outsource some service provision to the private sector. Service provision from both non-profit institutions and rural collective organizations are also encouraged (Tan, 2011; Li, 2010). By 2008, more than half of China's *xiangs* and towns had carried out this reform (Li, 2010: 79).

“Province-manage-county” (PMC, *sheng guan xian* 省管县) reform was initiated as pilot tests in selected provinces in 2002. During the 11th Five-Year Plan Period, the reform was carried out at a wider scale, covering altogether 18 provinces and province-level cities. Before the PMC reform, most counties in China, which are generally considered as rural areas, were subordinated to cities. The PMC reform allows the participating counties to be managed directly by the provincial governments. This reduces the layer of administrative hierarchy and hence makes it less likely for cities to “skim fat from counties”. For example, in Jilin Province, the reform resulted in the increment of county revenue by RMB0.7 billion each year, translating into RMB17 million more budgetary funds for each county. In Shandong Province, more budgetary funds had been channeled to building rural infrastructure and public services. In addition to revenue gains, PMC reforms also allow some participating counties, mostly those enjoying economic strength (*qiang xian* 强县), more discretion in managing local affairs. For example, in Anhui Province, 143 types of administrative decisions, mostly involving economic development issues, were relegated to the counties from upper levels of government. In Zhejiang Province, 313 types of administrative decisions were relegated, including 65 per cent related to economic issues and 35 per cent related to social issues (DRCOTSC, 2010: 297-299; Miyake, 2011).

3.3. Social System

Social safety net is where urban and rural communities see one of their widest divides and it is also among the toughest tasks facing CURD reformers. In 2003, a Rural New Cooperative Medical System (RNCMS, *xinxing nongcun hezuo yiliao* 新型农村合作医疗) based on voluntary participation was established to help farmers pay for their medical bills of major diseases. The fund is topped up by participants, the Central Government and local governments. And in 2006, government contributions were raised. From 2004 to 2009, participants in RNCMS increased from 80 million to 833 million, and total fund pooled increased from RMB4.03 billion to RMB94.4 billion.¹³

The New Rural Pension System (NRPS, *xinxing nongcun shehui yanglao baoxian* 新型农村社会养老保险) was another effort by the Central government to provide social support to rural communities. Introduced in 2009, it combines both pooled resources and personal accounts and was designed to raise funds from farmers, rural collectives and the governments. By the end of 2010, 27 provinces/autonomous regions and all 4 provincial-

level cities had established NRPS, attracting a total participants of 103 million, including 28.63 million rural elderly people (aged 60 and above) who were receiving basic pension.¹⁴ NRPS is still undergoing pilot test and according to plans, by year 2020, NRPS will cover all rural population. In addition, in 2007, the State Council also required that rural minimum living security standard be established by local governments although the specific system design and timetables for implementation are up to the localities.¹⁵

Rural basic education also got a boost in the past several years. Starting from the western regions in 2006 and later extended to the whole country in 2007, tuition and miscellaneous school fees were exempted for students receiving compulsory education (from grade one in primary schools to grade three in junior high schools) in rural areas. And since 2007, textbooks have also been provided free to students in rural areas while those boarding school students from poor families also enjoy some living allowances. In addition, both the Central Government and local governments have been earmarking more funds for rural school infrastructure. During the 11th Five-Year-Plan period, new public funding for rural compulsory education was estimated to have reached RMB265.2 billion, including RMB160 billion from the Central Government (Li, 2010: 76-91).

3.4. Rural Land Reform and Physical Development

“Decisions regarding Major Issues of Rural Reform and Development by CPC Central Committee (中共中央关于推进农村改革发展若干重大问题的决定)” released in 2008 provided comprehensive guidelines on rural reforms. In particular, it called for facilitating rural land use-right circulation as well as establishing rural land markets (for both contracted farmland/forest land and rural construction land) as a means of expediting rural socioeconomic development.¹⁶ Land issue is related to both economic and social aspect of rural development and was considered a crux of existing rural woes. The direction of the reform is to integrate the urban and rural land market. Up to now, most rural land circulation concerns the contracted agricultural land. Authorized transfer of the use-right of rural construction land, though possible, is still limited because of China’s institutional constraints (Xu *et al.*, 2009). This issue will be revisited in the next section on Chongqing’s local practices.

