

URBANIZATION AND SOCIAL POLICY IN CHINA

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Urbanization in China has in part been subject to centrally planned control and in part has resulted from the pressures of industrialization and economic development. One of the major, if neglected, influences has been the social policies controlling internal migration and influencing urban-rural inequalities in income and social welfare. Urbanization poses continuing and growing challenges for social policies. This paper explores three approaches of possible future urbanization: planned and controlled urbanization, free-market development and balanced social development. The paper emphasizes the importance of a balanced social development approach, as it would maintain social stability, cater to the needs of large and small cities and urban and rural areas, and help to narrow the rural-urban gap in terms of social provision.

China is experiencing rapid urbanization in terms of increases in the urban population and the number of its cities and towns.¹ During the era of central planning (1949-1978), the urban population² increased by 114 million. The total number of cities increased from 132 to 223 (table 1). By the end of 2005, the percentage of the population in urban areas reached 43 per cent of the total population and the urban population was 562 million, that is, 390 million more than in 1978 (figure 1). In the same period, the number of cities increased from 223 to 660. From 1978 to 2004, the number of towns increased from 2,851 to 19,171. It has been estimated that by 2020 the urban population will comprise 60 per cent of the total population (Li, 2001a).

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¹ With reference to the population, the terms "urban" and "rural" are defined on the basis of household registration (*hukou*). If a person works and lives in cities and holds an urban *hukou*, he/she is considered to be an urban citizen. Reference to areas are more complicated. An area can be registered as "urban" according to several indicators: total population, population density and economic indicators, including GDP and the structure of the economy (agriculture, industry and services) in terms of number of employees and total outputs (Ministry of Civil Affairs, 1993).

² People living in cities or towns.

In the “Suggestions for Making the 11th ‘Five-Year Plan’” (Central Committee of the Chinese Communist Party, 2005), it was recognized that urbanization would be an important contributor to the development of balanced economic development in China. President Hu Jintao, in an early 2006 talk, suggested that urbanization was an unavoidable feature of social and economic development and also a major sign of industrialization and modernization. The official acknowledgement of the role of urbanization suggests the State’s determination to accelerate urbanization. In line with the official position, numerous research studies also emphasize the necessity and urgency of pushing urbanization forward. The emphasis on rapid urbanization in China is based on two arguments. First, China’s urbanization rate is behind that of other countries which are at the same stage of industrialization

Table 1. Number of cities and towns in China

Year	Total number of cities ^a (towns not included)	Major cities ^b	Cities at regional level	Cities at county level	Towns
1978	193	3	97 ^c	93 ^d	2 851
1983	289	3	145	141	–
1988	434	3	183	248	11 481
1993	570	3	196	371	15 086
1998	668	4	227	437	19 216
1999	667	4	236	427	19 756
2000	663	4	259	400	20 312
2001	662	4	265	393	20 358
2002	660	4	275	381	20 601
2003	660	4	282	374	20 226
2004	661	4	283	374	19 171

Source: Administration Net, various years <www.xzqh.org>.

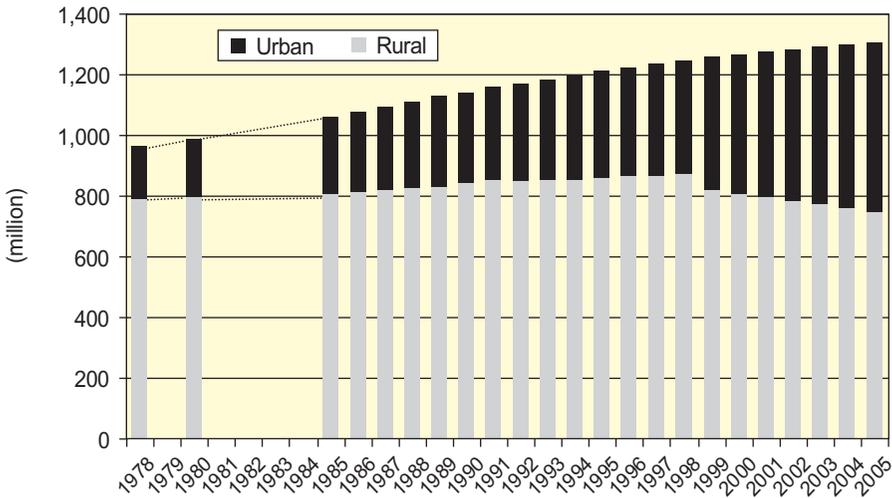
^a The definition of towns changed over time. Prior to 1964, “town” meant: an area with more than 2,000 permanent residents, of which 50 per cent or more are not working in agriculture. Between 1964 and 1984, “town” meant: (a) an area with more than 3,000 permanent residents, of which 70 per cent or more are not working in agriculture or (b) an area with more than 2,500, but less than 3,000 permanent residents, of which 85 per cent or more are not working in agriculture. After 1984, “town” meant: (a) an area hosting a county-level government; (b) a township with fewer than 20,000 people and 2,000 or more of whom are not working in agriculture; or (c) a township with more than 20,000 people and more than 10 per cent of the population are not engaged in agriculture; or (d) if in a remote area, mountainous area, small-sized mining area, small harbour, tourism area, or border area, fewer than 2,000 people working in non-agricultural work may also be approved as a town (National Bureau of Statistics of China, *China Statistical Yearbook*, 2005).

^b Directly under central government control: Beijing, Tianjin, Shanghai and Chongqing after 1998.

