

## Beyond Hukou Reform: Enhancing Human-Centered Urbanization in China

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## About the Authors

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Juan Chen is Associate Professor in the Department of Applied Social Sciences, The Hong Kong Polytechnic University. She received her BA and MA from Peking University, and her MSW and PhD from the University of Michigan, Ann Arbor. Her research focuses on migration and urbanization, health and mental health, and help-seeking and service use in the United States, China, and Hong Kong. Her work has appeared in *Social Service Review*, *Social Science & Medicine*, *China Quarterly*, *Habitat International*, and *Cities*. She has completed two research projects on migration dynamics and migrant integration in China in recent years. She is currently working on another project investigating the impact of local government policies and practices on the in situ urbanization process, which affects the general wellbeing of formerly rural residents as well as their integration into the various facets of urban life.

### Deborah S. Davis

Deborah S. Davis is Professor of Sociology at Yale University. Her primary teaching interests are inequality and stratification, contemporary Chinese society, and methods of fieldwork. Author or editor of 10 books, her past publications have analyzed the politics of the Cultural Revolution, Chinese family life, social welfare policy, consumer culture, property rights, social stratification, occupational mobility, and impact of rapid urbanization and migration on health and happiness. Her current research focuses on intimacy, marriage, and intergenerational relationships. In 2017 she will join the inaugural faculty for Schwarzman College at Tsinghua University.

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## Introduction

In the past three decades, China has simultaneously witnessed the largest peacetime migration in history and an accelerating process of city expansion. In 1978, 17.92 percent of the Chinese population lived in urban areas; by 2014, the percentage had risen to 54.77 percent (see Figure 1).<sup>1</sup>

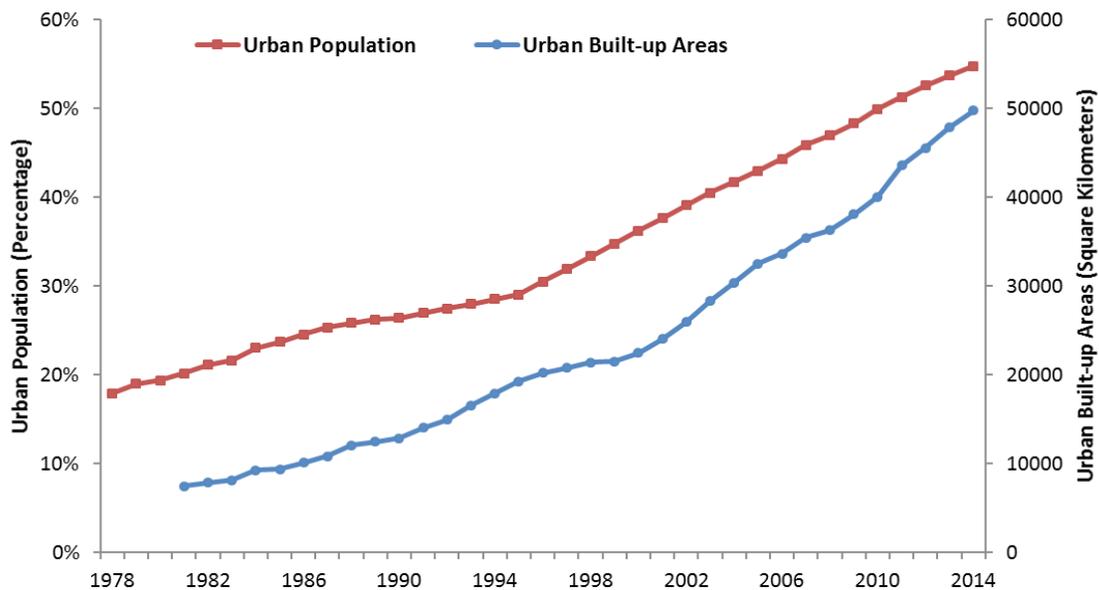
Driving this massive demographic shift was the migration of over 200 million rural residents, who left their homes to start new lives in cities as migrant laborers.<sup>2</sup> Yet equally important was the reclassification of 200 million former villagers as residents of new

urban districts.<sup>3</sup> Between 1981 and 1999, the annual expansion of urban areas averaged 800 km<sup>2</sup> per annum. After 2000, the growth rate more than doubled to 1700 km<sup>2</sup> per annum. By 2014, China’s urban space reached almost seven times that of 1981 (see Figure 1).<sup>4</sup>

