

Examining the Urban-Rural Linkages in China

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INTRODUCTION

Over the past 35 years, China has achieved unprecedented economic growth. For much of this period, the gross domestic product (GDP) has grown by over 10 per cent per year. The growth propels the country into the upper middle-income status from the lowest, and results in rapid poverty reduction. Over 500 million people, mostly rural, have been lifted out of poverty. Accompanying this growth is an unprecedentedly rapid urbanization. Between 1980 and 2014, the share of population living in urban areas rose from 19.4 per cent to 54.8 per cent, and the total number of urban population increased from 191 million to 749 million. While the overall progress is impressive, the per capita income gap between urban and rural population remains wide. The social development gaps between urban and rural residents are even worse. For example, migrant workers from the rural areas do not have access to many urban public services enjoyed by urban residents, and many have to leave their children and aged parents behind in the rural villages. Their incomes may have increased due to urban jobs, but their families suffer separation, isolation, loneliness, and even breakdown.

This article aims to discuss the above highlighted issues by examining the transformation of urban-rural linkages (URL), with a focus on the social dimension. The primary social linkages that we examine are related to rural-to-urban migration and rural land conversion for urban use. We view the land conversion issue as a social one, as it arises from the urban-rural inequality imbedded in the legal framework.

URL matters greatly in developing countries,¹ because their dynamics greatly impact the well-being of urban and rural populations, as well as the environmental quality and social cohesion where they live. The URL are not only driven by the process of economic development and urbanization, but are also influenced by policy. This is especially true in China where state interventions are strong.

The following text is divided into four sections. Section two provides an overview of the changing URL in the history of the People's Republic of China since 1949, and presents the current social issues that resulted from past urbanization. Section three explains the characteristics of rural-

to-urban migration from the social aspects, including social insurance of migrant workers and its impact on left-behind groups. Section four explores the social function and legal dilemma of urban housing without full legal titles. Finally, section five discusses whether the *New Urbanization Plan* recently initiated by the government will help improve urban-rural linkages. We argue that the past urbanization under the economic growth-oriented policy in China has helped strengthen urban-rural “economic linkages” to a great extent, but urban-rural “social linkages” lag behind and, in some cases, are even worsened. We advocate that the policy priorities should be given to improving urban-rural social linkages in China’s *New Urbanization Plan (2014-2020)*.

A HISTORICAL OVERVIEW OF URBAN-RURAL LINKAGE IN CHINA

China is one of a few countries which have long formulated and attempted to implement national economic development strategies. Its urbanization and the characteristics of urban-rural linkages bear significant marks of state interventions. Based on the policy orientations adopted by the government at different times, we divide the trends of urbanization since 1949 into four stages, each with a distinctive characteristic of urban-rural linkages: policy-forced urban-rural cleavage, labour-driven urban-rural interface, land-driven urban-rural tension, and attempted urban-rural integration (table 1).

TABLE 1. FOUR STAGES OF URBANIZATION

Period	Characteristic of URL	Key Feature
1949-1977	Policy-forced urban-rural cleavage	Rural sector subsidized urban sector, and labour mobility was strictly controlled by policy
1978-2000	Labour-driven urban-rural interface	Cheap rural labour flooded into cities for jobs, but gained little access to urban services due to <i>hukou</i> constraint
2001-2012	Land-driven urban-rural tension	Rapid, large-scale conversion of rural land for urban use through state expropriation and driven by land-based municipal finance
2013 onwards	Attempted urban-rural integration	People-centered urbanization with a focus on welfare improvement for rural population and migrant workers

Source: the authors.

The Phase of Policy-Forced Urban-Rural Cleavage (1949-77)

The first phase was characterized by strictly state-controlled urban-rural cleavage without free rural-to-urban migration. China was then an isolated, closed, centrally-planned economy. The government adopted a national economic development strategy to boost industrialization at the costs of the rural sector. The household residential registration (*hukou*) system, the rural people’s communes, and the state grain procurement system played significant roles in this strategy.

The *hukou* system was set up to identify a citizen as a resident of a particular rural or urban locality, but it was also used by the government as a tool to control the change of *hukou* from rural to urban status. With the system, the government was able to limit the rural-to-urban labour migration and keep sufficient numbers of farmers on their land in order to feed the urban sector. The system was also used to link people with access

to the public services (such as social insurance and public schools) provided by their district, township, or village. A rural *hukou* holder was not entitled to the urban public services which were available only to urban *hukou* holders.

The people's commune system was set up in rural areas in 1958 and ended in the early 1980s. It was an organizational form of strict collectivization for agricultural production. A commune typically included a number of traditional villages. The land of a commune was collectively owned by all members of the commune. The farmers in the same production unit worked together as a team and followed the mandate given by the commune leadership. This organizational form made it easy for the state to control the farmers' mobility to cities. Without obtaining government permission, no farmer would be able to take an urban job.

