

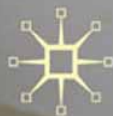
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# Marginalization in Urban China

Comparative Perspectives

Edited by

Fulong Wu and Chris Webster



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# Marginalization in Urban China

## Comparative Perspectives

Edited by

Fulong Wu

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# Contents

<i>List of Tables</i>	vii
<i>List of Figures</i>	x
<i>Preface</i>	xii
<i>Notes on the Contributors</i>	xiii
1 Introduction: China's Urban Marginalization in Comparative Perspectives <i>Fulong Wu and Chris Webster</i>	1
<b>Part I Concept and Comparative Perspectives of Marginalization</b>	<b>15</b>
2 Urban Inequality and Polarization <i>Chris Hamnett</i>	17
3 Neoliberalism and the Urban Poor: A View from Latin America <i>Alan Gilbert</i>	29
<b>Part II Property Rights and Marginalization in China</b>	<b>57</b>
4 Entitlement to the Benefits of Urbanization: Comparing Migrant and Peri-urban 'Peasants' <i>Chris Webster and Yanjing Zhao</i>	59
5 Property Rights, Citizenship and the Making of the New Poor in Urban China <i>Fulong Wu</i>	72
6 The Strength of Property Rights, Prospects for the Disadvantaged, and Constraints on the Actions of the Politically Powerful in Hong Kong and China <i>Alan Smart</i>	90
7 Empowerment or Marginalization: Land, Housing and Property Rights in Poor Neighbourhoods <i>Hyun Bang Shin</i>	112
<b>Part III Rural–Urban Migration and Marginalization</b>	<b>131</b>
8 Rural–Urban Migration in China: Scale, Composition, Pattern and Deprivation <i>Athar Hussain and Youjuan Wang</i>	133

9	Private Rental Housing in 'Urban Villages' in Shenzhen: Problems or Solutions? <i>Ya Ping Wang, Yanglin Wang and Jiansheng Wu</i>	153
10	Chinese Urban Villages as Marginalized Neighbourhoods under Rapid Urbanization <i>Yuting Liu and Shenjing He</i>	177
	<b>Part IV Deprivation and Segregation</b>	<b>201</b>
11	Multiple Deprivations in Urban China: An Analysis of Individual Survey Data <i>Yuan Yuan and Fulong Wu</i>	203
12	Post-reform Residential Segregation in Three Chinese Cities: Beijing, Shanghai and Guangzhou <i>Zhigang Li and Fulong Wu</i>	226
	<b>Part V State Action</b>	<b>251</b>
13	The Urban <i>Dibao</i> : Guarantee for Minimum Livelihood or for Minimal Turmoil? <i>Dorothy J. Solinger</i>	253
14	State-funded Re-employment Training and Participation in Informal Employment in Tianjin <i>Bingqin Li and Huamin Peng</i>	278
15	What Has Been Marginalized? Marginalization as the Constrained 'Right to the City' in Urban China <i>Fulong Wu and Chris Webster</i>	301
	<i>Index</i>	307

# List of Tables

3.1	Economic growth in selected Latin American countries since 1950, measured in annual growth in GDP	33
3.2	Poverty in Latin America, 1970–2007	35
3.3	Persons living in poverty and indigence in selected Latin American countries, 2006	36
3.4	Poverty and inequality in Latin America during the 1990s	37
3.5	Forms of employment in selected Latin American countries, 1990–2005	39
3.6	A reviving faith in the ballot box in Latin America	42
3.7	Urban homes with electricity, water, and sewage provisions in selected Latin American countries, 1990–2006 (percentage)	46
7.1	Informal self-built extension in <i>pingfang</i> dwellings	118
8.1	Provincial groups in China	134
8.2	Migration out of rural areas, magnitude and composition	135
8.3	Integration period for permanent migrants	137
8.4	The migration population in China in comparison with the rural labour force	139
8.5	Gender composition of migrant workers	140
8.6	Age composition of rural labourers and of migrants by gender (%)	141
8.7	Educational attainment of migrants (%)	142
8.8	Educational attainment of the rural population, above-15 (%)	142
8.9	Duration of migration	143
8.10	Comparative poverty rates, migrants and locals	148
9.1	Housing condition among migrants who share accommodation	161
9.2	Sharing one room: number of persons in room and floor space per person	162
9.3	Employment sectors of migrants living in the urban villages in Shenzhen	164

9.4	Average number of working days and hours per day	167
9.5	Access to employment and social welfare by migrants	167
9.6	Monthly incomes among migrants	167
9.7	Housing choice and preferences	169
9.8	Attitude about housing and neighbourhood facilities among migrants	170
9.9	Reasons for moving of residence among migrants	171
9.10	Things that migrants enjoyed most in Shenzhen	172
10.1	Urban villages in six large cities in China	179
10.2	Overall characteristics of urban villages in six cities	181
10.3	Local households' income in urban villages	184
10.4	Socioeconomic characteristics of urban villages' inhabitants by hukou status	195
10.5	Housing conditions in urban villages by location and hukou status	196
11.1	Variables and definition of multiple deprivations on individual level	206
11.2	Three Components of variables according to principal component analysis	207
11.3	Number and percentage of multiply deprived households and poor households	207
11.4	Number and percentage of multiply deprived households scoring on pairs of indicators from different components	209
11.5	Number and percentage and Location Quotients of multiply deprived households and poor households in different groups sorted by household head's age	210
11.6	Number and percentage and Location Quotients of multiply deprived households and poor households in different groups sorted by household head's marital status and gender	211
11.7	Number and percentage and Location Quotients of multiply deprived households and poor households in different groups sorted by the types of household head's hukou	213
11.8	Distribution of multiply deprived households and poor households in three kinds of neighbourhoods	216
11.9	Location quotients of four types of households in three kinds of neighbourhoods	216

12.1	Profiles of the three cities in this study	234
12.2	Index of dissimilarities for selected socioeconomic variables	236
13.1	The <i>dibao</i> as a percent of government expenditures, 1999–2007	264
13.2	Number of <i>dibao</i> recipients nationwide, 1999–2007	264
14.1	Unemployment rate and number of long-term unemployed in urban Tianjin	282
14.2	Descriptive statistics	284
14.3	Courses offered by the state-funded training	287
14.4	State re-employment training participation	288
14.5	Binary logistic regression for training with state funded programs (dependent variable = 1. trained; 0. not trained)	289
14.6	Job searching by training participation	291
14.7	Reported usefulness of training by skill levels	292
14.8	Reported usefulness of training by working status (working informally and not working)	292
14.9	Why did you decide not to take training courses?	293
14.10	Binary logistic regression for informal employment (dependent variable = 1 for informal employment)	294
14.11	Multiple variable regression (dependent variable is log income)	296

# List of Figures

4.1	Education starvation	64
4.2	Three mountain budget plain, showing the expenditure advantage of land/housing entitlement	65
5.1	The tiered system of citizenship embedded in state institutions of work-unit and <i>hukou</i> prior to economic reform	77
9.1	Population changes in Shenzhen, 1979–2006	156
9.2	Changing urban economic sectors in China	163
9.3	Employment contract situations among migrants	166
10.1	Physical landscape in urban villages, Guangzhou (source: authors' photograph)	188
10.2	Living environment in urban villages, Wuhan (left) and Guangzhou (right) (source: authors' photograph)	189
11.1	Percentage of multiply deprived households, not deprived households and total households with particular aspects of deprivation	208
11.2	Number, percentage of multiply deprived households and total cases in different social class	212
12.1	Occupational structures of the three cities	234
12.2	Location quotients of migrants in Beijing, Shanghai and Guangzhou, 2000	235
12.3	Residential concentrations of migrants in Beijing, Shanghai and Guangzhou, 2000	236
12.4	Residential concentrations of residents with low educational attainments in Beijing, Shanghai and Guangzhou, 2000	237
12.5	Location quotients of low-education residents in Beijing, Shanghai and Guangzhou, 2000	239
12.6	Location quotients of workers in Beijing, Shanghai and Guangzhou, 2000	240
12.7	Residential concentrations of workers in Beijing, Shanghai and Guangzhou, 2000	241

12.8	Residential concentration of commodity housing in Beijing, Shanghai and Guangzhou, 2000	242
12.9	Location quotients of commodity housing in Beijing, Shanghai and Guangzhou, 2000	243

# Preface

Urban inequality has been a classic topic in urban research. Current studies focus mainly on social polarization in global cities and increasing impoverished population in developing countries. While there are specific studies on urban poverty in China, the attention has tended to focus on poverty line definition, low-income conditions and the plight of the unemployed. We feel that this narrow perspective of urban poverty is too restrictive for an understanding of the wide range of social changes in contemporary China that have led to the massive accumulation of wealth and the formation of a marginalized population. The term 'marginalization', though controversial, places an emphasis on relative changes in well-being and social status in addition to physical deprivation and absolute poverty. Used in this way, it is similar to aspects of the European notion of 'social exclusion', which may well be relevant to the Chinese situation. This volume explores the idea of marginalization. It is a collective effort to describe processes of property right changes, rural to urban migration, and state programmes that empower some while marginalize others. Although contributors do not all share the same view, their narratives all go beyond the economic perspective and beyond the idea of absolute poverty. Together, they help construct a comparative perspective on the process of marginalization in urban China.

The book originated from a UK Economic and Social Research Council and UK Department of International Development joint-funded project on 'Urban Poverty and Property Rights Changes in China'. The financial support of these agencies (RES-167-25-0005) is gratefully acknowledged. Following this research, we organized a workshop in June 2008, to which we invited renowned urban scholars on social inequality and active researchers from China. This volume is a collection of selected papers from that workshop. The authors have revised their papers substantially to reflect the workshop discussion and to develop the comparative perspective. We would like to thank Dr Shenjing He, who was postdoctoral fellow on the project, for helping organize the workshop. Alan Smart provides suggestions on some chapter. We also wish to thank many people for helping with the production of this edited volume, in particular, Bruce Hunter, Yuan Yuan, Yi Li, and Margaret Roberts.

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# 1

## Introduction: China's Urban Marginalization in Comparative Perspectives

*Fulong Wu and Chris Webster*

Marginalization refers to the process through which particular social groups obtain lower status and become peripheral in a society. The concept is related to poverty but *marginalization* emphasizes the dynamics of a downwards social trajectory rather than current living standards. The term also emphasizes external and often structural forces (such as the changing labour market) that exert an influence on the social status of a group of people, while the poverty is an attribute more readily attached to a household. Thus, marginalization refers to broad social processes by which social groups are becoming more unequal.

Used in the context of post-industrial western economies, marginalization is often used in connection with a change in economic structure and the relative decline of organized labour in production, and is associated with the so-called 'new urban poverty' (Mingione, 1996). Production in the post-Fordism era has reduced the importance of a working class, and this has led to significant redundancies during the industrial restructuring of the late twentieth century. Because of this structural change, many laid-off workers found themselves with no hope of returning to mainstream production, and in many industrialized countries, they formed a social group with a self-reinforcing downward trajectory, eventually becoming marginal to their mainstream society, or even 'outcasts' (Wacquant, 2008). Related to this structural change in the organization of labour is the retreat of the welfare state. The shift toward entrepreneurial, cost-minimizing, liberalized and partnership urban governance in the last quarter of the twentieth century tended to reduce public welfare expenditure in many countries, although in more recent years through the 'Third Way' the UK has seen an increase in health and education expenditures. Often aimed at reducing leakage of scarce welfare budgets, the welfare regime has been changed to a workfare regime. In some countries, poor social groups became marginalized because they were no longer eligible for the entitlement. In the USA, the direct support from the state has been withdrawn in some poverty-stricken areas. Wacquant (2008)

suggests that post-Fordist production and the recoiling of the welfare state are the two conditions for 'advanced marginality'. The European context, however, suggests a much more complex picture. Through the perspective of 'three modes of integrations', namely exchange, reciprocal and redistributive modes, it is found that labour market changes based on economic restructuring are only part of the picture – the remaining reciprocal integration through communities and the redistributive function of the welfare state remain important (Musterd et al., 2006).