Thus urbanization in China has been the result of two distinct but interrelated phenomena:

The first is the growth of cities and towns, swelled by an influx of migrant labor from rural areas. The second is

**Figure 1. Urban Population and Urban Built-up Areas, 1978–2014**



Sources: For urban population, *China Statistical Yearbook 2015*; for urban built-up areas, *China's Urban Construction Statistical Yearbook 2014*.

in situ urbanization, whereby villagers become urban residents not because they decided to try their luck in the city but because their land was reclassified as urban. Rather than go to the city, the city came to them.<sup>5</sup>

Because these two distinctive processes drive rapid urbanization in China, remedial policies must also distinguish between urbanization of *people* and urbanization of *place*.<sup>6</sup> Moreover, because the Chinese government has recently announced in its "National New-Type Urbanization Plan (2014-2020)" that it will relocate an additional 100 million villagers and migrants to new urban settlements by 2020, it is urgent that policymakers look closely at how this proclaimed goal of "human-centered urbanization" can be realized amid another decade of massive dislocation and relocation.

In this policy memorandum, we focus particularly on in situ urbanization—one of the two distinct pathways to urban residence. In the following sections, we first describe how villagers become urbanites via reclassification of their land and the associated disparities in quality of life between in situ urbanized rural residents and long-term urbanites. We then offer a cluster of policy suggestions to reduce the disparities by: (1) balancing resource distribution between mega cities and smaller cities, (2) creating incentives for local governments to focus on providing public services and improving residents' quality of life, and (3) cultivating government-coordinated and resident-participated models for urban development.

## In Situ Urbanization and Urbanized Rural Residents

The urbanization process in China has, to a large extent, been an "urbanization of place" driven by land purchases of peri-urban rural land. And despite substantiated claims that this land driven urbanization has displaced large number of peasants and even created "ghost cities," the government remains committed to further expansion of urban areas.<sup>7</sup>

According to a project undertaken by the National Development and Reform Commission, China's central planning agency, 145 of 156 prefectural cities and 67 of 161 county-level cities surveyed are building or

planning to build new towns. Among the 145 prefectural cities with plans for new towns, the average planned area of 63.6 km<sup>2</sup> will increase the physical size of original towns by 50 percent. Moreover, because the new towns can accommodate more residents in high-rise buildings, it is estimated that, in order to fill the new towns, all the rural residents residing in the prefectural municipalities will have to be displaced.<sup>8</sup>

Urbanization of *place* rather than *people* has radically altered the community

life of former villages in China. In large cities, we observe the emergence of "urban villages"—transitional neighborhoods characterized by tenuous land rights and a mixture of rural and urban populations. The residents of these areas often rent their property as a second source of income, thus providing additional housing options for migrants but not creating stable or sustainable communities.<sup>9</sup> In



Photo: Flickr/Jens Grabenstein

small and medium-sized cities, urban villages are less common; instead, local governments have created "concentrated villages" to expropriate land, but like the "urban villages" that emerge more

organically, these concentrated villages provide in situ urbanized rural residents with fewer benefits than long term urban residents routinely enjoy.