The state procurement system for agricultural products was set up for the state to procure grains and other major products at a pre-set low price, and then sell or ration to urban citizens. Essentially it was a subsidy mechanism for the rural sector to subsidize the urban sector. Except for the small local markets for rural household products (such as vegetables, eggs, and chicken), there were no markets for grains and other major items of agricultural products.

Hukou, communes, and grain procurement system were three of the key elements for the centrally-planned economy. Under these systems, the Chinese rural and urban areas functioned like two separate societies, with the state controlling and regulating the urban-rural linkages, i.e., the flows of people, goods, capital, and natural resources between the rural and urban areas. Conversion of rural land for urban development was also controlled by the state. Because of the urban-rural cleavage, the urban-rural economic linkages were tightly controlled, and the urban-rural social linkages largely non-existent.

During this period, the level of urbanization grew slowly from 10 per cent to 18 per cent, or on average under 0.3 percentage points a year. The rural population mostly lived in poverty without social welfare. They were trapped in poverty because of the increased population, limited farmland resources, and low productivity. While the rural population rose from 553 million in 1958 to 804 million in 1982,² the amount of farmland per capita decreased by 61 per cent. The urban residents were relatively better off and enjoyed state-subsidized food, education, employment, housing, and other welfare benefits such as healthcare and pensions.

The Phase of Urban-Rural Interface (1978-2000)

The second phase was marked by a major economic reform spear-headed by Deng Xiaoping. The reform aimed at transforming the centrally-planned economy to a market economy, and opening the Chinese economy to the outside world. The first reform initiative was to replace the commune system with a household responsibility system (HRS) at the village level. Under the HRS, farmland of a village was collectively owned, but was subdivided and allocated to each household for farming under a responsibility contract between the household and the village committee. The contract gave households land-use rights for agricultural production. The households assumed full responsibility for profits and losses. The old state procurement system was also phased out, and markets for agricultural products developed. Facing the new incentives, farmers worked hard and optimized their production. This immediately brought about significant productivity gains and income growth for the rural households on one hand, and abundant food

supply to the urban areas on the other hand. As the farmers made independent decisions as to agricultural production and labour input, some family members were liberated from the land and became ready to shift to other sectors. Surplus labour thus emerged, setting the stage for rural labour migration to the cities.

More reform actions followed the successful introduction of HRS. These included the new policy allowing rural townships and villages to participate in industrial production, establishment of special economic zones (SEZs) in the coastal cities, emergence of privately owned enterprises, and reform of urban state-owned enterprises. As a result, a large number of township and village enterprises (TVEs) emerged, absorbing the rural surplus labourers for non-farm activities. This is a form of URL known as “moving to the non-farm sector while remaining in the village.” Meanwhile, the SEZs and other coastal cities successfully seized the opportunities of globalization, and attracted a large volume of foreign direct investment (FDI) for manufacturing and a large number of migrant workers. In this context, the countryside was no longer isolated from the cities, and the labour market-driven urban-rural interface gradually began. The number of rural-urban migrants rose sharply, reaching 90 million in 2001 compared to only 3 million in 1983.

Deng Xiaoping’s reform policy was to allow some people to get rich first and let their success motivate other people. The policy also stated that areas with better growth conditions could develop faster than others, and then they should help the lagging areas to develop, so that the whole country would eventually advance. In the 1990s, when the urban economy became more viable, urban employment opportunities were seen as a driver to bring up the nearby rural areas. This urban-rural economic linkage actually worked: per capita incomes for both urban and rural population increased, although urban per capita income increased faster than rural per capita incomes.

However, the *hukou* system continued to function. As the migrant workers still held the rural *hukou*, they did not have access to many urban public services even though they worked and lived in cities. Most of them were unable to bring their dependents to live in the cities where they worked, resulting in the problematic urban-rural social linkages. During the Spring Festival holiday – the most important holiday in China – millions and millions of migrant workers travelled by train to return to their rural homes and families. The extraordinary scenes of crowded railway stations and trains were a demonstration of the kind of URL. As the *hukou* determined where a *hukou* holder received his or her entitled public services, the migrant workers often had to travel back to their villages for small matters such as applying for marriage certificate and renewing personal ID.

The Phase of Urban-Rural Tension (2000-2013)

This phase was marked by the most rapid urban sprawl. Several major events set the stage for the urban sprawl. First of all, with China’s accession to the World Trade Organization (WTO) in 1999, the manufacturing sector entered a new phase of rapid growth. In anticipating sustained growth, cities were busy in expropriating rural land for the development of industrial parks. The second event was an urban housing policy reform initiated in 1998, which changed the mode of housing supply from public provision to market provision. In 2004, the government further emphasized the urban housing sector as one of the pillar industries of the national economy. Since then, housing markets across the country have entered a golden decade of rapid growth. The third event was China’s economic stimulus package in response to the global financial crisis of 2008.