The Chinese experience echoes these complexities: marginalization relates to economic restructuring and the recoiling of the welfare state but much else besides (Wu, 2009). This book is an attempt to provide an overview of aspects of institutional changes that systematically favour some while marginalizing others. In this sense, it is comparative, asking the question: compared to advanced liberal market economies and welfare state economies, and to the informal economies and urban–rural dualism in the South (Caldeira, 2009), what can the Chinese experience offer to an understanding of enlarging social inequalities in the twenty-first century? This book is divided into five parts. We begin with conceptual discussions in Part I; focus on property rights changes in Part II; move to an examination of specific processes of rural to urban migration in Part III; followed by a more systematic investigation of multidimensional deprivation and residential segregation in mega-cities in Part IV. Finally, Part V contains specific discussions of state action.

### **Concept and comparative perspectives of marginalization**

Like 'new urban poverty', 'advanced marginality' and 'social polarization', the term *marginalization* needs a clearer definition. Chris Hamnett (Chapter 2) provides an overview of urban inequality and polarization research. He puts the study of social inequality in its historical context and discussed its recent origin of the work of radical geographers (e.g. David Harvey). However, the debate about social polarization as a testable concept originated from the well-known hypothesis made by Saskia Sassen (1991) in the context of the global city. Hamnett, in various earlier publications, tried to distinguish between the use of 'social polarization' as a metaphor and as an empirically valid concept and argues for more precision of the term. He cites various studies about globalizing urban processes in cities other than New York, such as Hong Kong, Singapore, Sydney as well as London which he has studied extensively. What he tried to illustrate, theoretically, is the role of the state; in different models of liberal capitalism and in the developmental states of East Asian, for example. Empirically, he argues that in many global cities there has been the growth of the professional and managerial middle classes. He terms this as 'professionalization'. Hamnett argues against the existence of a bipolar model of social polarization because: (a) labour

market changes vary significantly in different cities (e.g. the continuation of routine office work and low-skilled jobs); (b) the role of the state varies in different cities. Hamnett's argument is useful for social marginalization research, because although there are typically higher social inequalities in liberal market economies, two important points need to be considered. First, labour market change is more complex than polarization. Second, the role of the state is important, which leads to the need to understand institutional contexts.

The chapter by Alan Gilbert brings us to another context: Latin America. Here, the connection is made with another theoretical perspective – neoliberalism. Underprivileged social groups are sometimes said to be marginalized by changing forms of state governance, specifically through the liberalization of laws, policies and culture. But Gilbert argues that the neoliberal wave did not sweep homogeneously across Latin America. He has documented and synthesized the varying impact of neoliberalism on the urban poor in Latin America. As a whole, economic growth in Latin America has not reduced the number of poor urban dwellers; the level of inequality is still substantial, and show little sign of improvement. Most importantly, growth failed to distribute benefits through employment. He points out that although the number of jobs grew, many are very low paid and many are rather unproductive. The same issue – relative impoverishment and marginalization of employed people – seems to occur in China, through the delay of wages and the infringement of the labour rights of migrant workers (see Hussain and Wang in Chapter 8). At this point, Gilbert brings in two additional dimensions: urban politics and the process of urbanization. In terms of politics, Latin America shows an exclusionary style of democracy that often conspires against the poor. As for urbanization, Gilbert believes that Latin American experience is highly relevant to China and discusses the growth of mega-cities, housing policy, and severe residential segregation, urban sprawl, crime and governance. Gilbert discusses the gaps in Latin American urban policy: the failure to provide affordable serviced land for low-income settlements; the absence of rental housing policy despite the fact that millions of families live in rental accommodation; and the reluctance to raise taxes with which to help improve the living standards of the poor. His fear is that these problems are reminiscent of what is happening in many Chinese cities (see Chapter 9 and 10 about migrants' habitat in urban villages; and F. Wu (2004) for different types of poverty-stricken neighbourhoods).

## **Property rights and marginalization**

The perspective of property rights is a central thread in this edited volume. As shown in four chapters in Part II, the concept of property rights has various meanings, ranging from a specific meaning of ownership to a bundle of

rights including the entitlement to the benefit brought about by ownership to the more general idea of membership. In the latter case, the concept is closer to the notion of citizenship.

Not all rural farmers are marginalized. Chris Webster and Yanjing Zhao (Chapter 4) suggest that the limited supply of peri-urban land and 'indefinite' supply of migrant labourers give bargaining power to peri-urban farmers in the negotiation of urban rights, while marginalizing migrant workers from such rights. Thus, these farmers have very different fortunes and fates in the process of property rights evolution. For migrant workers, the policy of pricing education and health care services has led to the underprovision of these services to those who cannot afford a minimum quantity – leading to urban services 'starvation' amongst a marginalized segment. Because labour is in abundance, it cannot be exchanged for adequate quantities of land (adequate standard of accommodation) or of education and health. The labour-land and labour-health/education 'exchange rate' remains too low for some migrant workers to live sustainably in the urban economy (being unable to reproduce their own labour by keeping healthy and educating their children). In contrast, peri-urban villagers are in a better position to bargain because the local state gives them some property rights to develop land during the land appropriation process; the retained land gives villagers a share of the land value uplift (betterment) in the process of urbanization. Instead of being marginalized, these villagers are joining the new rich in Chinese cities. Seen through the perspective of property rights, Webster and Zhao suggest the process of marginalization and empowerment depends upon the position of households on the map of institutionally defined property rights. Their research continues the intellectual proposition developed in earlier work (Webster and Lai, 2003) and examines the practices of urban village development in the city of Xiamen. Although village land is not legally transferable (that is, it cannot be auctioned to urban users), through village collective stock companies, land reserves give villagers a share in the development of their villagers. But this benefit is not shared by all residents living in urban villagers.

This brings us to the relation between membership and entitlement. Fulong Wu in Chapter 5 traces differentiated entitlement back to the historical order of society. He tries to distinguish the concepts of 'citizenship' and 'property rights', and borrows from the literature on the rescaling of citizenship based on the nation-state, which is now becoming 'territorialized' (Purcell, 2003). What matters is the 'right to the city'. The idea of the right to the city emphasizes the non-exchangeable nature of such a right; thus, the claim for such a right is based not on fair exchange but on an entitlement derived from political membership. It must be noted that 'citizenship' is a very modern concept. Through history, such a universal right has rarely, if ever, existed, not even under state socialism. In state socialism, work-units in China preserved a rigid right. But this institutional affiliation has

been transformed through China's market-oriented reforms. Wu examines in detail the process of 'disenfranchisement' of laid-off workers and rural migrants. Applying this perspective, he examines the making of the migrant poor and permanent poor residents. A particular implication of this transformation is how the 'citizen' rights have become more constrained. There are also practices to commodify some rights (for example, the so-called 'blue-sealed *hukou*' is granted to those who have bought commodity housing in the city). Picking up the point made by Webster and Zhao, he suggests that migrants now need to generate the financial ability to acquire access to basic services that are critical to their labour reproduction.

Alan Smart in Chapter 6 examines the outcome of 'strengthened property rights', questioning the argument put forward by de Soto (2000) that fuzzy rights do more harm to the informal sector and consequently the poor, because weak property rights make it more difficult for the poor to claim these rights. Smart examines the effect of clarifying property rights in two different contexts in which he has been doing extensive researches: Hong Kong squatters and rural China's local corporatism. From his fieldwork, he finds that the impact of stronger or weaker property rights on the poor is largely contextually contingent. Fuzzy or unenforced property rights have worked to the advantage of the poor, as shown in the case of Hong Kong's squatters and the Chinese rural enterprises that disguised themselves as collectives. This rests on the condition that the poor are not too politically marginal. When property rights become dominant, and at the same time the poor do not have the consumer power to purchase rights, the strengthening of property rights seems to bring a negative impact on the poor. Hong Kong's squatters managed to produce new housing for themselves until the government transferred them into public housing programmes. In rural China, fuzzy property rights can confer significant advantages on the less privileged. Smart argues that exactly because of fuzziness of property rights the politically powerful might not be able to enforce dispossession and have a reason to tolerate the informalities. This is to some extent what is happening in urban villages as described by Webster and Zhao. With the state being unable to enforce its monopoly right over the primary land market, urban villagers effectively take a cut in the betterment of development. Thus, enforcing legal property rights can result in increasing marginalization and fuzzy property rights can give the organized poor room for manoeuvre.

This last point is developed more fully by Hyun Bang Shin in Chapter 7. He examines housing and landed property rights reform and asks whether this leads to empowerment or marginalization. He points out firstly the constitutional amendment to protect lawful private property rights. Then, he examines the implication of property rights reform for the poor residents in dilapidated urban neighbourhoods. He argues that the spaces informally built by residents under extra-legal form are not recognized by formal property rights. While self-built informal space was once prevalent, it became

problematic in the new commodity form of urban development. Echoing Gilbert's (2002) finding in Latin America where 'illegality is rarely a concern for the poor', Shin finds extra-legal tenure has been a widespread practice in China. But housing privatization and urban renewal directly challenge this practice. When cash compensation is enforced to replace in-kind compensation, those who were partially under extra-legal tenure (although China had not seen widespread squatters until recently in urban villages) are becoming disadvantaged. This process of commodification during urban redevelopment has been examined in detail by He and Wu (2009) as a neoliberalization frontier. To some extent, property rights reform as manifested in the commodification of housing led to the consolidation of unequal distribution of privileges. Shin's empirical studies help to establish the link between enforceable property rights and the marginalization of the poor.

To summarize this part of the book, it is of interest at this point to reconsider the property rights of two groups: inner city residents and peri-urban farmers. The former have lost their fuzzy rights because of the strengthening property right regime, which does not recognize extra-legal construction. The latter, however, enjoys the benefit of fuzzy rights because they effectively use extra-legal construction (self-built for private rental) to extract more benefit in the compensation negotiation process. The difference is, however, not the result of the difference in legality: it is due to differences in the economic and political power held by the two groups. The state can exert effective control over the former and finds itself relatively powerless in the regulation of the latter; for pragmatic reasons, retained land has been given to villagers and their informal uses are tolerated.

## **Rural-urban migration and marginalization**

Marginalization in urban China is not limited to settled urban residents. The scale of China's rural to urban migration is unprecedented in history. It is expected that in twenty years' time, China will have become a predominantly urban-based society. In Chapter 8, Athar Hussain and Youjuan Wang examine the scale and patterns of rural-urban migration and the deprivation associated with the migrant population, based on a Chinese rural household survey. They find that around 80 per cent of migrants are 'lone individuals' and that the institutional impediments to the integration of migrants into the city are sufficiently severe to prevent them settling down in the cities. In addition, the peculiar rural landownership in China makes it difficult for migrants to give up land and settle permanently in cities. Migrants are young and participate actively on the job market. The emigration of the younger labour forces exerts a negative impact on the rural areas, though returned migrant workers may bring in new skills, capital and entrepreneurship to the rural economy. Rural migrants are not covered by the city-based social security system – the *dibao* system. Through examining the meaning of 'poverty line'

and other lines of social benefits, Hussain and Wang suggest that the majority of migrants are working, and the minimum wage is higher than the unemployment insurance allowance, which is in turn higher than the *dibao*. So even if the social security were to include migrants, they would be unlikely to be qualified because they are mainly integrated with the urban society by market-based job participation. The practical policy implication is that, for migrants, labour rights protection (e.g. protection against the delay of wage payment) and enforcement of the minimum wage are greatly needed. If migrants are not protected by welfare law they need to be protected by labour law. The fact that China has seen a massive rural to urban migration suggests that the notion of labour retrenchment by economic restructuring and hence the formation of an 'underclass' is less relevant to the Chinese context (Wu, 2009). Hussain and Wang argue that 'income poverty' is less of an issue among the migrant population than in the population as a whole. What matters is the deprivation of a series of rights to the city (see Wu in this volume, about the citizenship). Property rights and entitlements thus will continue to be a major topic for migrants' marginalization.