^c Cities at the provincial level.

^d Cities at the regional level.

Figure 1. Urban population and rural population



Source: National Bureau of Statistics of China, *China Statistical Yearbook*, various issues.

Note: Between 1978 and 2005, the total population of China increased from 962.6 million to 1,307.6 million; the percentage of urban population (people living in urban areas and not working in agriculture) increased from 17.9 to 43 per cent of the total population.

(Wen, 2001; Zhang, 2003; Chen, 2005). As a result, the process of urbanization should be accelerated in order to catch up with industrialization. Second, developed countries have a higher urbanization rate; therefore, for China to continue to grow and improve its economic structure, a higher urbanization rate is necessary (Li, 2001b; Wang, 2003; Zhu, 2003).

Whether or not the rate of China’s urbanization is too slow for industrialization is debatable (Li and Ji, 2004). Most previous research has focused on whether urbanization should be accelerated and whether urbanization should include towns or be focused only on big cities. However, little attention has been paid to the relationship between urbanization and social policy, i.e., various social provisions, such as health care, education and training, housing, social protection for older persons and for the unemployed, as well as various social services which will cater to basic needs, such as childcare, schooling and assistance in finding employment. A careful review of past policies regarding urbanization in China shows that two urbanization processes occurred side by side: urbanization directed by the State and urbanization driven by economic growth (Shen et al., 2002). The State-directed urbanization process raised enormous challenges for social policies in terms of providing infrastructure and services, as well as in creating employment

opportunities. At the same time, “natural urbanization” processes, in which people move to cities to pursue economic interests, have also generated higher pressure on social provision. The latter has become a major cause of urban social problems and tensions.

In the nineteenth century, urbanization posed huge problems for social conditions following the industrial revolution in the United Kingdom and later in other parts of Europe and the United States. Terrible public health problems occurred, such as epidemic diseases as a result of the lack of clean water and an efficient waste-disposal system. Until these matters were tackled, the growth of cities was constrained by health problems. Slum housing in London, as described by Charles Dickens, caused appalling destitution. Children’s lives were blighted by poverty and malnutrition, as well as by the cruel demands made on child labourers.

The development of industry depended on the development of literacy and numeracy. As factory employment replaced agricultural labour, unemployment became a devastating social problem. Social policies that offered better housing, education and labour protection, as well as the development of social safety nets, helped to support the growing number of people in cities and sustain long-term urbanization. The countries that industrialized early are now very largely urbanized. Some people seek to combine urban and rural life by living in suburbs or commuting to cities from rural areas, but only a small proportion is genuinely rural. Thus, the development of social policies for health, housing, education and social protection were crucial for industrialization and the urbanization that went with it. Such policies were also crucial in determining the social consequences of urbanization.

By contrast, large parts of Asia, Africa and Latin America are currently experiencing rapid urbanization. The pattern and consequences of this phenomenon are markedly diverse. The extent of slums and shanty towns, health problems, educational provision, social protection and inequality differs greatly between urban and rural areas. The degree to which cities suffer from the social consequences of urbanization is related largely to the availability of necessary social provisions.

In this paper, we examine the history of urbanization in China and the impact of the application of social policies. We discuss different approaches to urbanization and how social policy may help or hinder the process of urbanization. The emphasis of the paper is on the important role of appropriate social policies in facilitating urbanization in the context of balanced social development.

I. TWO TYPES OF URBANIZATION: A SHORT HISTORY

When the People's Republic of China was established in 1949, 10.6 per cent of the total population lived in cities. Between 1949 and 1980, the urbanization rate in terms of the population increased by only 8.8 per cent, with the average growth being 0.28 percentage point per year (Xu, 2004). In this period, the State gave priority to the development of heavy industry. Urban development relied primarily on government funding. The national urbanization strategy favoured smaller settlements over larger settlements. Industrial facilities were scattered; for security reasons, sometimes they were located in towns in remote mountainous areas with little or no infrastructure. The restriction of labour mobility through a household registration system (*hukou*) enabled the Government to control the size and growth of towns and cities. The *hukou* system is described further below and also in ADB (2005).

Although the economic reform process implemented from the late 1970s quickly revitalized the economy, China's urbanization policy continued to reinforce rural-urban divisions. Urbanization was regarded mainly as a measure to cope with the pressure of surplus rural labour, the result of rural economic reform and increased labour productivity. A guiding principle for urbanization was to avoid large-scale rural-to-urban migration into large cities. The National Urban Planning Conference in 1980 decided "to control the scale of large cities, develop medium cities at a reasonable pace and develop small cities actively" (*China Urban Construction Yearbook*, 1989). Starting in 1995, a number of pilot programmes for institutional reform in selected towns were established to experiment with policies that would help facilitate urbanization. The experiences of several towns were presented as success stories, but their success was the subject of much debate. Success could be the result of unexpected economic growth in the regions where the towns were located (ADB, 2005), or the successful towns could be geographically close to large and medium-sized cities, which could have helped the small towns to attract outside investment (Li, 2003). Their success might not have as much to do with the implementation of the development plans, as had been claimed. Such towns can be found in the south of Jiangsu Province and the Pearl River delta area (Li, 2003). After 2000, a series of central government guidelines were published making official the policy of actively developing towns. In 2002, the sixteenth Central Committee of the CPC further emphasized that the urbanization process with Chinese characteristics should be one of compatible development of towns and cities (ADB, 2005).