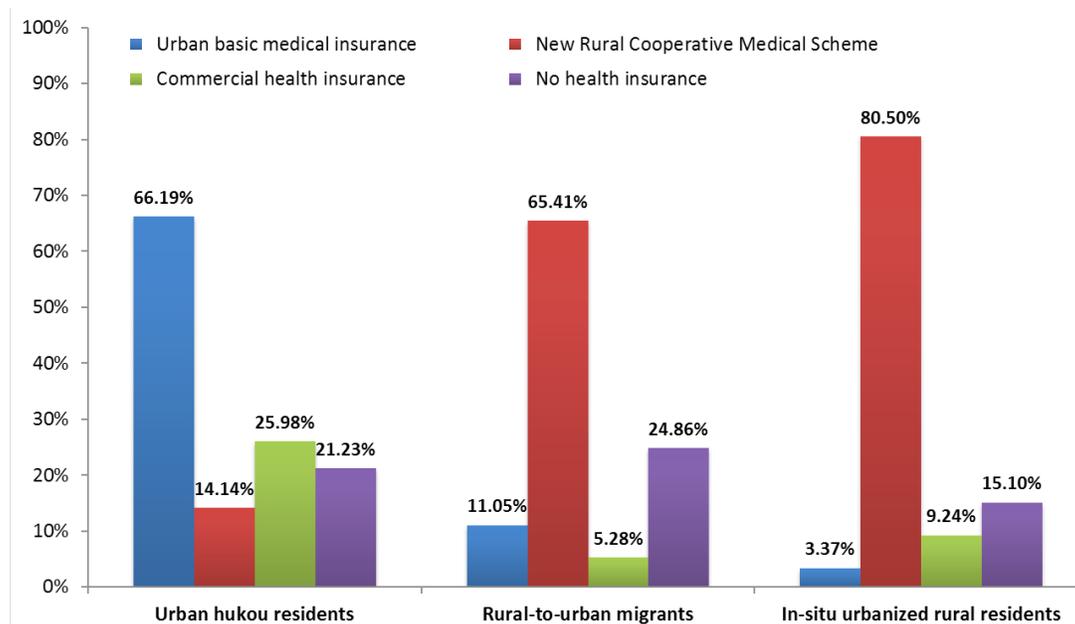
Once their land is expropriated, in situ urbanized rural residents should be entitled to the same social welfare benefits that are enjoyed by their urban counterparts. However, due to the rapid pace of urbanization and bureaucratic inertia, changes in *hukou* status—in other words, status under China's system of residency permits—lag far

behind conversions of farmland. Many residents fail to convert their household registration status (*hukou*) from rural to urban, leaving them unable to receive the health and social benefits associated with holding an urban *hukou*. For instance, in a study of Hefei, the capital city of Anhui provinces, only 25.2 percent of the displaced peasants had their rural *hukou* converted to urban household registration.<sup>10</sup>

The same study also notes that, with the exception of some areas in the coastal provinces of Zhejiang and Jiangsu, the failure of in situ urbanized rural residents

to gain access to urban social welfare has been the norm; even those who have converted to an urban *hukou* are not automatically qualified for urban residential benefits.<sup>11</sup> For example, our own data from the 2011 “Migration and Quality of Life Survey” show that more than 80 percent of in situ urbanized rural residents are still enrolled in the New Rural Cooperative Medical Scheme (see Figure 2),<sup>12</sup> which offers limited coverage for both care and costs.<sup>13</sup> Moreover, as shown in Figure 2, of those respondents with urban *hukou* in 2011, about 14 percent are still enrolled in the New Rural Cooperative Medical Scheme, which

**Figure 2. Disparities in Health Insurance Coverage among Urban Hukou Residents, Rural-to-Urban Migrants, and In Situ Urbanized Rural Residents**



N = 1283. Survey design effects (strata, cluster, and individual weights) are adjusted in the mean estimations. The categories are not mutually exclusive. Respondents can report more than one type of health insurance.

Source: Migration and Quality of Life Survey (2011).