Migrants' marginalization is due, to a large extent, to their footloose situation in the city. One important impediment to their integration is the urban housing market. Extensive macro-level studies are now available to suggest that migrants are predominantly living in private rentals (e.g. W. Wu, 2004). However, none of these studies had focused on the habitat conditions of the migrants. Ya Ping Wang, Yanglin Wang and Jiansheng Wu have conducted a very detailed survey-based study on migrants' living environment – so-called 'urban villages' in Shenzhen. Very similar to their labour situation, migrants are left to their own devices in the informal housing market. Chapter 9 by Wang et al. bridges the studies of migrant housing and land development in peri-urban areas and reveals how these former villages are evolving into migrant enclaves. Again, we can find in this chapter a difference between ghettos and 'urban villages'. Contrary to the negative views by the city government and developers, these migrant villages provide a steady rental income to former farmers in the peri-urban areas after they lost their agricultural land (see Webster and Zhao in this volume); and 'affordable' living space for migrants who are indispensable to the urban manufacturing and service economy. Again, related to their marginalized labour market position, migrants are underprivileged in housing markets. Their marginalization is due not to their inability to generate wealth for society (generating rent from their labour for employers and land rent for their landlords), but rather to the lack of public services provided for them. Wang et al. find that many migrants are 'actually satisfied with their living in the city', but the discourse of negative image of urban villages is used to justify their demolition regardless of the vital economic and social function that they play. Institutional 'mapping' highlighted in this book suggests migrants' deprivation is due to their constrained capacity for influencing

urban development policies, which prioritize real estate development rather than affordable housing for migrants.

Following the research on migrant housing and migrant villages, Yuting Liu and Shenjing He in Chapter 10 provide comprehensive and detailed analyses of urban villages, based on a survey supported by the UK Economic and Social Research Council and the Department for International Development (the focus here is on urban villages but for a comprehensive study of major poverty-stricken neighbourhoods based on this work, see Wu et al., 2010). Concurring with Wang et al. in the previous chapter, Liu and He find that urban villages are ‘valuable assets’ to farmers who have lost their land and to migrants who find low-rent housing. The management of these places is also in the course of a transition from a traditional village to an urban community. However, in these places, the welfare function, if there is any, is heavily dependent upon the collective economy, i.e. the joint-stock companies. And the collective economy does not include the newcomers – migrant workers living in urban villages. These villages are not an ideal living environment. Liu and He listed many problems such as the crowded and chaotic physical landscape, disorganized land use, insecurity, the unhealthy living environment, poor living conditions, many social problems and potential social instability. They reach a similar conclusion that urban villages are marginalized neighbourhoods; but they are, at least, a space for marginal living. Urban villages exist for good reasons, and indeed over the past few years they have seen a dramatic expansion because of the expansion of cities into the surrounding countryside. The problems listed cannot be solved through demolition and reconstruction without a massive amount of new affordable homes being built; but some can be solved by increasing the scope of public services.

Overall in Part III, we see the trajectory of ‘marginalization’, but it is not found in the same sense as in advanced capitalist economies – as ‘outcast ghettos’ inhibited by those who excluded from the mainstream economy (Marcuse, 1997, p. 228). Rather, there are complex institutional reasons for its development. To some extent, the marginalized in China’s cities combine the disadvantaged position of particular social groups in western market economies and the informal economy in developing countries. This forms a unique Chinese landscape of underprivileged labourers who live symbiotically with the mainstream urban society. This means that it is important to provide a comprehensive map of deprivation and segregation.

## **Deprivation and segregation**

To depict a picture of deprivation distribution, in Chapter 11, Yuan Yuan and Fulong Wu apply a multiple deprivation index – an approach firmly established in the western literature – to Chinese cities. This goes beyond narrowly defined income poverty to consider the multiple dimensions of

underprivileged, such as a lack of decent housing conditions and facilities, lower levels of educational attainment, poor health conditions, and unemployment. Based on the same data source as our multiple-city survey (Wu et al. 2010), Yuan and Wu are able to use disaggregated data, similar to Fieldhouse and Tye (1996), to construct an index to examine both neighbourhoods and social groups in disadvantaged positions. They also examine various aspects of deprivation and ask how these are linked to institutions and the process of urban development (e.g. regeneration policies). They find some continuation of socialist inequalities (see Pickvance, 2002 for a review in Central and Eastern European countries) as a path-dependent feature of deprivation. Their study also confirms that there are non-overlapping dimensions of deprivation; for different social groups there are different aspects. For example, workers' villages have better living conditions but suffer more severely from the impact of unemployment, while old neighbourhoods are generally deprived in multiple dimensions because they were disadvantaged in the socialist period and continued to suffer from property-led urban redevelopment. Some findings are perhaps unique in the Chinese context, for example, the middle-aged group (those who are in their 50s) suffered more deprivation as the result of the layoff programmes initiated in the 1990s. The study suggests that the issues of poverty and deprivation are not identical and that the perspective of multiple deprivations is useful for achieving a deeper understanding of Chinese cities.

In Chapter 12, Zhigang Li and Fulong Wu take a slightly different approach to examine city-wide residential segregation, a classical topic in the western literature but recently having substantial development in China because of data availability (see Li and Wu, 2008). They extend their research to include three major Chinese cities: Beijing, Shanghai and Guangzhou. There have been few such comparisons so far. In addition to a known fact that migrants are more segregated in their living, Li and Wu suggest that residential segregation, as evidenced by census data, is not overwhelming, certainly not up to the level of hyper-segregation between the white and black in the US. Considering that even migrant enclaves have substantial linkages with mainstream urban society, not least through labour markets, the issue of segregation is again not equivalent to hyper-ghettoes or 'high-poverty neighbourhoods' in the west, where the poverty rate exceeds 40 per cent (Jargowsky, 1997). The issue of residential segregation perhaps aggravates the persistent inequality rather than creating a new landscape of marginalization. However, they find, comparing the three cities, that more market-oriented Guangzhou presents consistently the highest level of segregation. The city of Shanghai lies in the range between that of Guangzhou and Beijing. They attribute this difference to the role of local governments. Shanghai adopts a more state-regulated approach. For example, the problem of urban villages is not as prominent as it is in Guangzhou. The municipal government of Shanghai is capable of 'regulating' land use conversions and

usually converts the whole area of rural villages to urban areas (rather than just converting farm land) with relatively comprehensive urban facilities, while the city of Guangzhou has tended to leave the development of urban services to the market – including the transformation of village housing land into urban villages. As a result, based on the retained rural land, pockets of urban villages have emerged in Guangzhou. Beijing, on the other hand, is influenced more heavily by its former land use pattern based on work-units (and hence occupational-based segregation).

## State action

The Chinese state has not been inactive or simply retreated from the welfare function. Based on the US experience, Wacquant (2008, p. 277) proposes the concept of a ‘panel state’ to describe the attempt to ‘criminalize poverty via the punitive containment of the poor’. Certainly, the recoiling of welfare functions occurs in urban China. But at the same time, a massive programme has been set up to reach the poor, called minimum living standard support (MLSS) or so-called *dibao*, as described clearly by Dorothy Solinger in Chapter 13. In poverty-stricken communities, as a result of the establishment of this system, we see the strengthening rather than the collapse of state capacities for managing the poor. We see the transformation of the welfare delivery function from the channels of work-units to place-based communities. Along with the process, there is a significant increase in the formality of welfare provision. Solinger, in her chapter, describes the managerial procedure that qualifies and disqualifies the poor from welfare. Welfare programmes are managed and executed with greater professional involvement, e.g. using professional social workers rather than the function of workplace unions. Such a transformation presents a great challenge in the design of state programmes. While we can see the state is in action, in terms of property rights, entitlement and citizenship, the poor is not necessarily gaining an increasing claim.

Dorothy Solinger (Chapter 13) emphasizes two important aspects of marginalization: marginalization via state design, and marginalization via subversion of state design. By the former, she means that by design the state restricts various people from being qualified for welfare programmes. The condition for qualification is very stringent, which keeps the *dibao* (minimum income recipients) on the brink of a minimum subsistence living standard. By the latter, she means the difficulty of implementing the designed programme, because of either administrative difficulties or the lack of a system to check the financial situation of applicants who are dishonest in their income declaration and believe *dibao* is a supplementary source of income. Solinger’s findings about the *dibao* system are significant, and highlights an important deficiency: the rationale of *dibao* is to provide very minimum means-tested poverty relief without giving adequate capacity to the poor. In this sense, we can suggest that the state is in action but the action is selective in a certain

direction. The state is not totally 'recoiling' into a panel state, but there is a significant difference between all-inclusive entitlements under workplaces welfare system and a city-wide *dibao* programme.

Regarding re-employment training programmes, Bingqin Li and Huamin Peng (Chapter 14) examine the state-funded programmes in the city of Tianjin. They try to find the barriers hindering the long-term unemployed from returning to the formal job market, and assess the effectiveness of these programmes to help people to return to the labour market either formal or informal. They completed more than 800 interviews, from which they study the participants of state-funded training programmes. They identify three types of training programmes: targeted training for potential employers, general training and entrepreneurship training. They find that training programmes are generally very specific for short-term vocational skills. There is a shortage of training of capacity and even less in terms of coping with psychological impacts of unemployment. Through detailed analysis of training programmes, they find that training programmes are practical and useful to trainees, although the results do not seem to be effective in terms of giving trainees access to informal employment. They argue that it is important to provide other support programmes to help the long-term unemployed to restore confidence and cope with the impact in the aftermath of unemployment.

These two chapters reveal from different angles that the state's action is very pragmatic: on the one hand it gives necessary training to give the unemployed some basic skills for re-entry into informal employment; and on the other it provides basic support for maintaining some basic living conditions so as to avoid destitution and social unrest.

### **Conclusion: marginalization as constrained rights, not as the formation of marginal 'outcasts'**

The contributions to this volume show that marginalization has been occurring in urban China, but that it is not principally an internal process of changing socioeconomic status among existing urban dwellers. Rather, it is linked to broader processes of urbanization, economic restructuring and the reorganization of social welfare and provision. All of these changes are mapped on to existing institutional structures which differentiated different social groups in the socialist period. In terms of the mode of integration, urbanization has brought millions of rural migrant workers into the process of market exchange, through which they are integrated in new industrial manufacturing and service activities. In this sense, they are not 'marginalized' from the process of production or the mainstream urban and national economy. This is different from the conventional notion of 'marginalization' as the falling out of the underclass in economic exchanges. But with regard to redistribution, migrant workers are not entitled to the benefits of being urban dwellers, and a deep-seated institutional exclusion

persists. They have moved from the rural habitat where they were integrated with society through reciprocal integration. Working and living in the cities, they are 'floaters' and not socially integrated with the urban society or with the urban polity. In this sense, they are marginalized. Studies in this volume highlight their deprivation as a result of this marginalized position and their occupation of 'urban villages' – the threatened habitat of the marginalized population. On the other hand, for existing urban dwellers, property rights reform has brought very different implications.