The size of towns and cities is crucial for the State's management of urbanization. The principle has been to promote the development of towns and small cities and restrict the expansion of large cities. The result of this urbanization process is clear. As shown in tables 1 and 2, more than 20,000 towns and 360 small cities were set up between 1995 and 2000 (although some recent amalgamation reduced the number since 2000).

Table 2. Number of cities according to size

Year	Total	2 million or more	1 million to 2 million	0.5 million to 1 million	0.2 million to 0.5 million	Under 0.2 million
1995	640	10	22	43	192	373
1996	666	11	22	44	195	393
1997	668	12	22	47	205	382
1998	668	13	24	48	205	378
1999	667	13	24	49	216	365
2000	663	13	27	53	218	352
2001	662	25	141	279	180	37
2002	660	33	138	279	171	39
2003	660	33	141	274	172	40

Source: National Bureau of Statistics of China, *China Statistical Yearbook*, various issues.

Note: The statistics have been calculated as follows: based on the population who are registered as urban residents and not working in the agricultural sector. According to *China City Statistical Yearbook* (2003, p. 592), a city is an administrative unit approved by the Ministry of Civil Affairs. In terms of size of population (p. 585):

- Small cities: fewer than 0.2 million people.
- Medium-sized cities: 0.2 to 0.5 million people.
- Large cities: 0.5 million to 1 million people.
- Super large cities: 1 to 2 million people.
- Megacities: more than 2 million people.

In contrast to the pre-reform period, urbanization from the 1980s was no longer solely determined by State control. Booming industrialization in rural areas and the market economy, together with large numbers of farmers leaving the farming sector, became forces driving urbanization. Migration of this type helped to boost the economy in cities and increased the number of large cities (0.5-1 million population), super large cities (1-2 million) and mega-cities (2-4 million people) (table 2). Despite the State's tight control, the population of some large cities in south-eastern and inland areas grew rapidly. The two largest cities in China, Beijing and Shanghai, each have populations of more than 15 million. Since 2000, these two cities have been growing by more than 350,000 persons per annum.

II. ISSUES THAT URBANIZATION HAS ALREADY POSED FOR SOCIAL POLICY

China's urbanization process since 1978 is unique in the world because: (a) countries promoting industrialization through market-driven economic growth seldom control labour mobility as China has been doing and (b) China has been suppressing the growth of large cities in favour of towns and small cities. In theory these two aspects were congruous because, if farmers were attracted to towns and small cities, the pressure on large cities would be lessened (Zhang, 2003). However, it is important to emphasize that the labour control and urbanization strategy has so far demonstrated government failures in many aspects and this has raised questions about the role of social policy.

First, cities, especially large cities, were reluctant, or found it difficult, to cope with the rapid increase in the urban population. Beijing and Shanghai used restrictive measures to prevent people moving into the cities from outside. However, in the 1990s, registered residents increased by 1.3 million in Beijing and 1.8 million in Shanghai. These numbers do not include the even larger number of rural-to-urban migrants who are not registered in these cities (Yuan, 2003). Because of the rapidly growing population in these large cities, their infrastructure, resources and capacity to provide social services were severely strained. Also, local urban authorities were not ready or willing to deal with the increased social needs of "outsiders". This situation has created an urban underclass not considered the equal of urban citizens (Li, 2004). The majority of workers from rural areas are not really participants in urban life; they do not even live an urban lifestyle. For example, they do not bring their children to live with them, go to hospitals in cities, or travel by public transport; moreover, they do not have any plans for the future as urban citizens would have expected, as Li (2006) notes below:

What we can observe is strong dependence (in particular with respect to psychological support on the people back at home), relatively closed social circles among fellow migrants and readiness to run back to their villages when things go wrong. A minor health problem can send a person back home and subsequently cause the loss of his/her job in the city. The costs of lacking lifelines, such as accessible and affordable childcare, schools, hospitals, public transportation, and public leisure facilities, are high, both to migrants and the economy. Many migrants were aware of the growing pressure on urban unemployment and the potential to get injured or become ill. Driven by a strong feeling

of uncertainty, they were willing to trade many things for money: family life, health, safety... This puts them in a very vulnerable position in urban society.

Second, developing towns and small cities, as carried out by local governments so far, has proved costly and unsustainable. Apart from real estate development and infrastructure construction, local governments have treated building up towns and cities as an achievement which would be appreciated by the higher authorities. As a result, thousands of small development zones were designated in order to attract investors (Xinhua Net, 2004). Local governments were eager to construct cities and towns but did not think carefully about the employment opportunities that would be available to the settlers. On many occasions, local industries were unable to survive, because of their slow response to market demand, poorer technologies, smaller scale of production and long distances to markets. As a result, many small cities became empty towns soon after they were constructed (Gu, 2004).

Towns also suffered from poor infrastructure, poor environment, poor education and less developed social security systems. Although towns could offer urban status to potential rural migrants, they were not as attractive to farmers as the authorities had previously thought they would be. Even if some farmers sought work in these towns, they would be reluctant to give up their land and become urban citizens (Zhu, 2004).

Third, urbanization may not be a sufficient solution to rural poverty. Urban opportunities attract better educated people to cities. The economy of many poor villages, losing many migrant workers, has declined because of the outflow of able and better educated labourers. Therefore, urbanization has made some of the poorest areas even poorer (Wang, 2004).