**Figure 3. Health and Socio-demographic Disparities among Urban Hukou Residents, Rural-to-Urban Migrants, and In Situ Urbanized Rural Residents**

	Urban <i>hukou</i> residents	Rural-to-urban migrants	In situ urbanized rural residents
Chronic health conditions (1-10, mean)	0.59 (0.23)	0.20 (0.07)	0.56 (0.06)
Demographic characteristics			
Age (years, mean)	40.64 (2.08)	34.28 (3.09)	40.36 (3.18)
Gender (female, %)	55.10	47.86	40.72
Marital status (married, %)	83.53	73.06	80.94
Socio-economic status			
Education (years, mean)	11.29 (1.42)	8.24 (0.79)	7.67 (0.86)
Occupation (professional/managerial, %)	26.47	8.90	3.49
Household wealth (1-12, mean)	6.85 (0.90)	5.96 (0.67)	5.71 (0.45)
Sample N	615	232	436
Weighted percentage (%)	56.51	20.33	23.16

N = 1283. Survey design effects (strata, cluster, and individual weights) are adjusted in the mean estimations. Means or percentages are reported; standard errors in parentheses.

Source: Migration and Quality of Life Survey (2011).

suggests that they are in situ urbanized rural residents who have obtained urban *hukou* but still have not gained access to the urban healthcare system.

Our 2011 survey data on socio-demographic and health measures also indicate that in situ urbanized rural residents have fewer years of education and less skilled employment than both urban *hukou* residents and rural-to-urban migrants (see Figure 3). Our analysis further shows that in situ urbanized rural residents have the same number of chronic health conditions as urban *hukou* residents but are less likely to receive medical treatment,

particularly for cardiovascular conditions. Moreover, in situ urbanized rural residents are more anxious about their potential inability to cover medical expenses than both urban *hukou* residents and rural-to-urban migrants, even after controlling for demographic characteristics and socio-economic status.<sup>14</sup>

As China’s urbanization process continues, the negative circumstances of in situ urbanized rural residents require greater research and policy attention, but an integrated approach must be developed to respond to their economic and health problems.

## China's National New-Type Urbanization Plan and *Hukou* Reform

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The current Chinese leadership has continued to support policies that promote urbanization.

According to the "National New-Type Urbanization Plan (2014-2020)", the Chinese government aims to raise the proportion of the country's urban population to 60 percent by 2020, an increase that will involve the relocation or reclassification of an additional 100 million villagers and migrants.

To date, we have seen a number of government policy initiatives designed to give the rural-to-urban migrant population greater

access to urban social services and facilitate their integration into urban life. In July 2014, for example,

the State Council of China—in effect, the country's cabinet—introduced "Suggestions for Advancing the Reform of the Household Registration System" ([2014] No. 25) to promote the orderly re-registration of long-term rural-to-urban migrants and to expand coverage of basic public services. The new policy allows rural-to-urban migrants residing in small cities and towns to apply for official urban status with almost no restrictions. Those who live in medium-sized cities will experience some restrictions, but these will gradually be phased out for those with legitimate and stable occupations and housing.

For those who wish to settle in large cities, however, the restrictions remain stringent, and the population of key mega cities will continue to be strictly controlled.

Further, the central government has already begun to encourage China's local governments to provide local urban *hukou* to the migrants who move to new areas for which land and fiscal resources are being allocated.<sup>15</sup> This positive step should be generalized so as to better integrate all types of migrants into the urban social and administrative system.

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*Simply dropping the hukou system will not resolve the issues and challenges arising from the rapid but uneven urbanization process in China.*

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But as a result of these newly released government policies, rapid urbanization will continue in China over

the next decade. The treatment of new arrivals should improve in smaller cities and towns but will still be discriminatory in large and mega cities.

Many argue, however, that the government-driven *hukou* reforms are not based on the *actual* patterns of population migration. The majority of the so-called "floating" population has not moved to small cities and towns in accordance with the official policy; instead, they continue to move to large and mega cities in response to job opportunities. Therefore, agglomeration in very large cities is likely to continue

unless small and medium-sized cities can offer more new jobs.