The concept of 'marginality' as the 'irrelevant' or isolated poor has been criticized by contributors to this volume. In the context of western post-Fordist economies, marginalization based on labour market change leads to the formation of an 'underclass', who have been characterized as a distinctive, deserted and isolated social stratum. Used in such a way, it often suggests implicitly some degenerative characters of these poor people. This notion has therefore been criticized for its implicit blame of the poor. In the context of Latin American cities, dualism is said to generate a split between a modern capitalist sector and a marginal traditional section. However, such an 'irrelevant' and marginal population provides important functions for the modern sector through the informal economy; and hence the notion of marginality based on the dualism is also criticized (Caldeira, 2009). What has been suggested in this volume is not a process of marginalization based on isolation and irrelevance. In fact, we suggest that the migrant population and other poor population are an integral part of the new Chinese manufacturing economy and are tightly linked to the global economy (Wu, 2009). Marginalization is thus place-specific. From the perspective of property rights, entitlements and citizenship, we demonstrate that they are marginalized in the sense that their 'right to the city' has been constrained; and their capacity of negotiating such a right with other agencies has been weakened. Rather than attempting to reduce the complex processes to a condition of marginality via two dimensional characterization, namely post-Fordism economic restructuring and recoiling of the welfare state, this volume depicts a picture of institutional change, as Caldeira (2009, p. 852) describes in the context of the urban peripheries of Brazil – 'spaces inscribed with contradictory experiences of transformation, autoconstructed growth, class formation, status ambition, modern consumption, land conflict, residential illegality, violence, citizenship mobilization and constant recreation of their own representation'. This volume provides a detailed account of property rights transformation that is at the core of such a process of constraining some while empowering others in the negotiation of rights. Further, the book analyzes the concrete processes of migration, migrant housing markets, urban village formation, interacting dimensions of deprivation, residential segregation, and the state-sponsored minimum living standard programme and re-employment training, all of which are associated with the formalization and differentiation of rights to the city and with profound institutional marginalization.

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## **Part I**

# **Concept and Comparative Perspectives of Marginalization**

# 2

## Urban Inequality and Polarization

Chris Hamnett

### Introduction

The nature and extent of urban social divisions and inequalities is of major importance for social scientists, politicians and policy makers, not least because they have a bearing on social and economic conditions in cities where the majority of the world's population now live. How the social structure of cities is changing and whether cities are becoming more or less unequal, and in what respects has considerable implications for urban policy.

There is a huge difference between cities where there is a large and growing proletariat or unemployed underclass, cities with a large, stable working class and cities with a growing middle class. Not surprisingly, the dramatic changes in urban social structure associated with the rapid urbanization industrialization in nineteenth-century European and American cities led to debate about the direction and causes of social change. Engels's (1845) *The Condition of the Working Classes in England* focused on Manchester and the big cities and research by social reformers such as Charles Booth and Edward Mayhew documented the scale of urban wealth and poverty in nineteenth-century London (Stedman Jones, 1971).

More recent arguments regarding urban inequality were made by David Harvey (1973) in *Social Justice and the City* when he argued urban systems under capitalism systematically produce and intensify a series of inequalities. Harvey saw inequality generated in cities by the differential distribution of jobs and homes, transport access and facility provision such as hospitals combined with differences in employment and income (Badcock, 1984). Nor, as East European social scientists such as Szelenyi (1983) have noted, was inequality absent from socialist societies. It simply assumed different forms, and the transition to post-socialism has led to new forms of market-based inequality (Andrusz et al., 1996; Kovacs, 1999). Similarly, China's transformation from communism to a partial market system has generated massive new inequalities (Logan, 2002, 2008; Wu, 2004) in terms of income, housing, health, living conditions and urban marginality.

It can be suggested that dramatic changes in urban social structure and inequality are of importance in at least four main ways. First, and most importantly, the direction of urban social change is of major practical and policy importance. Cities which are experiencing the growth of unemployment, underemployment, marginality and low incomes have very different social problems from those with stable social structures or those experiencing a growth of the middle classes. The direction in which cities are moving is very important.

Second, while some degree of inequality is almost inevitable, cities which are extremely unequal in terms of income and living conditions may be more socially unstable than cities with a greater degree of equality. Third, in many state socialist and some western societies, a high level of inequality was often thought to be socially unacceptable and to have negative social consequences in terms of the development of social deprivation. Fourth, high levels of inequality and deprivation may make a city less competitive if potential labour force skills and abilities are not being developed to their fullest extent.

While there has been considerable debate on the extent and causes of urban marginality, particularly in cities in the developing world, the last 25 years have seen major debate over the issue of social polarization in global cities and its links to urban inequality.

### **Social polarization and inequality in world/global cities**

The debates on social polarization in world or global cities started with the work of John Friedmann (Friedmann and Wolff, 1982; Friedmann, 1986) who put forward seven hypotheses based on the role of such cities in the global capitalist system, focusing on their role as control and command centres for global capital. Friedmann argued that the role of such cities in the global system meant that they functioned as key centres for corporate headquarters' business and finance, and that changes in their employment structure generated changes in their occupational class and income structure. Specifically, he saw them attracting large numbers of highly skilled workers, both local and international. This, in turn, generated a need for a large army of low-skilled service workers. Friedmann (1982, p. 322) argued that:

Transnational elites are the dominant class in the world city, and the city is arranged to cater to their life styles and occupational necessities... The contrast with the third or so of population who make up the permanent underclass in the world city could not be more striking... The primary fact about world city formation is the polarisation of its social class divisions.

Friedmann's work needs to be seen in the context of its time. When he wrote, both China and Russia were still communist states, and India was

still economically undeveloped. Consequently, his indicative list and map of world's cities reflects the developed western capitalist system of the time. Beijing, Shanghai, Guangzhou and Mumbai do not figure and neither does Moscow as they were still closed off from the global capitalist system. Equally, because his work was concerned with the control and command centres of the system rather than large cities per se, he did not include large Third World cities such as Lagos or Calcutta simply because they played little or no role in the organization of global capitalism. Finally, his inclusion of cities such as Vienna and Caracas as world cities can be questioned but this does not detract from the value of his initial conception, although he did not define what he meant by the polarization of social class divisions and whether this was simply a metaphor for widening or growing or something more specific.

Friedmann's work was subsequently taken up and developed by Saskia Sassen (1991) in her book *The Global City*, and also by Mollenkopf and Castells (1991) in *Dual City: Restructuring New York* and Fainstein et al. (1992) *Divided Cities*. Sassen argued that the evolving structure of economic activities in global cities, i.e. those cities with a major role in the organization of the global system of production and finance, particularly the rapid growth of financial and business services and the sharp decline of manufacturing industry has brought about: 'changes in the organisation of work, reflected in a shift in the job supply and polarisation in the occupational and income distribution of workers' (1991, p. x). She (1991, p. 13) added that:

New conditions of growth have contributed to elements of a new class alignment in global cities. The occupational structure of major growth industries characterised by the locational concentration of major growth sectors in global cities in combination with the polarised occupational structure of these sectors has created and contributed to growth of a high-income stratum and a low-income stratum of workers.

Sassen's key idea is clear and simple. The decline of manufacturing industry is associated with a decline in the number of semi-skilled and middle-income jobs, while the growth of the service sector is associated with growth both in professional and managerial jobs at the top, and with jobs in low skill and low wage service jobs at the bottom – such as hotel maids, waiters and waitresses, cleaners, security guards etc. The idea of social polarisation has proved extremely attractive, both intellectually and politically. But, as Fainstein et al. (1992, p. 13) pointed out perceptively:

The images of a dual or polarised city are seductive, they promise to encapsulate the outcome of a wide variety of complex processes in a single, neat and easily comprehensible phrase. Yet the hard evidence for such a sweeping and general conclusion regarding the outcome of

economic restructuring and urban change is, at best, patchy and ambiguous. If the concept of 'dual' or polarising city is of any real utility, it can serve only as a hypothesis, the prelude to empirical analysis, rather than as a conclusion which takes the existence of confirmatory evidence for granted.

Put simply, Fainstein is saying: social polarization is an attractive idea, but is it correct?

Similarly, Mollenkopf and Castells (1991) posed the question of whether New York has become a 'dual city', split into two distinctive parts, one of wealth and the other of poverty. They argued that while New York is an unequal city, it is *not* a dual city and that the dual city metaphor, while politically useful, is flawed as an analytic approach. But, the notion of dual or polarized cities has uncritically passed into the urban literature and the existence of the phenomenon is taken for granted.

### **Metaphors and terminological inexactitude**

The work of Friedmann, Sassen, Mollenkopf and Castells and others has generated a conventional wisdom regarding the inevitability of polarization and inequality in global cities. But this is both taken for granted and unexamined and terminologically imprecise and confused. There are now a number of concepts in common use which are frequently viewed as interchangeable. They include inequality, polarization, dual city, divided city and unequal city. But they do not necessarily mean the same thing and can, indeed, generate considerable confusion if used as synonyms. There is, in other words, a lot of sloppy thinking about urban polarization and inequality which needs to be taken apart and critically examined both conceptually and empirically if social scientists and policy makers are to make any progress. To be controversial, it might even suggest it is the imprecision and vagueness of many of these terms that makes them attractive within some social science discourse as it enables authors to use broad-brush concepts without having to stop and specify what they mean by them.

It is therefore important to define some of these terms a little more precisely, and to see how they are linked together, if at all. We can, I think, put the term 'divided' city as to one side as almost all cities are divided in one form or another: socially, spatially, racially and economically. The term is a metaphor and can mean whatever we want it to mean and is therefore of little or no analytical value although it has a general descriptive utility. We cannot say that one city is more or less divided than another without specifying precisely what dimensions we are concerned with, and the time periods concerned.

The term 'dual city' coined by Mollenkopf and Castells is little better, precisely because it is open to so many competing interpretations. In an

extreme form, a dual city could be taken to mean a city literally divided into two distinct and separate parts, where the population lives almost separate lives and are characterized by quite distinct economic and social attributes in terms of employment, race and income. The only city that comes close to that at present is Jerusalem where Israeli and Arab areas are sharply divided by a wall whose function is to increase the level of security in Israeli areas. In the past, Belfast in Northern Ireland was physically divided, as were Berlin and Nicosia, Cyprus. Berlin can be seen as a pure form of a divided city in that the two halves were under different political systems and movement across the wall was prohibited or very tightly controlled.

Social polarization is another problematic term which has an attractive technical ring to it and sounds authoritative and precise but in practice can be so vague as to be meaningless. The origins of the term lie with the splitting or polarization of light into a number of different wavelengths, but more generally the term implies a move towards the poles of a distribution, and away from the middle. As used by Sassen, the term implies an absolute growth at both the top and bottom ends and a decline in the middle of the occupational skill distribution as a consequence of changes in both labour demand and supply and related changes in the distribution of earnings with growth in the size of both the top and bottom groups and a decline in the middle. This is not the same as an increase in earnings at the top or bottom, or the size of the gap, but the size of the groups themselves.

In simple terms, Sassen postulated that both occupational class/skill distribution and earnings would become less normally distributed and would tend more towards a dumb-bell shape with more workers at the top and bottom and fewer in the middle. These are very real and important concerns but increasing polarization is not the same as increasing inequality or vice versa. It is possible to have greater polarization and lower inequality, lower polarization and greater inequality or any combination of the two, although some combinations are more likely than others (Esteban and Ray, 1994). When discussing social polarization, we need to define whether we are speaking of occupational class, race, incomes or earnings, housing tenure or some other measure, and it is also crucial to be clear whether we are talking of relative or absolute polarization. It is also possible to talk of spatial polarization between different groups, though we already have a useful term for this, namely segregation, and housing tenure polarization.

## **Inequality and the city: dimensions and definitions**

There is no doubt that all cities are unequal to a greater or lesser extent. The important questions are how unequal, on what dimensions, and how has the degree of inequality changed over time. If social scientists and policy makers are to say that one city is more unequal than another, or that urban inequality has grown or reduced over time, we first need to specify which

dimensions of inequality we are talking about: earnings, incomes, housing, health, transport, food, education. And, if it is incomes, are we talking about household or individual incomes pre- or post-tax? Simply saying City A is unequal or has become more unequal over time is easy to say but almost meaningless without precise specification.

So, the first point is that it is necessary to specify the dimensions of inequality we are discussing and their interrelation. This will depend on the focus of interest. If the focus is housing tenure and cost, then the important measure is the extent to which different social class, income or ethnic groups are concentrated into key tenures (ownership, private renting, and social renting) and changes over time. The standard measures of inequality relate to the key dimensions of earnings, income and wealth. These are crucial because they play a major role in determining what goods and services can be purchased and hence in standard of living. Most developed countries have quite good data on these indicators which sometimes extend downwards to city level (Hamnett and Butler, 2010).