Fourth, urban expansion into surrounding peri-urban areas has resulted in a large number of farmers losing farmland to urban developers. In the last 20 years, Shanghai has taken farming land away from more than 1 million farmers. Since 1993, one third of a million farmers around Beijing have lost their land. Overall, it has been estimated that 40 million to 50 million farmers in peri-urban areas and fast-growing areas have lost their land. The number is growing by 2 million per year (Han, 2005). Currently, farmers receive a small amount of money for the loss of their land;³ such an amount could support them only for a few

³ According to the Land Administration Law of China (NPPC, 2004), the compensation for arable land under requisition includes compensation for land (6-10 times the average annual land output in the previous 3 years), and resettlement (4-6 times the average annual land output in the previous 3 years). According to the Ministry of Land Resources (2004), the total compensation should exceed 30 times the average annual land output of the previous 3 years.

years. In poorer areas, farmers have not received even the promised small amount of compensation on time (Yu and Yang, 2003).

After losing their land, the majority of farmers, including those who went to work in cities, became poorer than before. In terms of social security, landless farmers were not treated as urban residents. In most cases, they did not have any social protection. In some better off areas, such as Zhejiang Province, a contribution-based social insurance programme was set up. However, only a very small percentage of the landless farmers were covered by social insurance (Qu, 2004).

These failures suggest that the State's direction of the urbanization process did not really achieve its original goals, that is, the development of towns in order to urbanize the rural population and restrict the growth of very large cities.

Major changes are planned for the eleventh five-year plan period. Urban bias is to be corrected by the Government's intention to pursue more balanced reform aimed at further reducing poverty. Following this line of thought, the State decided to embark on the development of what is called the "new countryside", in which rural areas and agriculture will receive more favourable treatment and benefit more from national development than before. However, whether this goal of more balanced growth will be achieved remains to be seen. One important determinant will be the role of social policy in facilitating urbanization goals, which is the focus of the next section.

III. THE INFLUENCE OF SOCIAL POLICY ON URBANIZATION

The role of social policy in generating the two previously described patterns of urbanization cannot be overestimated. Social policy helped to block people from rural areas from entering cities and it reinforced the differences between rural and urban areas, ensuring that, when former farmers came to work in cities, they were treated differently. It also helped to deter people from moving to small towns which were designed to fulfil urbanization goals.

Past control and gradual removal of labour mobility

A central characteristic of China's urbanization was the co-existence of the promotion of industrialization and the control of labour mobility. Such control lasted for nearly 50 years and could be traced to the early days of the People's Republic. Since 1958, the State has used the *hukou* system to differentiate rural residents from urban residents. According to the "Regulations on household

registration in the People's Republic of China" (*zhonghua renmin gongheguo hukou dengji tiaoli*), (People's Congress of the People's Republic of China, 1958), individuals who wanted to live outside the local areas where they were registered had to report to the local authorities and acquire permits to move (Article 10); upon arrival at their new residence, they had to report and register with the *hukou* registration authorities there (Article 13). Rural residents moving to urban areas had to present evidence of employment, school registration or a special permit granted by an urban *hukou* registration authority before they could settle there (Article 10).

Over the years, this control of migration has been gradually relaxed. In the early 1980s, the State allowed peasants to come to work in cities on the condition that they present on the spot valid identification and certificates. Workers from rural areas without official urban residency or temporary residency and permission to work in cities were considered as "black households" (*heihu*) or "blindly floating population" (*mangliu*). If caught, they would be sent to "arrest and eviction stations" (*shourong qiansong zhan*). They would have to pay a fine or perform unpaid labour before being sent back to their home villages.

This form of control did not prevent farmers from migrating to cities. On one hand, they were "pushed" out of their home villages because of changes in the agricultural sector, many simply driven by destitution and the lack of work on the farm (Shen, 1995; Huang, 1999); on the other, they were "pulled" to cities by job opportunities and the hope of earning a higher income (Zhang and Song, 2003). Government controls may have slowed the urbanization of rural labour but they manifestly failed to stop it. While the migrants to cities might have been better off than before, they often remained second class citizens in the cities. The long-lasting misery of rural workers in cities, however, reached a turning point when several high-profile cases were publicized involving workers from rural areas having been tortured or even killed (Li, 2004).

Under tremendous public pressure, the 1982 regulations were replaced with "Administrative measures on the helping and administration of poor urban vagrants and beggars (draft)" (State Council, 2003). According to the new regulations, the previously mentioned arrest and eviction centres were transformed into "help centres", which would offer food and accommodation to desperate former farmers⁴ in cities. They also arranged health care for emergency patients that met basic requirements, contacted the migrants' closest kin and, if necessary, provided tickets for them to travel back to their place of origin.

⁴ Help centres also help beggars and homeless people who are urban residents.

In the eleventh five-year plan period (2006-2010), the Government intends to pay more attention to the role of urbanization vis-à-vis rural poverty. Urbanization will not be limited to small cities and towns; the urbanization of large cities is being recommended (Central Committee of the Chinese Communist Party, 2005).