We do not oppose the analyses and policy suggestions of those who argue for *hukou* reform as a stimulus to economic growth.<sup>16</sup> Indeed, we concur that China's current restrictive and divisive *hukou* system should be dropped or, more realistically, downgraded to a form of tracking residency.

But that cannot be the end of the story. The central argument of our

memo is that it is not enough to focus solely on *hukou* reform. Simply dropping the *hukou* system will not resolve the issues and challenges arising from the rapid but uneven urbanization process in China.<sup>17</sup> That is why several changes beyond *hukou* reform are needed. And these could significantly improve the quality of life in Chinese cities, particularly for in situ urbanized rural residents in small and medium-sized cities who may or may not have achieved the full urban status in China.

## Beyond *Hukou* Reform: How to Enhance Human-Centered Urbanization

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China's central government has stressed that urbanization should be human-centered and improve the quality of residents' lives. We believe three proposed policy adjustments at both the national and local levels could help to accelerate realization of the government's call for human-centered urbanization.

### **1. Balancing Resource Distribution between Mega Cities and Smaller Cities**

In 2011, GDP per capita was highest in the large or mega cities concentrated in three coastal urban agglomerations—the Pearl River Delta, the Yangtze River Delta, and the Bohai Rim.<sup>18</sup> Moreover, those who held urban *hukou* in these cities enjoyed the highest public welfare subsidies, access to the best hospitals, subsidized housing, and preferential admission to colleges.

Thus it is no surprise that so many Chinese, no matter where they were born, want to obtain *hukou* in these cities, or that the restrictions on obtaining a local urban *hukou* in China's large and mega cities remain so stringent.<sup>19</sup> Recently, many commentators have argued that the optimal urbanization strategy for China is to promote the development of large and mega cities.<sup>20</sup> But if such a policy were adopted, we would predict

that the current gaps in employment opportunities, welfare benefits, and public services between mega cities and smaller urban settlements would persist or even increase.

These large cities already enjoy policy advantages compared to smaller cities. For instance, studies have found that a city's administrative rank is positively correlated with its expansion, after controlling for other economic and demographic drivers of urban expansion. In other words, cities with higher administrative rank—and most of these are also large or mega cities, such as Shanghai or Beijing—enjoy more favorable land policy.<sup>21</sup> Reducing or eliminating *hukou* restrictions would certainly allow many more migrants to seek their futures in the mega cities, but it would by no means begin to address the *immediate* issue of how cities would provide equal benefits to all residents regardless of their *hukou* status.

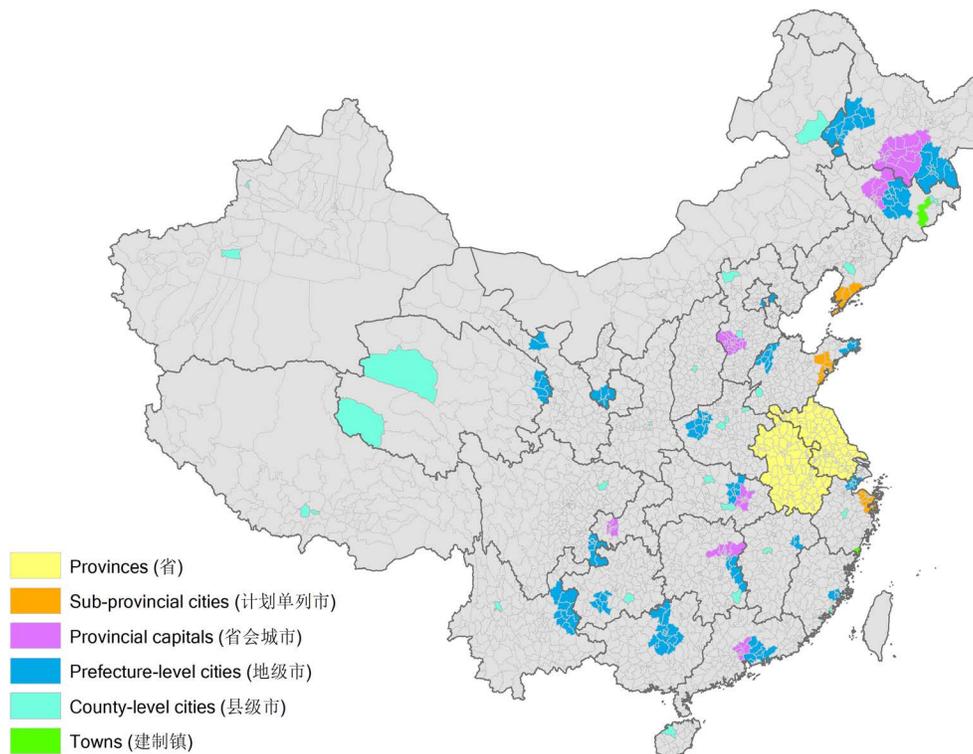
In 2011, we conducted a survey on migration and quality of life across Chinese cities of different sizes. This survey explicitly compared the experience and assessments of long-term urban residents, rural-to-urban migrants, and in situ urbanized residents. On the basis of our results, we argue for a policy option that might be more fiscally efficient.<sup>22</sup>