The public fund of RMB 4 trillion injected into the economy was substantially channeled into the real estate sector – the most profitable business at that time.

As a result, many cities witnessed rapid expansion of urban land use. Between 2001 and 2011, urban construction land expanded by 17,600 km², and 90 per cent of the newly developed urban land was acquired by the state through the expropriation of rural land.³ According to China's *Land Administration Law*, urban land is state-owned, rural land is collectively owned, and only the state – which is represented by the municipal governments – has the legal power to convert rural land into urban use. However, the compensation to expropriated rural land was set on the basis of agricultural production value, instead of the much higher “market” price (if there is a market) that would include locational premium. Such a legal basis for state expropriation puts the farmers on a socially and politically unequal status.

The state expropriation system gave the municipal governments an opportunity to obtain handsome revenues from selling the use rights of the expropriated land to real estate developers at the time of real estate boom. Usually, the municipal governments provided industrial land to firms at a price much lower than the market price, thus incurring deficits. But in many cases, the revenues from land concessions for commercial and residential real estate were more than enough to cover the deficits. This provided a great incentive for cities to fund urban development through land-based finance – an incentive so great that prompted many cities to expropriate rural land excessively. The national total revenues from land concessions increased dramatically from RMB 51 billion in 1999 to RMB 4.3 trillion in 2014, which was as much as 45 per cent of the municipal revenues from taxes and inter-governmental transfers. Moreover, municipal governments also granted land to their local finance platforms as collateral for borrowing from commercial banks to finance public infrastructure. Local public debt soon began to mount up.

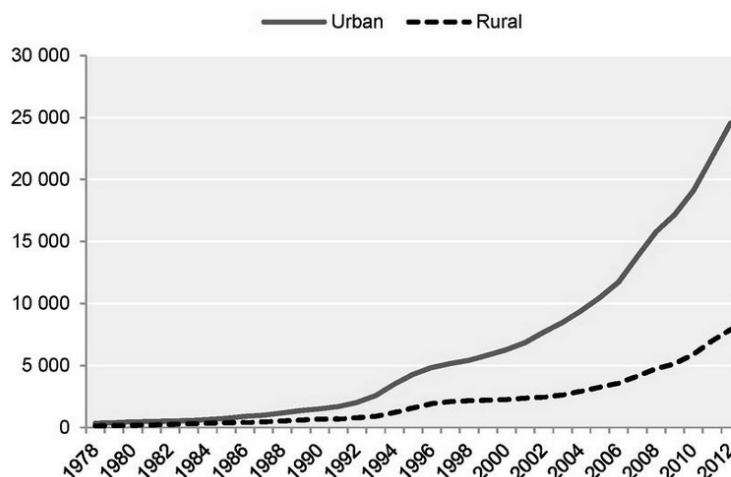
While municipal governments were the winners in this process at least in the short-term, the farmers were obviously the losers and suffered losses for a much longer time. They lost their land at low compensation, which was often far from adequate for them to enter a different livelihood. They had no choice or much bargaining power under the law on public expropriation. Many of them suffered significant hardships in adjusting to a new life. More importantly, they saw the value of their land increased many times after expropriation and conversion to urban use, and felt that their rights and benefits had been misappropriated. As a result, tension over land-taking between the farmers and municipal governments grew, and a number of mass protests and violent conflicts occurred across the country. It should be noted that the urban-rural tension over land-taking was not happening everywhere. Farmers living in the peri-urban areas of a richer, more vibrant city could receive much better compensation due to the willingness of the municipal government to negotiate in exchange for speedy completion of expropriation. However, these were limited cases.

The Phase of Attempted Urban-Rural Integration (2013 onwards)

By 2013, the economic and social consequences of urbanization under the growth-oriented policy over the previous three decades became clear in the public policy debates. As figure 1 shows, both urban and rural household incomes had grown significantly over this period, but the urban-rural household income gap continues to widen. If the privately-owned assets (mainly housing) are accounted for, the urban and rural household wealth

gap would be even bigger as urban housing properties are many times more valuable than comparable rural housing properties.