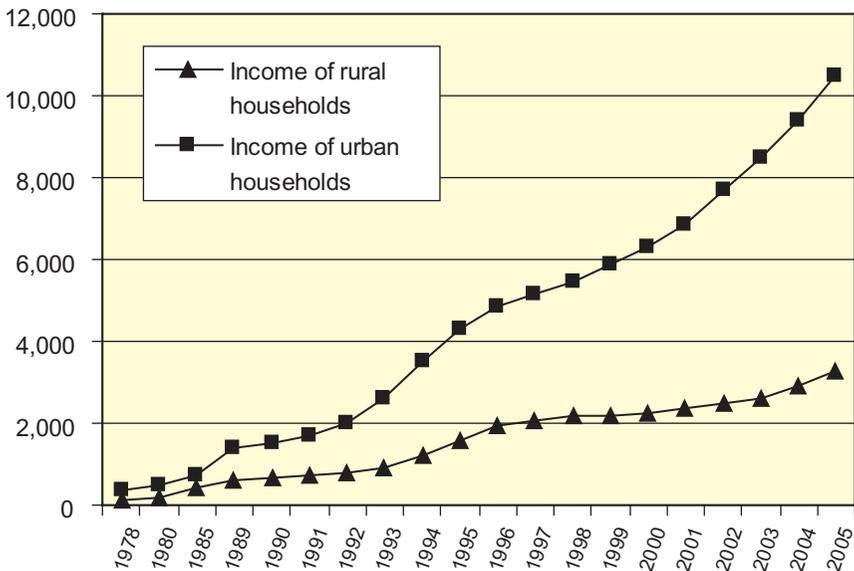
Inequality between urban and rural incomes

Ultimately the determinant of labour mobility during the central planning era and in the post-reform period has been the economic structure and the availability of resources. These resources include production materials, energy, infrastructure and various social provisions. The State directed a development strategy which was deliberately designed to favour urban areas. Over a period of 50 years, this has created increased inequality between urban and rural areas.

The inequality can be expressed in both economic and social terms. The development strategy of the central planning era kept the urban living standard at a very low level and pushed rural areas into destitution. At the end of the central planning era in 1978, the average annual consumption per person in cities was 311 yuan renminbi, allowing for inflation; this was 22.6 per cent higher than that in 1957, a growth rate of only 1 per cent per annum. (Currently, the exchange rate for US\$ 1.00 is approximately Y8). During this period, the structure of consumption remained almost unchanged; most household spending was on food and clothing. The levels were much lower for rural residents. Annual net income per person in 1978 was on average Y134, only 40 per cent of the average urban consumption (*National Bureau of Statistics of China*, various years).

In the early 1980s, rural reform quickly improved the living standard of rural households in many areas. The most rapid changes occurred between 1978 and 1984. The incidence of poverty fell from 33 per cent to 11 per cent (Ministry of Agriculture, 1998). Income per capita was increased by 15 per cent every year. The number of people comprising the rural poor fell from 260 million to 89 million. During the aforementioned period the gap between rural and urban areas was narrowed (see figure 2). However, it did not last long.

From 1985 to 1988, rural income grew by 5 per cent per annum but this rate of increase fell to 2 per cent during the period 1988–1991 (Lu, 2001). The progress in rural areas was soon overshadowed by urban growth (Fan et al., 2000). Many rural areas have failed to improve and a large number of rural residents still live in absolute poverty. Many people living close to the poverty line fell deeper into poverty because of unexpected events such as natural disasters and bad harvests, or running short of working capital (Jalan and Ravallion, 1998 and 2000; Chen and Ravallion, 2004). In 1998, not long before farmers were allowed to travel

Figure 2. Widening gap between rural and urban income

Source: National Bureau of Statistics of China, *China Statistical Yearbook*, various issues.

Note: Income of urban households refers to disposable income per person. Income of rural households is income per person after tax. This means rural household income also includes income for re-investment in the following year. As a result, the disposable income for rural households should be even lower.

to cities, the average income of urban residents was Y5,425 but that of rural residents was Y2,162 (National Bureau of Statistics of China, various years). In 2005, the average income of urban residents was Y10,493 and that of rural residents Y3,255. Urban income almost doubled between 1998 and 2005, whereas rural income increased much more slowly. In 2005, the ratio of urban to rural income, as published in official data, was about 3:1. However, "income" has different meanings to urban and rural residents. According to household surveys carried out by the National Bureau of Statistics of China, in 2004 the average annual disposable income per capita was Y9,421 in urban areas and Y2,936 in rural areas. Moreover, the coastal and eastern regions of the country are better off than the western remote areas. If we look at the 12 western provinces, the average disposable income per capita per annum was Y7,996 in urban areas and Y2,157 in rural areas.

Rural and urban areas in China are as distinct as two different countries. The differences between them have attracted a massive inflow of workers from

rural areas to urban areas. Income inequality has caused resentment between rural and urban residents, which in turn threatens social stability, especially in large cities where the inequalities are most visible.

Inequality between urban and rural social welfare

During the central planning era, urban residents, even those with very low incomes, enjoyed the benefits of a social welfare system that offered protection from the “cradle to grave”. They would receive free education, job allocation after completing their education, housing and related benefits, health care, childcare, pension and various forms of labour protection at zero or only symbolic cost. These forms of welfare were distributed through the urban household registration system. The majority of the population in rural areas did not enjoy any of the benefits which were available to urban residents. They were expected to rely on their family to provide basic and practical assistance. In some special circumstances, such as basic health care, some support could be obtained at the community level in the villages or from urban volunteers such as “barefoot doctors” (Li, 2004). The key to the endurance of this highly unequal system was the almost total control of labour mobility.