What is this policy alternative? Our 2011 survey data revealed that, when we controlled for both family and household attributes, people reported higher levels of life satisfaction in cities with urban population between 200,000-500,000 than in mega cities or smaller towns. Particularly noteworthy in light of the government's current plans to promote human-centered urbanization was our finding that the new urbanites, both rural-to-urban migrants and in situ urbanized rural

residents, were *more* satisfied with life than urban *hukou* residents in these "moderate-sized" Chinese cities.<sup>23</sup>

We cannot know for sure whether the new urbanites were happier because they faced lower levels of *hukou* restrictions or simply found life less stressful. But what *is* clear is that these moderate-sized cities provided a higher quality of life than did the mega cities, which suggests, that one solution to reducing the current polarization

**Figure 4. Pilot Areas in the National New Urbanization Comprehensive Pilot Program**



Source: National New Urbanization Comprehensive Pilot Program (National Development and Reform Commission [2014] No. 1229).

and inequality would be to redirect government investment to these moderate-sized cities. By international standards, such cities are already large-scale urban settlements.

In addition, another benefit of this refocusing away from mega cities would be that the governments of second- or even third-tier cities could provide a comparable standard of education, healthcare, housing, and eldercare service at a lower cost. That is because of the lower cost of living in these locations.

## **2. Confining the Role of Local Government to Public Service Provision**

In February 2015, the National Development and Reform Commission (NDRC), China's central government planning agency, issued the "National New Urbanization Comprehensive Pilot Program" ([2014] No. 1229). Jiangsu and Anhui provinces and 62 cities (towns) were selected as the national comprehensive pilot areas (see Figure 4).

Like most Chinese pilot schemes (*shidian*), the program does not insist on a certain policy agenda;<sup>24</sup> instead, the participating cities are encouraged to initiate various *hukou*, land, finance, and administrative reforms—and to be innovative in promoting people-oriented urbanization that suits local

circumstances and conditions. According to the schedule, these areas should have started their pilot program before the end of 2014. They are expected to adapt the program over time to better meet local needs and to achieve initial results in 2017.

Between 2018 and 2020, the successful pilot experiences are supposed to be disseminated and replicated nationally. The pilot areas were chosen because of their potential to generate successful experiences and models of human-centered urbanization.<sup>25</sup> However, to date, little has been published on the concrete measures that local governments can experiment or adopt, or how to create

incentives for local government to work toward the policy goals or scale up their experiments.