Physical development also constitutes an important effort. To build and promote the Socialist New Countryside, about 2,000 villages nationwide have been selected each year for additional funding support (from provincial or municipal governments) in village planning and infrastructure/public utility development. As the data show, China’s rural population without access to clean water declined from 0.34 billion in 2000 to 0.18 billion in 2008 (Pan and Wei, 2010: 83).

3.5 *Hukou* Reform

Hukou control has been assailed by economists for its deterrence to labour mobility and by sociologists for its role in causing social injustice although from the perspective of China's city managers, *hukou* provides a tool for managing urban growth (for better or for worse). As China's economic reform deepens and people's value system evolves, the negative aspects of *hukou* control are increasingly exposed and acknowledged while its effectiveness in monitoring population has been questioned. As *hukou* defines the urban and the rural as well as the different rights attached to each, eliminating *hukou* difference is a critical step towards urban-rural integration.

At the end of 2009, a central government conference on economic issues called for relaxing the control on *hukou* conversion in medium- and small-sized cities. And in mid-2010, a State Council circular reiterated this policy and in particular, encouraging the relaxation of *hukou* conversion in county seats and central towns, the lowest level of broadly defined urbanized areas. In addition, the circular also declares that a residence card system for population registration will gradually be instituted.¹⁷ However, compared with other lines of reform, policy changes in *hukou* at the national level is laggard. This is due to the perceived pressure on cities, particularly large cities if *hukou* system is to be disintegrated, a concern that has justified the *hukou* system for decades. Up to now, *hukou* reforms are mainly initiated at the local level. In some provinces or cities, such as Yunan Province and Jiaying City in Zhejiang, Guangzhou and Nanjing, *hukou* booklets no more differentiate agricultural or non-agricultural type and have been unified under the title of residents' *hukou*. However, restrictions on moving still exist, particularly for the cases of moving into the central districts of big metropolises.¹⁸ As *hukou* reforms are mainly local, I will revisit the issue in the next section when discussing comprehensive CURD reforms in Chongqing.

4. Chongqing: A Comprehensive Experimental Zone

Macro-level national policy making is ill at addressing a myriad of local specificities. In addition, CURD-oriented reforms in different sectors need to be coordinated at the local level. This gives rise to the idea of experimental zones. In June 2007, Chongqing and Chengdu were chosen as National Comprehensive CURD Experimental Zones (*quanguo tongchou chengxiang zonghe peitao gaige shiyan qu* 全国统筹城乡综合配套改革试验区). Different from earlier versions of comprehensive experimental zones (Pudong New Area, Binhai New Area and Shenzhen), Chongqing and Chengdu had CURD as their reform focus. Both cities are located in western China and in addition to addressing the issue of urban-rural inequality, CURD experimental zone

policy is also part of the initiatives to narrow China's regional gaps between the West and coastal regions. Chongqing, which is larger than Chengdu in terms of population and land size, has played an exemplary role in CURD reforms and has attracted more media attention although both cities have come up with innovative local policies.

Chongqing was separated from Sichuan Province and became China's fourth provincial level municipality (along with Beijing, Shanghai and Tianjin) in 1997. It sprawls along the intersection of the Yangtze and Jialing rivers. Historically, the city had served as a gate to China's vast western regions. Chongqing was chosen for CURD experiment because its metropolitan region is said to be characterized by a combination of "big city, big countryside, big relocated community¹⁹, big mountainous areas and ethnic regions" that epitomizes various circumstances of China's urban-rural disparity. In 2007, 80 per cent of Chongqing's 31 million people lived in the rural area, and the income gap between urban and rural population increased from 3.1:1 in 1997 to 4:1 in 2006. The per capita GDP between the central city and the poor Three-Gorge relocation communities stood at 3:1.²⁰ In addition, the ratio of labour productivity between the highest- and the lowest-income district/county was an appalling 10:1.²¹ Since becoming a CURD Comprehensive Reform Zone, the city has rolled out many innovative policies, particularly in *hukou* management, rural land market and the construction and distribution of urban affordable housing.²²