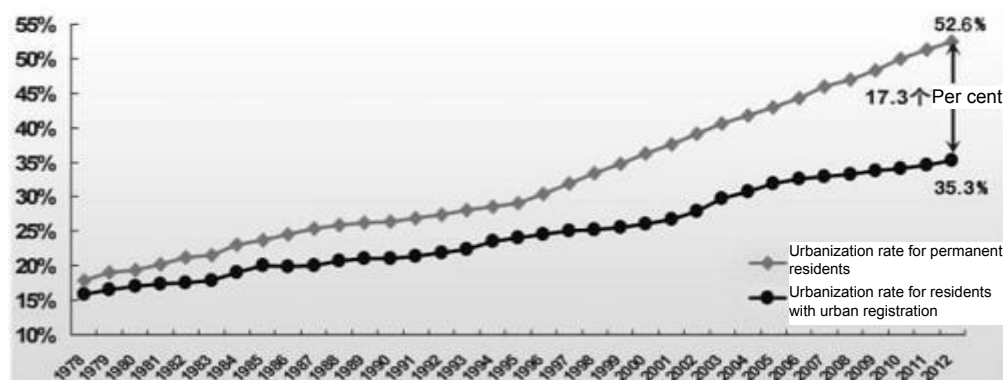
Figure 1. Urban and Rural Household Incomes (CNY), 1978-2012



Source: Organisation for Economic Co-operation and Development (OECD), OECD Urban Policy Reviews: China 2015 (Paris: OECD Publishing, 2015), pp. 55. (Available at <http://www.oecd.org/publications/oecd-urban-policy-reviews-china-2015-9789264230040-en.htm>)

By 2012, 52.6 per cent of the Chinese population lived in cities (figure 2). However, 17.3 per cent of this urban population lacked an urban *hukou*. If this part of the population (mainly migrant workers and their family members who lived with them) is excluded, the urbanization level would be only 35 per cent. As mentioned earlier, the migrant workers do not have access to many urban public services, and thus could not fully enjoy the benefits of urbanization.

Figure 2. Urban Residential Population and Urban Population with *hukou*, 1978-2012



Source: Government of China, "National New Urbanization Planning (2014-2020)" (2014) (Available at http://www.gov.cn/zhengce/2014-03/16/content_2640075.htm; retrieved on 28 November 2015).

It is increasingly recognized that the mode of urbanization over the past three decades is not sustainable. Policy consensus was formed to address the problems of access to urban public services, excessive land-taking, local public debt, and tension between the farmers and municipal governments. In fact, some limited effort was made to address the problems through what is known as “urban-rural integration”. It was basically a concept of development planning that views the functional role of cities and rural areas as complementary and synergetic, and treats the cities and rural areas within a region as an integrated entity. The objective of this planning is to form a basis for locality-specific public policy interventions that would facilitate the flows of people, goods, services, resources, capital, and information in a mutually beneficial way. In practice, urban-rural integration was mainly attempted through greater budget allocation to ensure equalization of basic services in rural areas.

More fundamental policy reform was initiated in 2013. The Central Committee of the Communist Party of China announced a decision on major issues concerning comprehensively deepening the reform. The decision explicitly addresses the importance of improving the integration of urban and rural development, and calls for improving the institutions to form new relations between urban and rural areas in which urban areas support rural development, agriculture and industry benefit each other, and urban and rural areas achieve integrated development. In order to ensure that development benefits all people more equally, the government promises more property rights to the peasants, a fairer and more sustainable social security system, and a deepening of reform in health-care services.

The decision also sets the directions for reform in *hukou*, land policy, and municipal finance, which will fundamentally shape the new URL in the future. On *hukou*, the decision calls for speeding up the reform of the *hukou* system to help farmers become urban residents, and efforts to make basic urban public services available to all permanent residents in cities, including all rural residents. This would include the affordable-housing system and the social security network. On land, the decision calls for the development of an integrated urban and rural land market, under which the sale, leasing, and demutualization of rural, collectively-owned buildable land under the premise that it conforms to planning would be allowed. The scope of land expropriation by the state would be limited to clearly defined public purposes. On municipal finance, the decision calls for the reform of the taxation system, and speeding up property-tax legislation so that property tax will become one of the major source of municipal revenues in the future.

In 2014, the government further announced the *New Urbanization Plan (2014-2020)*. The guiding principle for the *New Urbanization Plan* is to put people’s well-being at the centre, which is termed “people-centred urbanization.” Among a number of policy measures, the plan suggests removing the *hukou* constraint on migrant workers and their families in a phased approach, starting with the small cities and gradually extending to the larger cities. This is a practical approach, as small cities offer few decent urban public services, while the quality services in the larger and first-tier cities are hotly sought after by the people. Moreover, the plan suggests that cities be the providers of basic public services not only for the residents with *hukou*, but also for migrant workers and their families. On land use and housing, the plan suggests that municipal governments expand the coverage of affordable housing to migrant workers, and form a partnership with peri-urban villages to co-develop public rental housing on collectively-owned rural land, without going through state expropriation. Obviously, the *New Urbanization Plan*

is going in the right direction to strengthen both urban-rural social linkages.