As the National New Urbanization Comprehensive Pilot Program is being implemented, there is a concern that participating local governments may treat this pilot program as yet another opportunity to obtain additional funding and land quotas for urban construction.<sup>26</sup> There are also serious doubts that local governments would make human welfare their top policy priority because local officials are evaluated, measured, and then promoted into higher ranks of the bureaucracy by improving economic efficiency and employment opportunities.<sup>27</sup>

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To address the issue of incentivizing local governments, then, we believe that priorities for local governments in China should shift from investing in and developing cities to managing city services and serving city residents. Achieving GDP growth should not be set as the main task of local government; instead, local governments should focus on maintaining a secure and predictable legal environment, protecting property rights, and providing public goods and be less involved in industrial planning and financing, land concessions, administrative fees, or other forms of subsidies.

Were the mandates for local governments adjusted in this way, local enterprises would have more freedom to build their business without having to bargain with local governments or agents of central government ministries. Also, if the central government were to relieve local governments of primary responsibility for healthcare and pensions, local governments would be freed up to focus instead on providing education, basic infrastructure, and the provision of other services.

### ***3. Cultivating Government-Coordinated, Resident-Participated Models for Urban Development***

On the basis of our own survey and fieldwork, in particular, we argue that the

central government should encourage "coordinated urbanization" during China's urban expansion process.<sup>28</sup> "Coordinated urbanization" means that local governments and communities would work together to design and implement the urbanization process. However, the government and "the community" should also have separate responsibilities. Governments should primarily work on the building of infrastructure and make sure that all in situ residents have access to urban public services. At the same time, local residents should be the ones to finance, design, and construct their new residences. Or they can choose all-cash compensation and relocate to other areas.

Under such an arrangement, local residents would either keep some of their land or else sell all of their existing land at market prices. This policy would be superior to the currently dominant government-led urbanization process. Under the government-led model, government takes responsibility for financing and construction of both infrastructure and new residences. But the expense for this is financed too heavily through land confiscation and sales. This inevitably creates land- and relocation-related conflicts between the government and local residents. These could be mitigated under our refocused approach.

## Conclusion

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We are hardly alone in emphasizing just how uneven China's urbanization process has been.<sup>29</sup> But in contrast to some, we believe it is equally misleading and particularly unhelpful for policymakers to simply treat urbanization as a single undifferentiated process.

Urbanization around China varies markedly in speed and reach.

Administratively, China has almost 700 cities divided among three different levels of administration. The main focus for policymakers has been on the 140 cities that have over one million residents (according to the 2010 Population Census). Thus the immediate policy preoccupation has been how to restrain growth among the mega cities with over 10 million inhabitants and redirect resources and new migrants toward the small and medium-sized cities.

But as we have emphasized, the pathway to urban residence is also a critical factor. Half of China's new urbanites are rural-born men and women who left their villages to find non-farm work in distant towns and

cities. But the other half never left their home villages; instead the city boundaries expanded and came to them. As a result, they were redefined as city dwellers rather than village residents but through no action of their own.

In this memo, then, we offer three policy recommendations that attempt to respond to the polarization of resources among cities of different

sizes and financial capacities and to the wide variation in the pathways to urban residency. The dual processes of incorporating adjacent rural counties within city boundaries and accelerating migration from the

countryside increased the administrative reach of cities at all levels and enlarged the urban population. But while current policy debates in China have primarily concentrated on reforming the *hukou* system and promoting further urbanization in large and mega cities, our research clearly points to a new policy direction: China should instead focus on improving the quality of life in small and medium-sized cities.<sup>30</sup> In particular, it needs to craft policies that address the needs of in situ urbanized rural residents whose families co-reside



Photo: Flickr/Silvia Sala

(or live nearby), as well as those who have migrated afar and left family members behind.

The core of this policy memorandum is this: the Chinese government needs to go beyond *hukou* reform and adopt policies that rebalance resource distribution between mega cities and

smaller cities. It should confine the role of local government to public service provision. And ultimately, it needs to cultivate government-coordinated and resident-participated models for urban development. These will all be critical measures if China is to achieve human-centered urbanization in the coming decades.

## Endnotes

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# Paulson Policy Memorandum

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