Chongqing's *hukou* reform is considered an icebreaking event. Starting from 15th August 2010, the city hopes to turn 3 and 10 million rural *hukou* holders into new urban citizens by 2012 and 2020 respectively. According to the new local regulations, rural *hukou* people who have jobs or businesses²³ or who own commodity homes in urbanized areas are given the option of acquiring urban *hukou*. And a special feature of Chongqing's policy is that rural population can retain their rural residential land (*zhajidi* 宅基地) and contracted farmland for a maximum of three years after *hukou* conversion and can continue to use the contracted forest land and enjoy rural policies on family planning.²⁴ Later, the maximum three-year restriction was further relaxed to allow *hukou* converters more flexibility. Colleges and universities students from rural areas are also encouraged to convert their *hukou* type.²⁵ In addition, rural population who lost their land in previous land requisitions or who give up their rural land voluntarily are also given urban *hukou* in addition to land compensations. In principle, all urban *hukou* holders, old or newly converted, are covered by the urban social safety net.

Secondly, Chongqing is also a pioneer in rural land reform. In 2008, the city saw the opening of China's first rural land exchange (RLE). In addition to brokering the use right transfer of contracted farmland and forest land as well as wasteland, RLE also allows the trading of "land tickets" (*dipiao*

地票) that arise from rural land reorganization and consolidation (RLRC, *nongcun tudi zhengli* 农村土地整理). RLRC refers to the intensification of the use of rural construction land. For example, after relocating (voluntarily and in many real cases by force) to more densely built urban areas or planned villages, farmers and rural collective enterprises can free up a lot of rural construction land. Such land is usually required by laws and regulations to be returned to farming. The increased quantity of farmland after RLRC can be converted into land quotas for use in cities. Land tickets are the vehicle to trade this land quota.²⁶ By intensifying the use of rural construction land, RLRC and land tickets help Chongqing maintain the total quantity of farmland while increasing the land available for urban development. And land tickets also help reduce the chances of exploiting farmers as farmers can see the price of land-use transfers in a more open and transparent market and judge the fairness of the compensation packages they receive more easily. RLE is the first step towards establishing an integrated urban-rural land market. According to local policy, 85 per cent of net land revenue from the leases of the increased urban land must be return to rural areas.²⁷

A third unique feature of Chongqing's CURD reform is its affordable housing programmes. Compared with other cities, not only Chongqing has undertaken its affordable housing construction at a larger scale but also the city tries to take the needs of migrant workers into consideration. Chongqing has about 8.5 million rural migrant workers, including 4 million in the central city.²⁸ The city has encouraged the building of workers' dormitories in the industrial parks and migrant workers' apartments in the suburban counties. For migrant workers living in the central city, Chongqing tries to accommodate their housing needs through urban public rental housing programmes. According to local regulations, the criteria for allocating public rental housing (*gongzufang* 公租房) and cheap rental housing (*lian-zufang* 廉租房) in Chongqing is income and existing living space and no restrictions are imposed on the types of *hukou* or the issuance places of *hukou* that housing applicants hold. This equalization of rights among urban residents of different origins represents a major progress in China's urban public housing programmes. According to Chongqing's plan, between 2010 and 2014, 40 million square metres of rental housing is expected to be added to the city's housing stock.²⁹

In addition to the many policy innovations, in the past several years, Chongqing has also boosted its financial support to rural areas in infrastructure (both physical and social) and economic development, trying to channel more development opportunities from the central city to the "two wings" – the poor rural regions in Chongqing Metropolitan Area. The CURD reform in Chongqing in the first few years has produced some effects. The income gap between urban and rural residents was reduced to 3.45:1 in 2009 and

urbanization rate increased from 46.7 per cent to 51.6 per cent between 2006 and 2009. The city hopes to establish a basic CURD framework by 2010 and accomplish the CURD reforms by 2020.³⁰

5. Challenges of China's Urban-Rural Integration

Throughout China, CURD reforms have been carried out with various local ramifications. It is not possible to give an evaluation of individual reform effort within limited space. Therefore, I will discuss major challenges facing China's CURD reforms at the macro level.