SOCIAL WELFARE OF MIGRANT WORKERS AND LEFT-BEHIND GROUPS

Currently there are 274 million rural-urban migrant workers in China, representing the largest human mobility in the world. They have played an indispensable role in linking rural and urban China. On the one hand, they have made a significant contribution to China's urban economy since they are the main cheap labour force in many industrial sectors in receiving cities, especially in the labour-intensive sectors. On the other hand, remittances represent the most obvious and direct impact on the sending villages, making up two-thirds of the household income in sending areas.⁴

Rural-Urban Migrant Workers as a Marginalized Group in Chinese Cities

Migrant workers have made a great contribution to China's economy. However, because of the *hukou* constraint, they are marginalized in cities. Their *hukou* status remains that of "farmer" (or "agricultural *hukou*"), even when they have worked and lived in cities for years. Registered under the agricultural *hukou*, migrant workers are excluded from urban social welfare systems such as social security.⁵ In order to solve these problems (i.e., balance this unequal treatment) related to *hukou* statuses, from early 2000 onwards the Government of China introduced a series of migration policies to explicitly facilitate farmers' rural-urban migration, presenting a historic and fundamental breakthrough. These policies require employers to purchase five types of urban social insurance for their migrant workers, including work-related injury insurance, endowment insurance, urban medical insurance, unemployment insurance, and maternity insurance.

In reality, a majority of employers did not do so and the coverage of migrant workers' social insurance ranges from low to negligible. In 2014, the proportions of employers covered with various insurances were as follows: work-related injury insurance, 26.2 per cent; migrant workers' endowment insurance, 16.7 per cent, medical insurance, 17.6 per cent; unemployment insurance, 10.5 per cent; and maternity insurance, 7.8 per cent. It is worth noting that a labour contract, as a legal proof of migrant workers' employment status in cities, is the prerequisite for migrant workers' enrollment in these social insurances in urban China. In fact, in 2014 only 38 per cent of migrant workers across China had signed a labour contract with their employers although according to the *Labor Contract Law*:

An employment contract shall become effective when the employer and the employee have reached a negotiated consensus thereon and each of them has signed or sealed the text of such contract.

Without the labour contract, migrant workers are informally employed and are excluded from the formal urban social security system.⁶

The Huge Social Cost of Rural-Urban Migration: Left-Behind Groups in Rural China

When discussing the impact of rural-urban migration on migrant workers' families, the left-behind group attracts considerable attention.⁷ Nationally, only 13 per cent of migrant workers move to cities with their families, while a majority of migrant workers leave

their families behind. Moreover, since two-thirds of migrant workers are men, their out-migration leaves villages dominated by the so-called “38-61-99” group, which applies to the women, children and elderly who make up the majority of the villagers who are left behind (the numbers 38 refer to 8 March which is Women’s Day, 61 to 1 June which is Children’s Day, and 99 to the ninth day of the ninth lunar month which is “Respecting the Elderly Day” in China).⁸

Left-behind children. In China, the government’s subsidies for children’s education are linked to each person’s hometown, that is, the place in which their *hukou* is located. As the local governments of the receiving cities do not have sufficient budget to host those migrant workers’ children, migrant workers’ children normally cannot enjoy these educational subsidies in the receiving cities of their migrant parents. If they would like to study in schools of the receiving cities, a high tuition must be paid, which is unrealistic for migrant households to be able to afford.

Due to these institutional barriers, most migrant workers choose to leave their children in their hometown, who are then known as “left-behind children.” The most widely used definition of left-behind children is that of children below the age of 18 who remain at the place of origin while one or both parents migrate to a city for employment. According to the *Sixth National Population Census*, the number of left-behind children reached 60 million in 2010, accounting for 38 per cent of all rural children and 22 per cent of all Chinese children.

The left-behind children growing up either with a single parent or with grandparents or others suffer from a lack of ordinary parental care, which may have a broad range of negative effects on their school performance and health. Based on the data of the 2006 *China Health and Nutrition Survey*, it was found that left-behind children were worse off in educational outcomes compared to children whose parents both stay in the town of origin. The parental absence and long-term separation considerably affected left-behind children’s mental health. For example, they are likely to suffer from a combination of depression, anxiety, and loneliness. Their quality of life and level of happiness are also lower than that of ordinary children. Sometimes, they may even encounter unexpected problems, such as for example the sexual abuse of left-behind girls in rural areas. In Huazhou City of Guangdong Province, 94 per cent of sexual assault cases involved left-behind children.

Left-behind women. “Left-behind women” refers to those women whose husbands migrate to cities, leaving them behind. In China, the total number of left-behind women was around 47 million in 2010. After the men’s out-migration, left-behind women are left to face high labour intensity, heavy family burdens, mental health problems, and sexual repression, all of which leads to a low level of life happiness.