Social policy after 1978 was designed to accompany the pro-urban growth model. Welfare reform served to maintain the differences between rural and urban areas and between people holding different household registration in cities. The gaps in social policy can be demonstrated by the unbalanced changes in key social policy areas in urban and rural areas:

1. Improved urban health protection and the collapse of rural cooperative health care

In urban areas, since the 1980s health care has no longer been fully funded by the State. Various schemes emerged to control costs and raise funds for providing basic health care. Major efforts have been made in developing a health-care system which will be funded by social and private insurance and in developing a community health-care system; however, widespread dissatisfaction remains with the system. In contrast, the rural cooperative health-care system, which should in theory offer primary health care to nearly 90 per cent of the population, collapsed as the ability of rural collectives to raise and pool funds for health care fell under the influence of the household responsibility system. Hospitals in towns and counties depended less on public funding and more on collections.

In terms of spending, in 2000, urban health care absorbed 57.2 per cent of the total budget for health and rural health care absorbed the remaining

42.8 per cent. In 2004, the percentage of urban spending increased to 65.1 per cent and rural spending dropped to 34.9 per cent of the total. The ratio of urban to rural health care spending per person increased from 3.8 in 2000 to 4.2 in 2004 (Ministry of Health, 2006).

The impact of such differences in the health-care system between rural and urban areas is significant. In the 1990s, more than 50 per cent of the cooperative health-care clinics were operated as for-profit enterprises (Ministry of Health, 1999). The Third National Public Health Survey in 2003 showed that 44.8 per cent of the urban residents and 79.0 per cent of the rural residents did not have any form of medical or health-care insurance. In view of the fact that more than half of the total health-care spending was funded by individuals and given the gap between rural and urban income, it became much more difficult for a rural resident than for an urban resident to be covered by public health care.

2. Urban elite education system and deteriorating rural education

Since the initiation of economic reform, primary and secondary education has increasingly turned towards selecting and training talent for higher education. China's school system, which offers extra funding and allocates better teachers to "beacon" schools, was designed to be selective. Most such schools were set up in urban areas.

In terms of the number of schools, in the period 1977-1985 the number of urban primary schools increased from 33,000 to 57,000 and middle schools increased from 19,000 to 24,000. By contrast, in rural areas the number of primary schools decreased from 949,000 to 766,000 and the number of secondary schools dropped from 182,000 to fewer than 70,000 (Zhang, 2003).

In terms of funding, in the 1990s education at various levels became more geared towards paid education and government funding was reduced. Funding from the central Government, provincial governments and regional governments for rural education amounted to less than 15 per cent of the total spending on education. At the national level, on average, government spending on a rural student is one tenth that of the spending on an urban student. At the provincial level, the ratio is 1 to 3. A 1999 survey showed that, in half the counties of China, primary school students on average received less than Y10 from the Government's "public education fund". By contrast, students from Beijing received Y757.6 and students from Shanghai received Y747.4 (Zhang, 2005). The funding profile for middle school education is similar. The number of middle schools in rural areas is four times that of such schools in urban areas. However, rural schools receive

only 38 per cent of the total funds available. The disparity in State funding for rural and urban education is very serious.

State-funded higher education used to be one of the important routes for social mobility for good students from rural areas. In the late 1990s, the State decided that households would have to pay tuition fees to cover part of the cost of higher education. The fees for ordinary universities were as high as the average annual income of an urban employee (Xiao, 2003). Since scholarships for students from a poor background were very limited, higher education became less accessible to rural students.

Such differentiated investment in education has significantly affected the quality of the rural labour force. Among the 480 million rural labourers, 420 million have not completed the standard nine years of compulsory education. In 2002, 91.7 per cent of the illiterate and semi-literate employees in China were rural labourers working in the agricultural sector. From a similar perspective, 83.7 per cent of the people who completed only a primary school education are working in agriculture (*China Labour Statistical Yearbook*, 2003). A 2004 survey showed that most workers coming from rural areas had only a primary (10.6 per cent) or secondary education (54.9 per cent); however, they were considered the better educated (9.6 years of school) among all rural labourers (7.5 years). In general, the average educational level of the rural labour force is nearly three years shorter than that of the urban labour force (Li and others, 2005). This means that, if more rural workers are urbanized, the average level of skills of migrant workers in cities will be further reduced. Although not the only cause, this has contributed to the paradoxical "shortage of migrant workers" (*mingong huang*) in urban industries: on one hand, there is an oversupply of unskilled labour, on the other, many factories cannot find qualified workers to fill job vacancies. The education system has failed to meet the needs of urbanization and respond to the root cause of many social problems, such as unemployment and the lack of momentum for further economic growth.

3. *Social security*

Up to 1997, China had implemented a two-part social security system: social insurance for some urban employees and social relief for the poorest people. Those not covered by social insurance and those in rural areas, if they fell into poverty, would have to rely on social relief. Social relief was based on means-testing and other conditions, such as the inability to work and being without relatives (Zhang, 2001). The social insurance system depended on employer contributions. Over time, the State increased the types of social insurance for urban citizens and cut the government administration charges in order to reduce

the burden of contribution by employers. The responsibility of making social insurance contributions was also extended from the State sector to the collective and private sectors (Zhang, 2001).