5.1. Embracing the Ultimate Purpose of CURD Reforms

The ultimate purpose of CURD reforms is to enhance human welfare, especially for the section of the society that has been left behind by three decades of economic reform. However, when local governments implement policies, the ultimate objectives are frequently distorted and simplified into quantitative targets short of rational justifications. For example, nominal urbanization rate is usually calculated as an indicator of CURD policy effectiveness and the promotion of local cadres is indexed to their ability to achieve the set target. But if means (e.g., achieving a certain urbanization rate) are mistaken as ends (e.g., human welfare for the larger population), the *raison d'être* of policy making become questionable. A frequently used method to attain targets by the Chinese local governments is to use compulsion to mechanically fabricate a numerical perfection. While attending to human welfare must pay attention to individual rural household's real situation and needs, blindly pursuing quantitative targets simply needs to slap a one-size-fit-all decree.

For example, in the exemplary city of Chongqing, the government plans to increase the *hukou* urbanization rate from 29 per cent to 60 per cent by 2020.³¹ In order to achieve this target, the city decided to mass convert the *hukou* type of rural college/university students as well as stable rural migrant workers (those with stable jobs in cities and own urban homes) between 2010 and 2012.³² But as a matter of fact, a lot of urban residents of rural origin want to maintain their rural *hukou* status so that they can keep their rural land at home. And some do not want to convert according to the government's timetable as they anticipate the appreciation of their rural land in the near future. After drawing much controversy, the compulsive conversion practice was terminated. Similarly, compulsory relocation of farmers into high-density well-planned new homes in a rush to form the New Socialist Countryside is another malpractice observed across the country. For some rural households, it may represent an improvement in living standards. But for others, it may mean

an escalation of living expenses, inconvenience in doing farming or animal husbandry or abandoning a place that they attach deep personal emotions. In this process, the biggest beneficiaries ended up being local governments who can grab land development quota rather than rural households whom the CURD policies intend to help.

The coercive practices not only erode the welfare of rural population, but also produce more social conflicts than they solve. What the government should do is to provide more alternatives to rural residents and let them choose for themselves. The quantitative targets such as urbanization rate or percentage of households living in planned new dwellings, at best can only serve as references but clearly not as criteria for policy evaluation. Whether a CURD policy produces good results should ultimately be determined by the satisfaction levels of the people rather than figures from nowhere.

5.2. Policy Coordination

Another big challenge facing China's CURD reformers is the inter-connectedness of different reform tasks. This is also a reason for setting up comprehensive experimental zones. Chongqing experience suggests that *hukou* reform must be complemented by affordable housing and social welfare programmes open to new urban citizens. Similarly, urban land consolidation programmes and land market initiatives will be counter-productive if the rural cadastre management system is absent or flawed.

The interconnected nature of various types of policies also means that one policy may produce impacts, good or bad, on another. With limited economic resources, overemphasis on one aspect reduces the chances of other initiatives. Also policy makers must pay special attention to unintended negative consequences. For example, in some places, including Chongqing, the government tries to resolve the problem of housing shortage faced by migrant workers by planning and constructing workers' housing in small designated areas. However, the concentration of a homogenous housing type may lead to spatial segregation and related social problems in the future. Another example is *hukou* reform. In some cities, such as Nanjing, although migrants are given more opportunities to acquire urban *hukou*, the screening criteria that favour those with stable jobs and private housing, or in other words, the better-off among migrants, creates an in-group inequality among migrant workers. And this internal inequality may widen as urban *hukou* gives the well-to-do migrants even better access to economic opportunities compared with their less fortunate folks.