Firstly, the increasing burdens of work and family. After a man’s out-migration, the wife remains in the home village. In addition to all domestic tasks that she continue to perform, she must now also take over the tasks her husband used to take care of before his migration, such as agricultural production. Secondly, low emotional satisfaction.⁹ The absence of husbands negatively affects left-behind women’s mental health. A research by the China Agricultural University showed that 63.2 per cent of interviewed left-behind women often felt lonely, 69.8 per cent felt agitated all the time, 50.6 per cent often felt anxious, and 39 per cent often felt depressed. Only 12.1 per cent of women reported not experiencing any negative motions.¹⁰ Thirdly, sexual repression. In general, a husband only returns home once every year during the Chinese New Year. Due to the long-term

separation, left behind women have severely repressed their sexual needs, which affects their physical and mental health. Furthermore, as the topic of “sex” is still regarded as a taboo in conservative rural areas, this makes left-behind women keep it a secret, unable to talk about it or deal with the problem.

Left-behind elderly. The “left-behind elderly” are those over the age of 60 who have at least one adult child who has out-migrated. In 2010, the number of left-behind elderly had reached 58 million. Since the Confucian tradition of “filial piety” has given rise to a system of family-based care and support for the elderly in China, adult children’s migration is weakening and challenging this age-old practice. This is exacerbated by the fact that the formal elderly care system in China is still lacking, especially in the countryside.¹¹

According to the data from the *Chinese Longitudinal Healthy Longevity Survey*, out-migration of adult children affects monetary, instrumental help, and emotional support of left behind elderly. To be more concrete, the impacts of migration on left behind elderly includes the following: First, the residential arrangements are changed. Many left-behind elderly (48.5 per cent) who used to live with their adult child now live with their grandchildren or live on their own. Second, after the adult child’s out-migration, both the left-behind elderly’s work and family burdens increase dramatically. Third, left-behind elderly’s financial situation improves due to the remittance from the migrant adult child. Fourth, like the other left-behind groups, the mental health of these elderly is negatively affected, mainly because they keep worrying about the migrant workers in urban areas. Fifth, although a majority of left-behind elderly have the ability to perform activities of daily living, some of them suffer from debilitating-illnesses and thus long for the resumption of care from the migrant adult child.

URBAN VILLAGES AND ILLEGAL HOUSING

Land is one of the most challenging policy issues in China’s urbanization process. According to China’s land law, urban land is state-owned, rural land is collectively owned by the villages, and only the state has the power to convert rural land to urban use through expropriation. This legal arrangement essentially takes the land development rights and the associated benefits away from the farmers. Social tension develops when urban land development generates significant amount of profits to the government and developers, but leaves the farmers to struggle for a new life without sufficient compensation for the lost land.

Land is fixed in space, unlike people, goods, and capital that can flow across space. However, with the change of land use from rural to urban and transfer of land-use rights, land becomes a significant form of URL. In this section, we examine this form of URL through the discussion of urban villages, illegal construction, and small property rights housing – all are related to rural to urban migration and housing needs of migrant workers.

The Formation and Function of Urban Villages

When a city expands spatially, the municipal government often first expropriates farmland and other rural public land, avoiding the village settlements. This is because the compensation for expropriated farmland is set at a low price on the basis of agricultural

production value. If the village settlements are expropriated, the compensation – which includes both the costs of land and buildings on it – would be much higher. As the city continues to expand, more and more village settlements become surrounded by the urban high-rise real estate development.¹² Except for the original villagers, many migrant workers choose to live there. This spatial phenomenon is called an urban village. A number of urban villages exist in all major cities in China. In Beijing, there are over 100 urban villages.

Physically, there is a sharp contrast between an urban village and the surrounding real estate development. An urban village is highly recognizable. Unlike the modern, shining real estate development, urban villages are crowded with low-rise houses and residents, construction quality poor, streets narrow, and sanitation inadequate. While the urban villages are within the urban built-up area, their residents – the original villagers and renters of their housing units (mostly migrant workers) – are still rural *hukou* holders, and the land under the village is still collectively owned. This is a situation known as “one city, two worlds.”

Even within the urban village, there is “one village, two worlds,” too. One world comprises the original villagers, and the other the migrant workers who come from other rural areas and rent residential space from the villagers. Typically, an urban village houses hundreds or even thousands of original villagers and many thousands of renters. With rental income, the original villagers are generally much better off than the migrant workers. Although the original villagers do not have the land development rights over the housing plots they sit on, they benefit from the premium location of their village. When their farmland was expropriated by the municipal government, they lost their farming livelihood, but they were able to generate rental income by leasing their residential space to migrant workers. In fact, each original villager household managed to accumulate in order to create more rental units. As the rural residential plots are close to each other and villagers make full use of their plots to expand residential space, the buildings in urban villages are typically very close to each other, often just within 1 m. These are known as “hand-shake” buildings, taken from the fact that two people in the adjacent buildings can shake hands through the windows.