### **Social polarization, inequality and the role of the state**

It is sometimes suggested that social polarization is an inevitable outcome of the changes in the industrial structure and associated changes in occupation and migration of global cities (see Chiu and Lui, 2004 for a discussion). This is certainly the impression which is given in Sassen's work. I have argued, however, that the existence and extent of social polarization in global cities is likely to be strongly related first to the level of migration in these cities and the existence of a low-skill and low-wage migrant underclass (Hamnett, 1994). Sassen's work was based on her research on New York and Los Angeles, both of which have very high levels of international migration. Second, I have argued, following the work of Esping-Andersen (1990), that social polarization needs to be examined in the context of different types of welfare state regime (Hamnett, 1994; 1996a). It is well known that different societies have very different welfare regimes with some of the Scandinavian social-democratic countries having high levels of welfare provision and redistribution and other liberal capitalist countries, such as the USA, having considerably less. It would be expected from this that countries with extensive welfare regimes could have lower levels of inequality and polarization and vice versa.

This argument has been taken up in the context of South East Asia by Hill and Kim (2000) who have argued that there is a major difference between liberal capitalist states such as Britain and the USA and South East Asian developmental states such as Japan, South Korea and Singapore and that it cannot simply be assumed that theories of social polarization which are based on liberal capitalist states will necessarily apply in developmental states. This generated a major debate (Sassen, 2001; Hill and Kim, 2001,

Wang, 2003; Tai, 2006) which suggests that Singapore, Seoul and Taipei are different from other global cities by virtue of a lower degree of occupational polarization and income inequality. Interestingly, Chiu and Lui (2004) suggest that: 'given the specificity of Hong Kong's local institutional configuration – an economy largely driven by unfettered market forces – it represents a case in which the impacts of globalisation (deindustrialisation and resultant sectoral changes) could be expected to be most pronounced' (p. 1863).

## The empirical evidence

I have outlined the main theoretical positions and the definitional problems. It is now important to ask: what does the evidence suggest? The evidence on occupational class polarization is fairly easy to summarize in that the evidence based on official census and labour force statistics up until 2001 suggests that, within western developed countries outside the USA, there has not been a general process of occupational class polarization and where found it has tended to be asymmetric, with a greater growth at the top end than the bottom. A dominant trend in cities such as London, Paris, Amsterdam, Cape Town and Sydney has been the growth of the professional and managerial middle classes (Hamnett, 1994; 1996b, 2003; Baum, 1997, 1999; Preteceille, 1995, 2007; Borel-Saladin and Crankshaw, 2007). Research by Butler, Hamnett and Ramsden (2007) shows a continuation of this trend in London up to 2001 with the additional growth of a new lower middle class of routine white-collar and administrative jobs. They are not lawyers, doctors or engineers but neither are they traditional working-class occupations. This view is challenged, however, by Wills et al. (2009) who argue that London is now characterized by a new division of labour in which overseas migrants occupy the lower levels.

While there are many new jobs created in hotels, restaurants, security, what is often overlooked in the context of developed countries by the proponents of social polarization is the scale of job losses in routine service jobs. In London, and in Britain as a whole, for example, railway porters, bus conductors and tube train guards, who were very common up until around 30 years ago, have almost totally disappeared in an effort to streamline the labour process and to cut costs and increase profitability. Buses and trains are now almost all operated by the driver alone. These losses are numerically very important but they are often far less visible than the growth areas. My point is simply that while many new low-wage service jobs have been created, many others have also been lost. We cannot simply assume that the growth of new low-wage service jobs points to polarization as some researchers assume. Also, as Borel-Saladin and Crankshaw (2007) have shown in the case of Cape Town, de-industrialization has been accompanied by the growth of middle-class service sector jobs with middle incomes. As

they note: 'the growth of service sector employment can, under specific conditions, produce a large middle income occupational class of clerks, sales and personal services workers. The growth of this class can offset the decline of middle income jobs caused by the loss of artisans, operatives and drivers in the declining manufacturing sector' (p. i). More generally, they argue that polarization researchers have tended to assume, following Sassen, that service sector jobs are either high skill and high wage or low skill and low wage, but it is also possible to have middle-income service jobs.

But in countries with high levels of immigration into low-wage jobs occupational class polarization does seem to be occurring. Chiu and Lui (2004) show that between 1991 and 2001 Hong Kong experienced both a strong absolute growth of managers, professionals and associate professionals, a decline of skilled jobs and a growth of elementary occupations which they link to the growth of immigration from China. They thus conclude that Hong Kong has seen the growth of occupational polarization over this period. This is not necessarily an inevitable process and it may be contingent on continuing high levels of immigration of low-skill workers and the Taipei and Singaporean experience seems rather different (Baum, 1999; Tai, 2006). Singapore experienced clear occupational professionalization: an upward shift in class structure. Large Chinese cities, however, have been characterized by a large inflow of temporary migrant workers from rural areas who occupy many of the low-wage jobs in manufacturing, services and construction. These cities have seen a growth of both inequality and urban marginality.

In contrast to occupational polarization, there is little doubt that both earning and income inequality has increased very significantly in many global cities over the past twenty years partly as a result of the changes in industrial and occupational structure which generate more high-paid jobs in finance and business services (Hamnett, 1994, 1996b, 2003a, 2003b; Preteceille, 1995; Warf, 2000). But the growth of income or earning inequality is not the same as an increase in polarization. It is quite possible to have an increase in the size and proportion of professional and managerial workers combined with stability or a decline in the number of low-paid service workers and to have a major increase in earnings inequality which is what has happened in London.

It is very well known that some societies, particularly social-democratic countries such as Sweden, Denmark and Norway, have generally lower levels of income inequality than others, and that among developed countries, the USA is known to have one of the highest levels of income and wealth inequality (Atkinson, 1995; Atkinson and Piketty, 2007; Wolff, 2001). It is also well known that levels of income inequality have increased in a number of countries, such as Britain and New Zealand, in the past 20–30 years. This is attributed in part to the impact of economic policies which have fostered

the growth of high earnings at the top end of the corporate tree and partly to the development of what has been called the 'winner take all society' (Frank and Cook, 1995). One consequence of this trend is that the earnings of top CEOs and executives, senior lawyers, successful financial traders and others have tended to rise much faster than those of other groups. In London the earnings of the top decile rose much faster than that of other groups between 1979 and 1993 (Hamnett and Cross, 1998) and this has continued in recent years.

This corresponds to the data on New York (Warf, 2000; Mollenkopf and Castells, 1991) and Paris where the earnings and incomes of the top deciles have grown much faster than those of other deciles in both absolute and relative terms, leading to an increase in inequality. The reasons for this appear relatively straightforward. First, the earnings and household incomes of highly skilled managers and professionals, particularly those working in finance and business services, have increased substantially, particularly at the top deciles. This group has been remarkably successful in gaining both higher earnings and a much larger share of the total cake. At the other extreme, the low-wage and -income groups have maintained their wages or seen a much lower rate of increase. Intermediate groups have seen a lower rate of earnings growth. Consequently, the most highly paid have pulled away from the rest.

However, it is noteworthy that several Scandinavian cities, such as Stockholm, Helsinki and Oslo (Wessel, 2000; Vaattovaara and Kortteinen, 2003), have much lower levels of income inequality, largely as a result of the much stronger social democratic welfare states. This highlights an important factor in the level of inequality, namely the role of the state and the degree of intervention and redistribution. Greater inequality appears to be common to many global cities as a result of the change in industrial structure, but it is not inevitable or inexorable. Policy and state regulation and social expectations can make a difference. This is shown clearly by Wang (2003) and by Tai (2006) in his comparative analysis of social polarization in three developmental states: Singapore, Hong Kong and Taipei. Baum's research suggests that Singapore has experienced an upwards shift in income distribution in the period 1986–96 but as his figures do not seem to be adjusted for inflation, it is difficult to know to what extent this upwards shift is simply a result of workers in low-income groups slowly moving up into higher-income groups as a result of wage inflation.

## Conclusions

Social scientists and policy makers should be careful when using terms such as inequality and polarization to ensure they are precisely defined and their existence is not assumed.

My conclusion is that occupational social polarization is not inevitable in global cities, and nor is an increase in earnings and income inequality (although this is more likely).

The extent of occupational polarization, if it occurs at all, is likely to be related to the level of immigration, with cities experiencing high levels of low-skilled immigrants, more likely to experience polarization than those with low levels of low-skilled immigration such as Singapore. This is, in turn, likely to be related to the role of the state and the extent of state control over issues such as migration and wage levels. The growth of earnings inequality is more likely in global cities as a result of the transformation of the industrial and occupational structure and the growth of the high-skill, high-wage segment of the labour force. If this is combined, as has been the case in Hong Kong, with the growth of low-skill, low-wage migration, the result is likely to be a high level of earning inequality, although this could be reduced in terms of post-tax incomes by redistributive taxation and welfare policies. The evidence suggests that inequality is far greater in liberal market economies than in economies with a higher degree of state intervention and control or those with a social democratic policy.

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# 3

## Neoliberalism and the Urban Poor: A View from Latin America

*Alan Gilbert*

The recent history of economic and social development in Latin America ought to provide some lessons for China – both positive and negative. The region is generally more prosperous than China; it has had a longer relationship with capitalism; it experienced severe economic recession in the 1980s and its many countries have adapted in very different ways to structural adjustment. And, although as a region it has only about half of China's population, it is some years ahead in terms of urban growth. Over the last half-century, it has managed to absorb huge numbers of city-ward migrants and done so without huge political cost. In the process, the quality of national and local government in the region has generally improved and, despite the many errors, China might learn from that experience.

### **Neoliberalism in Latin America**

According to Harvey (2005, p. 2),

Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. ... But beyond these tasks the state should not venture.

Latin America is often said to have embraced neoliberalism as a result of the debt crisis of the 1980s. It arrived principally in the form of stabilization and structural adjustment packages initiated by the IMF and the World Bank. While that is too simple an explanation – for example, Chile had helped develop the Washington Consensus during the 1970s (Valdés, 1995) – it contains a strong element of truth. Before 1982, virtually every government had followed the path of import-substituting industrialization (ISI).

An outcome of the world recession of the 1930s and the Second World War, ISI was Latin America's attempt to break out of its dependence on primary export production. Strongly encouraged by the UN Economic Commission for Latin America (UNECLAC) based in Santiago it enabled the largest countries of the region to industrialize and by the middle of the 1960s most were producing their own consumer and intermediate goods. Protected by high tariffs and quotas and with governments coordinating economic policy and investing heavily in infrastructure, most countries managed to achieve reasonable rates of economic growth – albeit below those required to absorb their growing labour forces or to reduce poverty. ISI was a policy that was approved by Washington at least until the middle of the 1960s and supported through huge loans from the development banks and indeed the commercial banking system (Love, 2005).

ISI also had some undesirable outcomes, arguably producing an uncompetitive industrial sector, discouraging exports, distorting the balance of payments and encouraging too much government expenditure borrowing. As Wiltse (2007, p. 228) describes it:

these domestic industries produced high-priced, low-quality manufactured goods that could not compete in the international markets. Consequently, the state needed alternative sources of foreign exchange, such as agricultural and mineral exports, or international borrowing in order to sustain its ISI strategy. Second, the extensive state expenditures that were required to maintain generous public subsidies, social services, and an ever-swelling public sector undermined public finances. It compelled the government to borrow money in order to meet all these obligations.