The complication of the CURD tasks means that reforms must be carried out in a concerted way with coordination of different government departments. In addition, setting the right pace is very important for the final success of

CURD reforms. Local governments must avoid making unrealistic targets and rush into realizing them, which may do more harm than good to the people they intend to help. Speed does not equate with effectiveness, neither does quantity automatically translate into quality. A comprehensive mid- to long-term plan for the CURD reform can be very helpful for mobilizing resources, avoiding conflicting ends, facilitating sectoral cooperation and setting the right pace of reforms. To make such plans realistic and implementable, public inputs are crucial. And to allow flexibility, periodic review and adjustment of plans and implementation results are indispensable.

5.3. Cost of Reforms

Cost of reforms is another big concern. Setting up rural social safety nets, investing in rural infrastructure and economy, public housing programmes and so on are all costly projects. Although the funding from the Central Government must keep pace with the growing demand from the local communities, it cannot be relied upon to resolve all local issues. In addition to central transfers, local governments must try to mobilize more local resources for CURD efforts. For example, urban land revenue, which is collected from selling requisitioned rural land, must be returned to the countryside or used for affordable housing programmes in greater amount. The violation of national policies by local governments on the use of land revenue and land quota is widespread and this policy deviation must be corrected.³³

Farmers should also become an important source of funding, particularly in the contribution of social welfare funds. However, as farmers sometimes lack the relevant knowledge and quite often discount or feel uncertain about the future payouts, many of them are not willing to participate. Although coercion must be avoided to get farmers to enroll in the voluntary social welfare programmes, education and information dissemination can be helpful. In addition, social security funds must be administered in a more efficient and transparent way so that people can build the confidence in participating in such programmes. According to the latest news, China's social security funds are quite problematic as many people's personal accounts are empty and the funds are not appreciating faster enough to keep up with inflation.³⁴ These are clearly not reassuring signs for potential participants.

In addition, the wealth generating capacities of the rural communities must be enhanced as over-transfer of resources from urban to rural areas may cause discontent of urban residents whom the Chinese authority is not willing to antagonize. Infrastructure improvement, reforms of rural collective enterprises, farmland consolidation and many other social strategies to build rural human capital are all helpful. And the government should also create conditions to allow urban areas to play a more catalytic role in the rural

economic development so that rural areas can grow in tandem with the urban areas. But as local conditions vary, how to integrate urban and rural economic development is left to the local people and policy makers to decide.

In short, China's CURD reforms will bring about changes in both urban and rural areas and the number of people affected or will be affected are enormous. While allowing localities to do experiments of various sorts, the Central Government must keep monitoring the processes and outcomes of the experiments and widely disseminate information about the lessons and experiences of local practices across the country. At the same time, localities must take cautions when emulating practices that have been proved successful elsewhere as rural conditions vary tremendously in this vast country. While urban villages in prosperous regions may be primarily concerned with redevelopment and housing the large number of migrant workers, the most urgent issue in remote villages may be depopulation. Therefore, policy makers must see the limit of any local "models".

Notes

- * Dr Zhong Sheng 钟声 is Visiting Research Fellow at the East Asian Institute, National University of Singapore. She once worked as an urban planner and researcher in China. Dr Zhong studied urban planning at Tongji University in Shanghai. She obtained her Master's Degree in Public Policy from the Master in Public Policy Programme (now Lee Kuan Yew School of Public Policy) at the National University of Singapore. She later worked for her PhD degree at the School of Community and Regional Planning, the University of British Columbia in Canada. Dr Zhong's researches focus on inner city development, cultural economy of cities, global city discourses and urbanization in China. <Email: eaizs@nus.edu.sg>
1. But interestingly, the official name for rural *hukou* is actually "agricultural *hukou*" (*nongye hukou* 农业户口). As the term "agricultural" is less accurate than the term "rural" in describing the nature of the *hukou* type, particularly in the discussion on urban-rural divide, I use the term "rural *hukou*" in this paper.
 2. *China Statistical Yearbook 2010*.
 3. *China Statistical Yearbook 2010*. The income gap does not take into consideration the different price levels in urban and rural areas. Sicular *et al.* (2005) estimate that spatial price differences account for about one quarter of the inequality in unadjusted income. But if we assume the urban-rural price differentials remain stable over time, making the longitudinal comparison of the income gap without adjusting for price differences can be regarded as valid.
 4. The reduction in inequality between urban and rural populations after 1995 may be due to the termination of grain price subsidy to urban residents in 1993. See Park (2008).
 5. Administrative villages are not a formal level of government. Part of (though not all) infrastructure and public service provision is financed by township or upper levels of governments. See Fock and Wong (2008).