The urban village rental prices are determined by the free market. The rental price per m² of living space in the urban villages is only a fraction of the rental price for the urban residential units. This offers affordable housing for the lowly paid migrant workers. Even so, many migrant workers are unable to afford a rental room and have to share with others to reduce rental payment. The living conditions for migrant workers are thus simple and crowded. It is not unusual that a few migrant workers share a room, or a couple lives in a room of 10 m². It should be noted that Chinese cities have built considerable amounts of affordable housing units. But apart from very limited cases, migrant workers generally do not have access to these units due to their rural *hukou*.

Since 2004, when the government designated urban real estate as one of the pillar sectors to drive the economy, urban housing markets have experienced a “golden” growth period. In just 10 years, housing market prices have increased 4-5 times on average, and most urban households find housing increasingly unaffordable. Obviously, urban villages provide migrant workers the affordable housing at the locations that are not too far from their urban jobs. This is the social function that both the former urban housing market and the government affordable housing programme are unable to accomplish.

Unfortunately, many municipal policymakers fail to see the social function of urban village housing. Some see urban villages as a symbol of backwardness and want to re-develop them into modern urban neighbourhoods. In fact, some cities have already been re-developing urban villages. Some redevelopments followed land-readjustment arrangements, under which the municipal government designates a real estate developer to carry out the redevelopment in a commercial way. The developer would come up with a redevelopment which include residential apartment buildings, commercial office buildings, public facilities and infrastructure, and negotiate with the villagers for compensation and benefit sharing. Part of the resident apartment units would be given back to the original villagers as compensation for their demolished old houses. Some of the newly developed office space would also be given to the village collective as productive assets from which all villagers would receive an annual dividend in the future. The usual compensation is roughly 1 m² of old housing space for 1 m² of new housing space. The villagers are generally satisfied with the deal as the prices for the redeveloped space would be several times higher than the prices of old space. The government would gain from the redevelopment by getting the public facilities and infrastructure without investing public funds. The developer would profit easily through the much higher floor-area ratio. The only losers are the migrant workers. They can not afford the new rental prices, and have to move to other urban villages further away from the city centre. Their mass arrivals to other urban villages also push up the rental prices there. The process is expected to marginalize the migrant workers to the city edges and peri-urban areas and increase their costs of living not only in terms of rent but also commuting costs.

Illegal Housing Construction

A common scene that one would easily see from urban villages and peri-urban rural settlements is the small, multi-story residential houses crowded together. This is considered illegal construction because local regulations do not allow rural residential buildings to be higher than three or four stories. The regulations were developed out of concerns of building safety in the rural areas as the construction methods are often indigenous. In seeing the rapidly rising demand for housing from migrant workers, the local villagers ignore the regulations and build up to between five and eight stories from their own plots. Enforcement of building regulations in rural areas is very low or none at all.

This has been a difficult legal issue. The widespread phenomenon simply makes it impossible for the government to enforce the regulations. On the other hand, the government has to tolerate it due to the large number of rural residents and migrant workers involved. The public infrastructure there is not adequate, but not too inadequate either. Supply of electricity, tap water, basic sanitation, and telephone services is not a problem. The key concern is building safety, fire protection, and disaster escape channels. Today, there is no feasible solution.

Small Property Rights Housing

In China, it is legal for villages to provide rental housing as there is no change of ownership over real estate properties. However, the sale of residential housing units on rural land is in violation of the *Land Administration Law*. Small property rights (SPR) housing is a kind of housing built on rural land and sold to individuals whose household registers are elsewhere. The buyers are mostly migrant workers, but some are urban residents. They purchase the housing units from either the village committee or indi-

vidual villager. As the purchase contract for SPR housing units is not legally recognized by the government, the housing units are popularly called “small” property rights housing, or housing without full legal titles. No official statistics are available, but it is widely believed that the number of SPR units is about 70 million, accounting for one-fifth of all housing units in urban China.

The village committees and villagers themselves understand that building and selling SPR housing does not comply with the law, but they are willing to test the legal limits under the lure of profits. The large-scale emergence of SPR housing took place in the period of 2008-2013, the time when urban housing prices skyrocketed. The SPR housing is typically 50-60 per cent less expensive than the formal urban housing, it attracted a large number of buyers.¹³ As the practice quickly spread across China, municipal governments are very much concerned because SPR housing reduces the demand for formal urban housing, thus lowering the demand for government-supplied residential land, as well as revenues from land concessions. However, the government found no easy measures to enforce the law that would impact so many households. Meanwhile, public policy debate started to recognize the social function of SPR housing, question the rationality of the law, and calls for its amendment began.