With the formation of OPEC in 1973, and the consequent oil price rises of the 1970s, external borrowing increased markedly. Encouraged by the US Treasury department and the IMF, the development banks and the commercial banking system poured money into the region in an attempt to recycle OPEC surpluses and thereby avert a world recession. In hindsight, too much of that lending was invested badly and capital flight was a major problem in countries like Argentina, Mexico and Venezuela. When interest rates began to rise dramatically in Washington in 1979, the debt crisis was almost inevitable.

The region's subsequent inability to service its debts led to inflation, and even hyperinflation, economic recession and capital flight. It impoverished both the poor and the middle classes and led to a complete rethink about how Latin America should develop. ISI, with its corollary government interference and protection, was discredited and displaced by neoliberal thinking. Williamson (1990, p. 9) later defined the Washington Consensus as 'ten areas where policymakers and scholars in "Washington" could arguably muster a fairly wide consensus as to the character of the policy reforms that debtor

countries should pursue'. These were: fiscal discipline; public expenditure priorities; tax reform; financial liberalisation; exchange rates; trade liberalization; foreign direct investment; deregulation; and property rights.

Critics of the Washington Consensus argue that it was thrust upon Latin America, with the region's governments having no choice but to accept IMF advice along with the emergency capital that was on offer. While that is far too strong a line and is certainly not applicable to the largest nations in the region, it also omits the support that the new approach received from most Latin American economists, many of whom had been trained in the same universities in the US as those recommending the New Economic Model. Whether it was imposed or adopted, most elements in the model were instituted in many Latin American countries from the mid-1980s on (Edwards, 1995). As Varas (1995, p. 283) observes: '... looking back 15 years from the mid-1990s to the early 1980s, it is hard not to be struck by the similarities of the general approach to economic policy that has been followed in Latin America – even by individual leaders and political parties that had advocated other policies for decades.'

While the New Economic Model was subject to numerous local variations, and not adopted at all in a handful of countries, Weyland (2007, p. 236) is correct in arguing that:

The surprising wave of market reforms that swept across Latin America during the 1980s and 1990s has profoundly affected the region's economic, social, and political development. For instance, drastic trade liberalization has exposed important branches of industry to serious competitive challenges while commodity exports have flourished; countries' patterns of international economic specialization have therefore changed. The resulting dislocations have exacerbated employment problems and further aggravated social inequality, a longstanding problem in the region. In turn, economic crises and increasing social informality have contributed to political convulsions such as the collapse of party systems and the rise of neopopulist leaders. On the other hand, high inflation rates, a scourge for decades, have been brought under control; economic recovery has reduced poverty in the mid-1990s and the mid-2000s; and democracy, which looked shaky in the 1980s, has survived the tremendous socio-economic and political troubles and travails of the last two decades.

However, the neoliberal wave did not sweep either homogeneously or simultaneously across the region (Gilbert, 2004). Some governments, e.g. Cuba, stood out against the tide on principle, others succumbed to political pressure to oppose it, e.g. Venezuela, and others only adopted parts of the package, e.g. Brazil (Stewart and Berry, 1999). For example, one core element of the approach, the privatization of state enterprises, was taken up enthusiastically in Chile, Colombia and Mexico but not in Bolivia or Venezuela. And, while

every government spoke responsibly about controlling its expenditure and raising taxes, many still managed to run large budget deficits. Some governments tried to apply the new orthodoxy, but were unable to do so. Even when political protest did not cause delay, many governments lacked control over key economic processes: few managed to control the newly emerging international market in drugs, and money laundering, capital flight and tax evasion continued to be major problems.

It is difficult to disagree with Kingstone (2006, pp. 158–9) when he argues that:

Latin America has experienced important changes in a number of areas, but in other important ways it seems to be barely moving. The rule of law remains fragile in most countries, and downright illusory in many cases. Marginalization, exclusion, and extreme inequality seem to be permanent fixtures of Latin America societies and disappointingly impervious to the widespread emergence of competitive electoral politics. Corruption and pervasive clientelism also seem essentially impervious to change. The ability of elites to protect themselves and to subvert formal rules and practices to preserve themselves at the expense of the rest of society seems highly resistant to democratic forms of politics and liberal economic policies as well. In short, the underlying societal dynamics needed to support many of the recommendations offered do not appear to be forthcoming.

Table 3.1 suggests that the effectiveness of the New Economic Model has been highly variable and has hardly transformed the region. Indeed, the growth rate in many countries has been no higher, nor arguably more sustainable, than it was under ISI. I agree with Love (2005, p. 107) that: ‘... the perspective from 2005 seems to show that the era of state-led industrialization was more successful than its critics would concede...’. If growth rates improved briefly as a result of the rising demand for primary products in 2006 and 2007, they will surely fall again in the near future.

What lessons might China learn from this brief history? First, it is clear that there are no panaceas or easy routes to development, even if Latin American optimism has often encouraged the belief that there were. As Sanchez (2003, p. 1993) argues: ‘The region has historically been shackled by big single-issue ideas – be it capital formation, import-substitution, or *dependencia*. Insofar as neoliberalism puts undue emphasis on liberalising trade and capital and downplays other areas, it also follows this infamous tradition.’ Perhaps, most governments in China and the Far East have avoided this error, although the Asian crisis of the late 1990s suggests that some also fell too eagerly into the embrace of globalization and neoliberalism. Similarly, they participated too eagerly in the build-up to the current world crisis. Easy credit and the now-discredited financial expertise of the investment banks

*Table 3.1* Economic growth in selected Latin American countries since 1950, measured in annual growth in GDP

Country	1950–59	1960–69	1970–79	1980–89	1990–99	2000–8
Argentina	2.4	4.4	3.0	–0.6	4.9	4.2
Brazil	6.5	6.2	8.6	2.9	2.9	3.9
Chile	3.8	4.5	2.0	3.2	7.2	4.3
Colombia	4.7	5.0	5.7	3.7	3.3	5.3
Guatemala	4.0	5.2	5.9	0.9	4.2	4.3
Mexico	5.9	7.1	6.5	2.1	2.7	3.2
Peru	4.9	5.6	4.0	–0.2	5.4	6.0
Venezuela	8.3	5.4	3.2	–0.8	1.7	5.3
Latin America	4.9	5.7	5.6	1.7	3.4	4.3

*Sources:* United Nations (1998), World Bank (2000), CEPAL (2008a).

and hedge funds show how dangerous economic orthodoxy can be and why Lawrence Summers was both right and wrong when, as Bill Clinton's Treasury Secretary, he said that 'the laws of economics are like the laws of engineering; there is only one set and they work everywhere' (cited in Klein, 2008). Too many economists seem not to have noticed that the new orthodoxy was not producing the goods in vast swathes of the globe. Even in the times of rapid growth, large areas of China missed out.

Second, there is the question of economic stability. Re-establishing market forces and tying Latin America more closely into the world economy were supposed to make the region a safer place. But, since 1980, economic and financial crises seem to have been contagious. The Mexican crisis of 1994 quickly crossed the southern border and the so-called 'Tequila effect' hit stock markets and foreign exchange markets throughout the region. No doubt Latin America's integration into the global financial system is beneficial whenever foreign traders have confidence in the local economies. But what the Mexican crisis, the suffering of Argentina and Uruguay in 2001 and perhaps the recession threatening the whole region in 2009 shows is that economic and social volatility is part and parcel of neoliberalism. When Mexico got into trouble in 1994, Wall Street, London and Tokyo immediately removed huge sums of portfolio investment from the country and began to question the safety of their investments in the rest of Latin America. When Thailand and later Russia got into trouble, the contagion spread to Argentina. China is now discovering how unstable the newly liberalized world economy can be. In 2000, I wrote that

the reasons behind the current volatility are so little understood that they even catch the bankers by surprise. If there was a clear relationship between international financial prices and real market conditions, the next crisis could be anticipated. But there seems to be no such link. This

is truly worrying insofar as Latin American governments may do everything to obey the rules of international lenders and yet still be hit by a financial or currency crisis occurring in a region far across the globe. (Gilbert, 2004, pp. 50–1)

I am disappointed that 2008 should prove me right and that the financial irresponsibility and incompetence of bankers would pull the trigger of economic decline. Fernández-Arias and Hausmann (1999, p. 3) were clearly correct in worrying whether: 'Depending on one's viewpoint as optimist or pessimist, financial integration and globalization have either generated excessive volatility or run amok.'

Third, total belief in the benefits of free trade, privatization, greater foreign investment and untrammelled capital flows has been sustained by a combination of both myopia and amnesia. Economic recession in local economies has been too easily dismissed as a temporary inconvenience, caused mainly by bad domestic policy. Rising unemployment is not a structural feature of the new model but an outcome of the failure of national governments to reform their labour legislation. Amnesia is rampant, with everyone seemingly having forgotten the horrors of the 1930s.

Some of the rules of neoliberalism were badly needed in most of Latin America: fiscal discipline, higher taxes, more responsible government spending, targeting of subsidies and proper costing of services. At the same time, the 'irrational exuberance' of the market, was most certainly not required!<sup>1</sup>

### **The impact of neoliberalism on the urban poor**

Harris and Nef (2008, p. 12) claim that:

Among the many troubling features of the Americas today are profound social inequalities: extensive poverty; vast slums and shantytowns in the cities; precarious and illegitimate, and at times outright fraudulent, elected regimes; the increasing despoliation of the natural environment; continuing huge national debts; the prevalence and entrenchment of authoritarian state structures hidden behind a representative democratic façade; the continued presence of repressive internal security forces; the effective (as opposed to official) exclusion of the popular classes from political power; ...

Their description of the region is correct insofar as rampant poverty is still a major issue in most of Latin America and the region has certainly not found a reliable route through which to achieve faster development. At the same time, the account is far too pessimistic and too uniform; Latin America's recent experience has been extremely variable, with some countries doing much better than others.

## Poverty and the quality of life

Despite its huge problems, many aspects of life in the cities of Latin America have improved over the years. For a start people now live much longer than they once did – life expectancy in the larger cities is now generally more than 75 years. Urban services and infrastructure are more widely available. Similarly, more people can afford consumer durables like refrigerators and televisions and take advantage of better public parks and leisure facilities.

What is disappointing is that poverty has not disappeared and, in some respects, the situation has deteriorated. Table 3.2 shows that between 1970 and 2005 the incidence of poverty did not change; two-fifths of the population lived in poverty at both dates. Admittedly, there was some improvement in 2006 and 2007, but the current crisis is likely to have reversed that situation in 2008 and 2009. However, the table also shows that the numbers of people living in poverty increased, mainly because of continuing population growth. Even with the benefits brought by the commodity boom of the middle of the 2000s, in 2007 more Latin Americans lived in poverty than ever before.

Table 3.2 also demonstrates how Latin America has suffered from the urbanization of poverty. Whereas in 1970 one-quarter of urban people lived in poverty, 35 years later one-third of all urban dwellers were poor. In absolute numbers the situation looks even worse. While a higher proportion of rural people still live in poverty, most poor people now live in the cities.

Of course, the incidence of poverty is highly variable within the region, as Table 3.3 shows. In one sense Table 3.3 strongly supports neoliberal and modernization thinking insofar as the incidence of poverty and indigence correlated negatively with per capita income.<sup>2</sup> While economic growth does not trickle down automatically, without it any effort to eradicate poverty

Table 3.2 Poverty in Latin America, 1970–2007

	Total		Urban		Rural	
	Millions	Per cent	Millions	Per cent	Millions	Per cent
1970	116	40	41	25	75	62
1980	136	41	63	30	73	60
1990	200	48	122	41	79	65
1994	202	46	126	39	76	65
1997	204	44	126	37	78	63
1999	211	44	134	37	77	64
2002	221	44	147	38	75	62
2004	217	42	147	37	71	59
2005	209	40	138	34	71	59
2006	193	36	127	31	66	54
2007	184	34	121	29	63	52

Source: UNECLAC (2008); *Panorama Social* (2008: 5) and (2007).