6. And usually more periphery villages tend to be poorer and more in need of funding. But their land is cheaper.
7. Fan (2008) suggests that migrants may remit money home or bring new ideas and technologies to help economic development in their home villages.
8. For example, rural migrant workers usually concentrate in peri-urban areas or urban villages, spatially segregated from old urban incumbents.
9. Sicular *et al.* (2005) suggest that among household characteristics (family size, dependent rate, etc.), education is the biggest factor contributing to urban-rural income gap. Hence different education received by the kids of rural migrant households and of urban *hukou* households will replicate inequality in the future generations.
10. About a decade ago, China's Gini Coefficient surpassed 0.4 and has been climbing since then. In 2010, it was estimated to be 0.47. See Chen Jia, "Country's Wealth Divide Past Warning Level", *China Daily*, 12th May 2010 <http://www.chinadaily.com.cn/china/2010-05/12/content_9837073.htm>, accessed 31st March 2011.
11. See "中共中央关于推进农村改革发展若干重大问题的决定" [Decisions regarding major issues of rural reform and development by CPC Central Committee].
12. See "中央机构编制委员会办公室关于深化乡镇机构改革的指导意见" [About guiding opinions on the deepening of xiang and town institutional reform by the Central Institutional Organization Committee].
13. *China Statistical Yearbook 2010*.
14. "中国户籍制度改革与城镇化进程" [China's *hukou* reform and the process of urbanization] <http://news.xinhuanet.com/ziliao/2009-12/29/content_12721147.htm>, accessed 5th May 2011.
15. See "国务院关于在全国建立农村低保制度的通知" [Circular regarding establishing the rural minimum subsistence payment system by the State Council].
16. The document encouraged subcontracting, lease, exchange, transfer and share-holding of rural contracted farmland. It also called for giving rural commercial construction land the same type of transfer flexibility as the case for urban land.
17. "中国户籍制度改革与城镇化进程" [China's *hukou* reform and the process of urbanization] <http://news.xinhuanet.com/ziliao/2009-12/29/content_12721147.htm>, accessed 5th May 2011.
18. "中国户籍制度改革与城镇化进程" [China's *hukou* reform and the process of urbanization] <http://news.xinhuanet.com/ziliao/2009-12/29/content_12721147.htm>; "广州取消农业户口, 居民证成为社会管理工具" [Guangzhou eliminates rural *hukou* and resident cards become tools for social management] <<http://news.cn.yahoo.com/10-05-/976/2k7pl.html>>; "南京出台户籍改革详细规定, 正式取消农业户口" [Nanjing releases details of *hukou* reform and officially eliminates rural *hukou*] <<http://www.china.com.cn/chinese/difang/594141.htm>>. All accessed 5th May 2011.
19. The big relocated community in Chongqing mainly refers to the population displaced by the construction of Three Gorges Dam.