MAJOR CHALLENGES IN THE NEW URBANIZATION

Urban-rural linkages can be seen from both economic and social interconnections. China's URL have experienced major changes under strong policy interventions. For the first three decades after the 1949 founding of the People's Republic of China, the rural sector was suppressed through *hukou* control and food price policy in order to feed industrialization in cities. Over the following three decades, China experienced another unique urbanization process, which is unprecedented in both scale and pace. It is heavily driven by urban growth-oriented economic policies. Again, strong policy interventions dictate the characteristics of URL.

As the above discussions show, while the growth-oriented urbanization process helps strengthen urban-rural economic linkages to a great extent, the social linkages are greatly weakened and even suffer from systemic breakdowns at the household and village levels. Per capita incomes grow steadily both in urban and rural areas, but urban-rural income gaps actually widen, not to mention the urban-rural wealth gap. Many rural migrant labourers work in cities, but have to leave their dependents, children, and aged parents, in the villages due to lack of affordable access to urban services. The left-behind children may enjoy better material living thanks to the urban earnings of their parents, but are growing up without companionship of their parents and often suffer from loneliness and neglect. The urban social welfare system has not improved fast enough to serve the migrant workers, leaving them vulnerable to economic shocks and personal health risks. As the younger generation of rural population continues to migrate to the cities, villages decline and shrink, farmland is increasingly abandoned, and the rural social fabric begins to disintegrate. Moreover, urbanization results in the large-scale conversion of rural land into urban land, but farmers are not adequately compensated and often have to struggle to adapt to new lifestyles after their land and livelihood are taken away. As they are not given land development rights by law, they have to violate the law in order to share the benefits of urbanization, as in the case of illegal constructions and

small property rights housing.

The social problems arising from the policy-distorted urban-rural linkages are a subject for heated policy debates. In recent years, some provincial governments initiated and implemented what is known as an urban-rural integration policy within the provincial jurisdictions. It was yet another strong policy intervention that attempted to correct the distortions caused by strong policy interventions in the past urbanization. The gaps in social services to the rural sector have been narrowed to some extent, thanks to increased public expenditures aimed at basic service equalization. But these have failed to address the more fundamental issues such as *hukou* and land property rights. In 2013, the government initiated a new round of economic reform that includes reform initiatives on *hukou*, land, and municipal finance. This was followed by the announcement of the New Urbanization Plan (2014-2020) which aims to achieve a more people-oriented urbanization process and better urban-rural social interconnections.

The reform on *hukou* is already underway in many smaller cities. Very recently, Chongqing, a megacity in southwestern China, also initiated a reform action to unify urban and rural *hukous* into just one resident *hukou*. In contrast, the reform on land will be more difficult and more challenging. The reform decision offers a number of measures, including establishing a unified construction land market for both urban and rural areas; allowing transfer, lease, and stock sharing on rural collective construction land, and allowing such land to enter the urban market with the same rights and prices as state-owned land if the planned land use conforms to urban planning; reducing the scope of land expropriation, standardizing land expropriation procedures, and completing a reasonable, standardized, and multi-element guarantee mechanism for farmers under land expropriation; enlarging the compensated use of state-owned land and reducing the allocation of non-public welfare land; building a land incremental benefits distribution mechanism that combines the state, the collective, and the individual, and properly improves individual income from the benefits; and perfecting the secondary market of land lease, transfer, and pledge. All these sound reasonable, but their implementation is difficult as rural land is a crucial source of revenue for the current municipal finance.

The linkage between rural land and municipal finance is one of the key factors that enables the urbanization model over the past three decades. The new round of economic reform and the *New Urbanization Plan* aim to weaken this linkage. Thus a critical question is: where do cities get land and finance and at the same time implement the *New Urbanization Plan* with increased public expenditures to cover public services to migrant workers and their families? There is no one answer to this question. All sensible and promising means may be needed, such as improving the efficiency of public expenditures for basic service provision, promoting private-sector financing for public infrastructure, encouraging peri-urban villages to use a “land re-adjustment” approach to develop the use of urban land, and introducing urban residential property taxation. The real bottleneck for municipal governments to adopt the new means is lack of know-how and inadequate institutional capacity to manage partnerships with the private sector and rural communities.

Another key question is whether, and how soon, these reform initiatives will be implemented. These reform initiatives are about structural changes, and structural changes will bring short-term pain before eventually paying the expected dividends. Unfortunately, China suffers from excessive productive capacity as a result of stagnation of the global economy, and domestic consumption is not yet strong enough to signifi-

cantly strengthen the domestic economy. Investment remains the major option to GDP growth. Unfortunately, this option has been excessively deployed under the current growth model. China's economy has recently entered what is called the "new normal" stage, which means moderate annual GDP growth of between 6 per cent and 7 per cent. However, very recent macroeconomic indicators seem to suggest that China's economy is losing steam. It will be a particularly challenging time for China to implement essential reforms at this most difficult time.

NOTES

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