In rural areas, in the 1980s the State began to experiment with a new social security system which was aimed at shifting the approach from the existing "collective security" system to "social security". Individuals were the main contributors to their social security funds. Rural collectives could also contribute on a voluntary basis. By the end of 1998, more than 65 per cent of the rural areas adopted the social safety net scheme, which covered more than 800 million rural residents. However, in many rural areas, because of low income and lack of administrative ability, contributions to social security schemes were not made as planned. As a result, the rural social security system largely collapsed. What is more, labourers from rural areas were not entitled to the social welfare of urban citizens, even if they worked in cities. Their rural *hukou* meant that they were covered only by rural social security, if any was available. This made rural-to-urban migrants vulnerable to industrial injury, ill health, poverty and other risks. Even if they had already been working and living in cities, they had to resort to the land and their extended family back in rural areas to guard against such risks.

Using social policy as a coping mechanism

The Government deliberately maintained a wide rural-urban gap. Nonetheless, it became the aspiration of farmers to break through barriers in order to work and live in cities. However, they were repeatedly obstructed by the lack of social provisions for them in cities and the differential treatment they experienced. The result was mounting social problems in the major destinations of rural-to-urban migrants.

Driven by the pressures posed by instability, some local governments began to clear the barriers that the rural-to-urban migrants faced in getting into the urban labour market. They provided job centres, free legal services for migrant workers to collect delayed salary payments, and basic labour protection. Yet, these were no more than "fire-fighting" policies. So far, they have only exposed more problems, such as lack of participation, new instances of poverty and social exclusion, tensions between different social groups and the like. These problems increasingly point to the need for social policy reforms at a deeper level.

IV. THE CHALLENGES AND THE FUTURE OF URBANIZATION IN CHINA

Given China's current rate of economic growth and the gap between rural and urban areas, the reality is that urbanization will continue to occur with or without State intervention. Very large cities will continue to strongly attract rural migrants, with the levels of income being the highest and the opportunities for jobs and improved lifestyle being brightest in such urban centres. At the same time, the State still faces the challenge of how to strike a balance between providing for the needs generated by rapid urbanization and developing medium-sized and small cities and towns to relieve the pressure on very large cities. It is a challenging task to use urban policies not only to manage real estate and property development, but also to make different locations attractive, especially for the purpose of diverting the flow of migrants in order to relieve the high pressure on a small number of large cities. Ultimately, urbanization needs to serve balanced long-term economic development and help to maintain social stability rather than to tip the balance and reinforce rural poverty and urban crises.

The challenges lie in (a) how to use social policy to respond to the need for maintaining a productive labour force and urban stability, (b) how to make smaller cities also attractive to migrants and (c) how to balance urbanization and rural development. Failures in the past suggest that social policy is crucial to successful urbanization at any level. In the remainder of this paper, we discuss three different models for urbanization and examine how social policy can be used to facilitate urbanization or even shape urbanization and contribute to balanced development.

1. Planned and controlled urbanization

Planned and controlled urbanization is not new to China. However, from historical experience, it is prone to fail. There are many different push and pull factors which can contribute to urbanization. Government intervention by investing in infrastructure is only one of them. Policymakers can control the economy, as had been done during the central planning era, by ensuring full employment, designating where industries should go and who could work in the resulting jobs. This approach requires enormous ability to plan and control. Such exercises had been attempted not only in China, but also in Albania, Cuba, the Democratic People's Republic of Korea and Ethiopia (Sjoberg, 1998; Woube and Sjoberg, 1999).

The experience of pre-reform China suggests that planned urbanization is overly ambitious given the ability of the State to manage and the scale of the resources that are involved (Fuchs and Demko, 1977; Ericson, 1988; Fan, 1997;

Sjoberg, 1998). Unless the State obtains a complete understanding of all the contributing factors and learns how to manipulate urbanization accordingly, it is very unlikely that urbanization will happen as the planners intend (Buckley, 1995; Houston, 1979; Kojima, 1996; Sjoberg, 1998; Woube and Sjoberg, 1999). Certainly, average levels of living during the central planning era were far below current levels and there is little pressure to return to such a planned and controlled system.

2. *Free market development*

The State may, on the other hand, leave urbanization to the power of the free market, allowing people to migrate freely, according to the demand for labour and higher incomes or the better prospects available in cities. This means that whoever intends to move into cities is free to do so. A precondition for urbanization to be directed by the market is that cities which can offer attractive jobs to people will be able to cope with the pressures posed by increased numbers of people. Without matching social provisions, such as affordable housing, health care, education and social protection, uncontrolled urbanization can easily lead to negative social consequences. These include overcrowded living conditions or homelessness (Serageldin et al., 2003; Chase, 1997; United Nations, 1996), a higher crime rate (HABITAT, 1996; United Nations, 1994; Tesfaye, 1992), unemployment (Harris and Todaro, 1970; Deshingkar, 2004), deteriorating health (Kerr-Pontes et al., 2003; Martens and Hall, 2000; Osoro, 1991; Gubler, 1998), poverty and inequality (Deshingkar, 2004; Mukherji, 2001; United Nations, 1996) and environmental damage (Varis and Fraboulet-Jussila, 2002; United Nations, 1996; Kwai and Balamurugan, 1991). These conditions affected the developed world during the industrialization period and are getting increasingly out of control in the metropolitan areas in many developing countries in South and South-East Asia, Latin America and Africa. One can see rural-to-urban migrants trapped in slums and pressed to the bottom of the society. The externalities created by such migration are considerable and can potentially threaten the sustainability of urban growth and social stability. All these social problems are social costs that can counter the benefits of urbanization. As pointed out by HABITAT (1996, p. xxxvi) "Without competent and accountable urban governance, much of the potential contribution of cities to economic and social development is lost".