*Table 3.3* Persons living in poverty and indigence in selected Latin American countries, 2006

Country	Poverty (%)	Indigence (%)	GNP per capita (PPP)
Brazil	33.3	9.0	8,700
Chile	13.7	3.2	11,300
Costa Rica	19.0	7.2	9,220
Dominican Republic	44.5	22.0	5,550
Honduras	71.5	49.3	3,420
Mexico	31.7	8.7	11,990
Peru	44.5	16.1	6,490
Venezuela	30.2	9.9	10,970

Source: UNECLAC (2008) and [http://siteresources.worldbank.org/DATASTATISTICS/Resources/lac\\_wdi.pdf](http://siteresources.worldbank.org/DATASTATISTICS/Resources/lac_wdi.pdf).

is very difficult. As Neilson et al. (2008, p. 254) put it: ‘The road out of poverty is fragile, and poor households need adequate health coverage and insurance to protect them from adverse shocks that permanently impair their capacity to generate income.’ Recent experience in Bogotá shows how rapidly poverty can fall when the local economy shifts out of a period of recession into one of economic growth; the proportion of poor people in the city fell from 46.3 per cent in 2000 to 23.8 per cent in 2006 (Gilbert, 2006; DNP, 2007). Unfortunately, the regional head of the UN Development Programme predicts that: ‘the global financial crisis could cause poverty to rise in Latin America by as much as 15 per cent this year’ (BBC, 2009). The shock is likely to hit the smaller economies particularly hard.

### **Inequality**

It is generally accepted that Latin America has one of the most unequal income distributions in the world. ‘Whereas the richest tenth of the population in the region earn 48 per cent of total income, the poorest tenth earn only 1.6 per cent. By contrast, in developed countries the top tenth receive 29 per cent of total income, compared to 2.5 per cent for the bottom tenth’ (De Ferranti et al., 2004, p. 17).

Inequality in Latin America is a heritage of distant colonialism. Traditional forms of land holding, continued forms of ethnic discrimination, poor-quality education and health facilities for the poor and, until relatively recently, the perpetuation of authoritarian and undemocratic political systems, can all be blamed to some degree on the colonial past. Of course, since independence came to most of the region in the 1820s, Spanish and Portuguese rule cannot be held primarily responsible. And it is true that there were signs of progress during the third quarter of the twentieth century. Under ISI, it appeared as if inequality was falling as per capita incomes increased. Latin America was slowly replicating the experience of most developed countries

where universal education and health provision, progressive taxation and growing government intervention had reduced inequality (Kuznets, 1966; Gilbert, 2007). During the 1970s, the Gini coefficient showed signs of consistent improvement in most Latin American countries (UN, 2001).

Unfortunately, that pattern changed during the debt crisis and with the introduction of the New Economic Model the gap between rich and poor in the region started to increase. Szkeley and Hilgert (2002, pp. 150–1) note that: ‘income distribution in Latin America has not improved in the 1990s, at least for the countries where comparable household surveys covering most of the population are available’. And, the World Bank (2002, p. 5) observes that: ‘In Latin America, due to prior extreme inequalities in educational attainment, global integration has further widened wage inequalities.’

Table 3.4 suggests that in the first few years of the new millennium, a combination of faster economic growth and modified government policy did help to reduce inequality in some countries. But, with economic recession about to hit the region, that positive trend is soon likely to be reversed.

*Table 3.4* Poverty and inequality in Latin America during the 1990s

Country	Year	Gini coefficient	Share of total income of the poorest 40% of the population
Brazil	1990		9.6
	1999	.627	10.0
	2007	.640	12.7
Chile	1990	.590	13.2
	2000	.554	13.5
	2006	.564	14.6
Colombia	1994	.522	9.9
	1999	.601	12.4
	2005	.572	12.2
Costa Rica	1990	.584	16.7
	1999	.438	15.3
	2005	.473	15.0
Guatemala	1989	.484	11.8
	1998	.582	14.3
	2006	.560	12.8
Mexico	1989	.585	15.8
	2000	.536	15.7 (2002)
	2006	.542	16.9
Venezuela	1990	.506	16.7
	1999	.471	14.5
	2007	.498	18.4

*Note:* Comparable data are not available for Argentina, Bolivia, Ecuador and Peru.

*Source:* UNECLAC (2002: table 24) and UNECLAC (2008: 83–4).

With some economists belatedly recognising that severe inequality is a handicap to development, it is worrying that some countries are about to see a worsening of the income distribution. The worry for China must be that its recent economic miracle has led to a major increase in inequality. While some increase in inequality during a period of rapid growth might be expected, and although the education, health and welfare systems in China are probably less flawed than those in most of Latin America, rapidly increasing inequality is a worrying development when inequality is being finally recognised as a major barrier to development.

### **Employment**

Latin America's failure to dent inequality is closely linked to the employment situation. As Neilson et al. (2008, p. 252) observe in a study of Chile:

labour dynamics seem to be the main driving force explaining income movements that lead to entry into and exit from poverty, while changes in household size, subsidies, and other sources of income seem to be less important in explaining the flux in poverty status. ... There is evidence that if the household head suffered from any major health problems between 1996 and 2001, the probability of exiting poverty was significantly reduced.

It is not that the number of jobs failed to increase, for Latin America has generally been able to create work, particularly in the urban areas. Between 1976 and 2006, for example, the labour force in Bogotá increased from 1.07 million to 3.3 million, an annual increase of some 3.6 per cent compared with a population growth rate of 2.9 per cent.

Latin Americans are very creative in finding things to do and relatively few are unemployed. Indeed, only the more affluent or those with a few savings can afford to be unemployed. For this reason, unemployment rates have seldom reached really high levels. Admittedly, the Chilean crisis of 1982 produced unemployment rates of 20 per cent or more as many businesses folded and in Argentina the crisis of 2003 led to urban unemployment rising to 17 per cent. Similarly, unemployment in the largest cities of Colombia reached 17 per cent in the recession of the late 1990s and early 2000s. In less problematic times, however, urban unemployment rates are normally in single figures.

The real problem is low pay and underemployment. Rapid economic growth has failed to increase the pay of most people in work as research in Chile and the US–Mexico border has shown (Berg, 2005; Kopinak, 1996; Carrillo, 2007). In Bogotá, where open unemployment in 2008 was around 10 per cent, almost one-third of the workforce thought that they were underemployed (CCB, 2008). Many Latin Americans are either working long hours without doing much in that time, or they are working part time when they

would like full-time employment. Many eke out an existence in the so-called informal sector: cleaning shoes, collecting garbage, begging, and engaging in prostitution. Since few countries in the region offer any kind of unemployment benefit, the poor are forced to find work of some kind.

In Latin America, the proportion of informal workers is related to the affluence of the country and urban area. Table 3.5 shows that more people are working in formal sector jobs in the more affluent countries than in the poorest. In 2005, around one-quarter of the urban labour force of Argentina, Chile, Mexico and Uruguay were in non-salaried, domestic and own account category (used here as an approximation of the informal sector) whereas almost half of all urban workers in Bolivia and Colombia fell into that category.

The table also suggests that growing economies experience a decline in informal work, e.g. Chile, while economies in decline see an increase in informal sector work, e.g. Venezuela. This was certainly the pattern during the debt crisis of the 1980s when many formal sector workers lost their jobs (Gilbert, 1998; Tardanico and Menjivar-Larín, 1997; Thomas, 1995). Some of those who lost their jobs joined the ranks of the unemployed but the very poor found some way of eking out an existence. More women, youths,

Table 3.5 Forms of employment in selected Latin American countries, 1990–2005

Country	Year	Employers	Waged and salaried		Non salaried
			Public sector	Private sector professional and salaried	Domestic and own account
Argentina	1990	4	16	51	24
	2005	4	17	51	24
Bolivia	1989	2	18	30	47
	2004	5	9	36	51
Brazil	1993	4	14	45	36
	2005	5	12	49	34
Chile	1990	3			30
	2003	4	11	57	27
Colombia	1991	4	12	49	35
	2005	5	8	42	46
Mexico	1994	4	16	54	25
	2002	4	13	55	27
Uruguay	1990	5	22	46	28
	2005	4	16	48	28
Venezuela	1990	8	21	42	28
	2005	5	16	40	37

Source: UNECLAC (2006: 329–31).

and children joined the workforce to generate family income (Escobar and González, 1995).

After the debt crisis, the introduction of the New Economic Model led to many organizations shedding labour. Table 3.5 shows that public sector employment declined as many state enterprises were privatized and government budgets were slashed. That might have simply shifted formal work from the public to the private sector, except that many of the newly privatized companies also cut back on staff. Both they and the existing private firms either subcontracted work to other companies or cut their output as a result of growing competition from abroad and/or from the informal sector (Roberts, 2005).

Some would argue that employment conditions also became more onerous and less well-paid. As Browne (1994, p. 4) puts it: 'In most cases the shift to new, globally-oriented plants enabled corporations to weaken labor unions, cut wage costs, and increase managerial control over the organization of work.' In Mexico, the heavily unionized plants of central Mexico lost out to the new, generally non-unionized plants of the north. Most corporations managed to reduce the rights of their existing workers. Simultaneously, governments were modifying their labour and social security legislation, increasing the power of the companies over that of their unions (Arriagada, 1994; Roberts, 2005).

Given the precarious and often dangerous form of employment in the informal sector, it is not surprising that '... the rise in informality over the 1990s across several measures is viewed with concern and as meriting closer investigation' (Perry et al., 2007, p. 1). With the pace of economic growth about to slow in both Latin America and China, these worries are likely to become greater.

## **Politics**

In the 1970s and early 1980s, the military ruled in almost every Latin American country. Only Costa Rica and Venezuela, and much less clearly Colombia and Mexico, had freely elected governments. But the military failed to do what they promised, to develop and modernize local economies and societies. This failure was underlined by the debt crisis and, as a result, during the 1980s one military government fell after another. By 1990, virtually every Latin American country was holding elections; by 2000, almost every country was more or less democratic (Myers and Dietz, 2002).

In this sense, neoliberalism can be claimed to have restored democracy to Latin America. However, economic decline combined with the worst excesses of military rule were the true causes of both the return to democracy and the arrival of neoliberalism. A majority of Latin Americans were delighted to get rid of the military and the human rights abuses and corruption that were associated with them. They accepted neoliberalism much

more reluctantly, not wholly believing in its promise of 'long-term gain for short-term pain' (Weyland, 2007, p. 238).

The New Economic Model stabilized several Latin American economies in the short term but failed to live up to its billing in the longer run. 'As a result, popular dissatisfaction with the actual performance of the new market system has spread. And given that many Latin Americans attach economic expectations to democracy, commitment to civilian competitive rule also seems to be weakening in a number of countries' (Weyland, 2007, p. 238).

This argument is exemplified in Table 3.6 which shows how badly faith in democracy in some countries is affected by economic downturns. In 2001, a particularly bad time for the economy in much of Latin America, a significant proportion of people in Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Nicaragua and Panama were questioning the desirability of a democratic system. In Argentina, of course, the serious economic crises of 2001 and 2002 led to the fall of four presidents in a few months.

The fact that even in the bad years most Latin Americans believe in the benefits of democracy and only a minority believe in the virtues of military rule testifies to the improvements democracy has brought: fewer human rights abuses, more transparency, sometimes less corruption, some feeling of political involvement. It is significant that, in 2008, people in every country except Paraguay still preferred democracy to military rule.

Of course, Latin America has a highly flawed democracy.

Liberal democracy must have elected officials; horizontal accountability; freedom of association; cultural, ethnic, and religious tolerance; press freedom; freedom of belief, opinion, discussion, speech, publication, assembly, demonstration, and petition for all individuals; equality before the law; and independent judiciary; protection of individuals by the law of unjustified detention, exile, terror, and torture. (Tedesco, 2004, p. 34)

Unfortunately, most Latin American democracies lack a number of those elements. Knight (2001, p. 149) argues that it is 'a democracy of many colours, which, apart from its inherent fragility, embodies significant failings: less than transparent elections; manipulated media; endemic corruption; and recurrent political violence'. Similarly, Munck (2003, p. 69) notes how it fails to protect the rights of most of the people and Tedesco (2004, p. 30) recognises that 'part of the population still acts beyond the rules, thanks to the spread of corruption, the implicit acceptance of tax evasion and capital flight, and the use of contracts with the political class and high-ranking state employees to achieve personal gains'.