20. See “重庆试验区：分三步实现城乡统筹” [Chongqing experimental zone: three steps towards urban rural integration], *Guangming Daily*, 12th June 2007 <http://www.gmw.cn/content/2007-06/12/content_621904.htm>, accessed 19th April 2011.
21. “重庆基尼系数已超警戒线，城乡收入差距 3.4:1” [Chongqing Gini coefficient reaching alarming level and urban-rural disparity standing at 3.4:1] <<http://qingyuan.people.com.cn/GB/13672045.html>>, accessed 5th May 2011.
22. Other aspects include increased funding for the two wings (the poor regions of Chongqing), vocational training and job support for migrant workers, school tuition support, infrastructure investment in the rural areas, etc. Due to limit of space, this paper focuses on the most distinguished features of Chongqing reform.
23. The businesses must have paid a minimum business tax. In previous regulations, there was education threshold (college or plus) for *hukou* converters.
24. See Chinese Government website <http://www.gov.cn/jrzg/2010-08/15/content_1680372.htm>, accessed 18th April 2011.
25. However, some students had been pressed to convert *hukou*. See the next section on challenges.
26. Under China's land use system, each city has an annual maximum limit on the quantity of land that can be used for urban development. This is controlled by the Ministry of Land and Resources (MLR) and its local offshoots. The land quota generated from RLRC is the maximum quantity of land that can be used in excess of the annual limit determined by MLR. Land tickets only give developers the right to use more urban land up to certain amount but they do not indicate the exact plots of land used for urban development. Developers who have acquired land tickets have to apply to city governments to get the exact plots of land they want to develop.
27. See “关于规范地票价款使用促进农村集体建设用地复垦的指导意见 (试行)” [Provisional guiding opinions regarding the regulation of the use of land ticket revenue to promote re-cultivation of rural collective construction land] issued by Chongqing Land and Real Estate Administration Bureau in 2010.
28. Conference presentation material – *Dissemination Conference on Reducing Institutional Barriers to Promote Unified Economic and Social Development between Urban and Rural Areas*, Beijing, 23rd-24th June 2010.
29. See “郎咸平：重庆保障房模式才能拯救中国房地产” [Lang Xianping: Only social housing model of Chongqing can save China's real properties] <<http://news.sz.soufun.com/2010-08-02/3621210.htm>>, accessed 19th April 2011.
30. Conference presentation material – *Dissemination Conference on Reducing Institutional Barriers to Promote Unified Economic and Social Development between Urban and Rural Areas*, Beijing, 23rd-24th June 2010.
31. See Chinese Government website <http://www.gov.cn/jrzg/2010-08/15/content_1680372.htm>, accessed 18th April 2011. *Hukou* urbanization rate is calculated based on people's *hukou* types while urbanization rate is calculated based on people's physical presence.
32. Conference presentation material – *Dissemination Conference on Reducing Institutional Barriers to Promote Unified Economic and Social Development between Urban and Rural Areas*, Beijing, 23rd-24th June 2010.

33. According to national regulations, land quota generated from land consolidation must first be used to satisfy the needs of local village development. See “城乡建设用地增减挂钩试点管理办法” [Regulations on the administration of balancing quotas of urban and rural construction land] (2008), “中共中央关于推进农村改革发展若干重大问题的决定” [Decisions regarding major issues on propelling rural reforms and development by the Central Committee of the Communist Party of China] (2008) and “国务院关于严格规范城乡建设用地增减挂钩试点切实做好农村土地整治工作的通知” [Circular regarding strictly regulating the experiments of balancing quotas of urban and rural construction land and improve rural land consolidation practices by the State Council] (2010). Also Clause 54 of Land Administration Law stipulates that fees from land leases retained by the local governments must be earmarked for agricultural land cultivation. In addition, the Central Government requires that local governments devote at least 10 per cent of net land revenue to affordable housing development but virtually no major urban governments abided by the rule. See “万亿土地出让金流向哪里?” [Where do trillions of land revenue go?], *The Youth Travel Daily*, 22nd February 2011 <http://qnsf.cyou.com/html/2011-02/22/mw.D110000qnsfb_20110222_1-05.htm>, accessed 24th February 2011.
34. See “人社部副部长: 社保基金处于缩水和贬值状态” [Deputy minister of the Ministry of Human Resources and Social Security: Social security funds are in a state of shrinkage and depreciation] <<http://finance.people.com.cn/insurance/GB/14432915.html>>, accessed 7th May 2011.

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