How could social policy help to resolve these problems? As we can see, social policy can help to lift people out of the trap of poverty in cities and improve the ability of cities to provide not only economic growth, but also liveability. The provision of decent and affordable accommodation and living facilities can improve living conditions for the poor and reduce the externalities of poor neighbourhoods for the rest of the city. Social protection, including health care,

pension, unemployment benefits and minimum income support, can be used to help in reducing various social risks. Education and training help to build up a productive labour force and increase social mobility not only for rural-to-urban migrants but also for future generations. Yet, if social policies are developed in cities only, this may exacerbate the problem, encouraging even more people to migrate.

3. *Balanced social development*

Urbanization driven by free-market forces poses a major dilemma. If the gap between urban and rural areas pulls people out of rural areas and leads them to the largest cities and the State uses social policy to cater to the needs of people in big cities, this will itself be a driving force for increased rural-to-urban migration, causing further imbalances in rural and urban areas. What the Government of China did to develop towns and small cities could be seen as an attempt to address this central dilemma. The Government tried to develop different levels of cities to attract investment and foster urbanization of the rural population. However, that attempt was only to achieve an economic target; little consideration was given to the development of social policy. As a result, the attempt to balance economic growth did not sufficiently involve accompanying social provisions. The problems with such a strategy were discussed previously. Given the constraints of State-led or free-market urbanization, we emphasize that proper usage of social policy is necessary in order to guarantee a stable and sustained process of urbanization. If we look into China's future, whether small cities and towns can function as the State intended is very much related to how social policy is used to cultivate social development. To achieve the Government's own goals of balanced development and to obtain higher and sustainable level of urbanization, social policies can function in several aspects.

The first of these is to "neutralize" social policy, i.e., to prevent making social services and protection into factors that would attract more migrants. In this sense, social policy should *not* be used to widen the gap between large cities and small cities, or the gap between rural areas and urban areas. Migration is often driven by income disparities and employment opportunities. However, the choice of destinations for long-term settlement after migration can be related to the level of social provision. This aspect has been studied by McCormick and Wahba (2005) with regard to the role of education, and by Mincer, (1977) regarding schooling as well as by Li (2006) and Bolnick et al. (2006) concerning the choice of future destinations once rural-to-urban migrants have settled in cities. In this way, it is important to ensure that social policy is designed to achieve the outcome that

people may migrate motivated by the prospect of urban economic development, rather than to run away from the inadequacy of rural or small-town social provisions.

The second aspect is to turn temporary or seasonal workers from rural areas into permanent settlers. Urbanization of people should not be limited to working in cities. It also means that people from rural areas can live and participate in urban society like other urban citizens. For this, the need for permanently settling migrants in cities with their families should be addressed rather than leaving migrants as unsettled second-class urban citizens. This would require providing migrants with affordable accommodation, employment opportunities and social protection as urban employees, and the equal opportunities provided by education and training so that they will be able to move up the social ladder.

The third aspect is to set up mechanisms to incorporate farmers into the urban system. Farmers who move to cities, whether voluntarily or involuntarily, if they have had to give up their land, need to receive support in order to survive in cities and enjoy the status of urban citizens. In the long run, regulations are needed to protect private property rights and offer mechanisms for a smooth transition from rural to urban life. This can be in the form of compensation for the loss of land through a cash payment, education and training for employment, and social protection against the new risks the farmers have to face in cities.

The fourth aspect is to engage in rural development. As mentioned previously, the release of much of the rural labour force through increased agricultural productivity and the growing rural population can meet the increasing demand of urban industry for a productive labour force to support further urbanization. Yet, without effective rural development, urbanization will only add to the rural-urban divide.

In summary, the central theme for the social development approach to urbanization is to take advantage of the supportive role of social policy to offer basic social protection for both rural and urban areas and provide a smooth transition for people to resettle permanently in cities. The past experience of China suggests that accelerated urbanization, if not supported by social policies that aim at balanced social development, will not follow the State's direction and continue to generate negative social consequences. Therefore, the challenge for future urbanization in China is to achieve a more balanced socio-development approach which tries to cater to the needs of both urban and rural areas, and to narrow the rural-urban gap in terms of social provision.

V. CONCLUSION

In this paper, we have examined China's urbanization policy. We can see two processes of urbanization: (a) small town development driven by the State and (b) massive inflow of rural-to-urban migrants to large cities. By putting social policy into this context of urbanization, we argue that social policy has not been properly developed to facilitate small town development. On the contrary, it has been used deliberately as a barrier to limit migration to large cities. The results are clear. Small towns are not attractive and often are abandoned. Large cities are under tremendous social pressure.

It is not clear how rapidly China will urbanize in the future. What is clear is that the importance of social policies has not been fully recognized: urbanization policy has been driven by an impulse to "catch up" with the West, before a careful assessment of what is involved and what is feasible has been made.

There seems to be little doubt that social policy in many spheres, in central and local governments, will have a major impact on (a) the extent of rural-to-urban migration and (b) the social consequences – the impacts for good and ill – of urbanization. Other factors that are critical include the external and internal economic environment, the rate of industrialization, the level of agricultural output and rural income levels, to name a few. Social policies however are crucial. This paper compared a balanced social development approach towards urbanization against the State-planning and free-market approaches. Given the financial, information and institutional constraints for central planning and the possible social consequences of uncontrolled free-market urbanization, the balanced social development approach is a good way forward for supporting urbanization.

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