The frequent evidence of political corruption has also helped create distrust in democracy, although at least some corrupt leaders are occasionally removed, e.g. Collor in Brazil in 1992, Pérez in Venezuela the following year

Table 3.6 A reviving faith in the ballot box in Latin America

## A reviving faith in the ballot box

Which of the following statements do you agree with most? %

	Democracy is preferable to any other type of government					In certain circumstances an authoritarian government can be preferable to a democratic one				
	1996	2001	2007	2008	<i>Change since 2007</i>	1996	2001	2007	2008	<i>Change since 2007</i>
Paraguay	59	35	33	53	20	26	43	36	29	-7
Venezuela	62	57	67	82	15	19	20	14	9	-5
Colombia	60	36	47	62	15	20	16	12	8	-4
El Salvador	56	25	38	50	12	12	10	20	27	7
Dominican Rep.	na	na	64	73	9	na	na	21	15	-6
Honduras	42	57	38	44	6	14	8	17	15	-2
Chile	54	45	46	51	5	19	19	21	14	-7
Uruguay	80	79	75	79	4	9	10	10	6	-4
Brazil	50	30	43	47	4	24	18	17	19	2
Guatemala	50	33	32	34	2	21	21	33	27	-6
Bolivia	64	54	67	68	1	17	17	14	10	-4
Peru	63	62	47	45	-2	13	12	22	20	-2
Argentina	71	58	63	60	-3	15	21	20	19	-1
Nicaragua	59	43	61	58	-3	14	22	10	8	-2
Mexico	53	46	48	43	-5	23	35	14	15	1
Panama	75	34	62	56	-6	10	23	13	15	2
Ecuador	52	40	65	56	-9	18	24	13	16	3
Costa Rica	80	71	83	67	-16	7	8	5	14	9

Source: Latinobarómetro.

and Bucaram in Ecuador in 1997, and a surprisingly high number are currently face legal charges. Nevertheless, the smell of corruption surrounding the Menem family, and the recent suitcase scandal involving the Kirchners, in Argentina, the *mensualidade* scandal in Brazil's congress, the financing of a presidential political campaign by a drug cartel in Colombia, and many more examples, have led some to suggest that 'corruption is increasing in many, perhaps most Latin American and Caribbean countries' (Klak, 2004).

While some suggest that the failings of Latin American democracy should be blamed in large part on the repressive legacy of authoritarian rule, which demolished much of the union movement and undermined civil society, others have little doubt that neoliberalism is to blame. Munck (2003, p. 76) points to the failure 'of the state to ensure that the general needs of society are fulfilled' and Silva (1999, p. 60) notes how: 'Some people are deeply disappointed by the inability of many governments to improve the social conditions of the less privileged segments of the population. Instead, and as a result of the application of neoliberal policies, the breach between rich and poor has increased in most Latin American countries.' Similarly, Vilas (1996, p. 21) blames the growing incidence of poverty and an "'exclusionary style of development" ... [which] conspires against the integrative principle which is implicit in every definition of citizenship or democracy'.

One consequence has been the increasing tendency for Latin Americans to elect neopopulist, maverick leaders to power. Hugo Chávez in Venezuela, Evo Morales in Bolivia and even Fernando Correa in Ecuador are ruling, at least in part, because of popular rejection of discredited political parties as well as disenchantment with neoliberalism. The current popularity of the left, in its differing forms, in Argentina, Bolivia, Brazil, El Salvador, Nicaragua, Paraguay, Uruguay and Venezuela is also testimony to growing distrust of neoliberalism. According to Knight (2001, p. 182) the kind of 'market-friendly', 'padlocked' democracy' to be found in Latin America 'has a weary and haggard look'.

I am less than sure what the lessons of this experience are for China given that China is so different from Latin America. However, it is significant that Latin Americans continue to prefer democracy in its local flawed form to authoritarian rule and, insofar as today's China appears to be far more totalitarian than any part of Latin America, perhaps there is a lesson there. Furthermore, if democracy has failed to eliminate corruption in Latin America, it has probably reduced its incidence and has sometimes even led to the sinners being removed from office. Perhaps that too is a lesson for China and its sometimes corrupt local administrations. Signs of social protest do break out regularly under democracy in Latin America but then protest is not unknown even in authoritarian China. What China might note is that popular protest in Latin America is much more likely during times of economic decline and for that reason we may anticipate more such protests over the next couple of years (Economist, 2009).

## **Urbanization**

Latin America is some years ahead of China in terms of its urban development. Around three-quarters of the population now live in towns and cities, although there is considerable variation with 90 per cent of Argentines living in urban areas compared with only 50 per cent of Guatemalans.

Given the pace of urban development in China, that country should be encouraged to consider Latin America's urban record, which I would argue has been highly positive. At the same time, Latin American cities have suffered from innumerable problems that could and should have been avoided.

### **Mega-city growth**

For decades, most governments in Latin America complained that too many people were moving to the cities and that urban growth was out of control. Too many migrants were unskilled and uneducated and some only spoke their indigenous language. However, virtually no government in Latin America did much to stem the migrant flow and, despite the fears, most cities managed to cope with the influx.

Similar fears were also expressed about the growing size of cities. Again, however, little was ever done to control the growth of mega-cities and the number of such cities continued to grow (Gilbert, 1998). Regional development programmes were usually half-hearted and even the establishment of new cities, e.g. Brasília and Ciudad Guayana, was hampered by the 'large city bias' that has long characterized most national economic policies (Gilbert and Gugler, 1992; Richardson, 1993). Today, thinking has changed and most Latin American governments recognize that large metropolitan areas have certain advantages in a competitive world. In any case, big cities are now growing very slowly in Latin America and most people would now agree that the key issue is how to improve their governance (Aguilar, 1999; Bähr and Wehrhahn, 1997). Of course, population and geographical size does complicate urban administration but many very badly managed cities are small.

If there is a lesson for China, it is to encourage urban development and to manage it much better than Latin America did in the third quarter of the twentieth century.

### **Shelter**

The United Nations and the World Bank frequently remind us that one billion people live in slums and that urban growth 'will become virtually synonymous with slum formation in some regions' (UN-HABITAT, 2006). While Latin America's urban housing problems hardly compare in their seriousness to those in most African and many Asian cities, far too many people live in overcrowded accommodation or in settlements lacking services. When Latin American governments estimate their housing deficits, with

the sole exception of Chile, the housing shortage always seems to be increasing (Gilbert, 2001).

What does Latin American housing policy have to teach China? First, Latin American governments have never been very successful when they have tried to build homes for the poor. They proved to be ineffective social landlords, often building poor-quality rental housing and failing to collect the rents, and they never kept up with the demand for new homes (Gilbert, 2004). Over the years, ordinary people have shown that they are thoroughly capable of building adequate shelter for themselves, even when receiving little in the way of government help. As many architects and planners have pointed out over the years, the poor's main need is for infrastructure to make their shelter more habitable and the environment healthier (Mangin, 1967; Turner 1968, 1976). Fortunately, few Latin American governments now demolish self-help settlements in the way that they did under military rule. By contrast, most are now prepared to service irregular settlements and even offer the settlers title deeds; in recent years upgrading has become best practice (Imperato and Ruster, 2003; Werlin, 1999; Zanetta, 2001). There is now broad agreement that upgrading maintains existing social and economic networks, is relatively cheap and allows government spending to reach the poor. And, although some writers have expressed fears that the market mechanisms unleashed by this approach may lead to displacement (Durand-Lasserve, 1997), that concern seems to be exaggerated (Baken and van Linden, 1992; Gilbert, 2002). Whether massive titling programmes are essential for housing improvement is also doubtful (de Soto, 2000; Gilbert, 2002; Calderón, 2002).

Second, Latin American experience shows that to date there has been too little recognition that the construction of decent housing of any kind is dependent on access to affordable serviced land. Current development thinking is strong on servicing but remarkably silent about remedying distortions in Latin American land markets (World Bank, 1993). Land speculation in Latin American cities has discouraged private companies from building decent housing for the poor. Too much serviced land has been held for speculative purposes and too few governments have developed effective ways of taxing speculative gains (Clichevsky, 2002, p. 2). It seems to be obvious that higher property taxes should be levied on vacant land to discourage speculation. In addition, governments have failed to develop or finance schemes that could direct housing development towards areas that are easy to service and which would discourage urban sprawl. With respect to land for self-help housing, the case for sites and services schemes was made years ago but there are remarkably few such projects in most Latin American cities (Skinner et al., 1987; Van der Linden, 1994; World Bank, 1974).

Third, no Latin American government has a policy for rental housing despite the fact that millions of families live in rental accommodation. Ways need to be found which will stimulate the production and improvement of

rental housing (Gilbert, 2009; UNCHS, 2003). Since rental housing tends to offer tenants better location, services and infrastructure than does self-help housing, support for rental housing promises ought to improve the quality of shelter in most cities. It represents a cost-effective shelter strategy and one that helps slow urban sprawl. And, since the household incomes of most landlords and landladies differ little from those of their tenants, equity is not a significant issue. In the light of the subprime crisis in the United States and similar problems in the UK, finding ways to encourage rental housing seems make sense. Recent efforts in China to encourage home ownership would seem to be counterproductive in a country with such high population densities and where rental tenure is well established (Guowei, 2007; Huang and Clark, 2002; Yu, 2006; Zhang, 2000).

Finally, many Latin American cities have done remarkably well in recent years in terms of providing their populations with services and infrastructure (Table 3.7). Here the arguments of neoliberal economists seem more convincing. Utility companies need to levy tariffs that will provide them with a surplus with which to expand capacity. Of course, subsidies are often necessary but, providing they are well directed, can ensure that the poor will be able to pay higher charges. Latin America has a lot of experience to impart about how to run water and electricity companies badly. Fortunately, it now has some recent experience in how to run them much better; whether they operate privately or in the public sector (Nickson and Vargas, 2002; Budds and McGranahan, 2003).

*Table 3.7* Urban homes with electricity, water, and sewage provisions in selected Latin American countries, 1990–2006 (percentage)

Country	Year	Piped water	Sewage disposal	Electricity
Argentina	1990	97	58 (1995)	100
	2006	99	62	100
Bolivia	1990	90	52	97
	2006	93	56	100
Chile	1990	97	84	99
	2006	99	93	100
Colombia	1990	98	95	99
	2006	98	94	100
Guatemala	1990	87	70	87
	2006	94	66	96
Mexico	1990	94	79	99
	2006	97	90	100
Uruguay	1990	95	57	98
	2006	98	66	99

*Source:* UNECLAC (2007: 71).

## Social polarization and residential segregation

Latin America's cities have long been divided by wealth and social class. In the twentieth century, the rich of Bogotá lived in the north and the poor in the south, in La Paz, the rich lived at lower altitudes and most of the poor in El Alto, in Rio de Janeiro the rich lived near the famous beaches and the poor on nearby hillsides or increasingly in the much less attractive *Baixada Fluminense*. Insofar as the New Economic Model has worsened the distribution of income and because cities have become larger, residential segregation may have become more acute. Although there are relatively few good studies of this process, most authors conclude that urban residential segregation in Latin America has increased (Ribeiro de Queiroz and Telles, 2000; Sabatini, 1999). Of course, much depends on how it is measured, and any conclusion is very sensitive to the scale of measurement employed, but neoliberalism has certainly not encouraged the better off to leave their enclaves and the poor have continued to spread out into the peripheral shanty towns, ever farther from the city centre. But the form that residential segregation takes varies from city to city. Cities with variegated topography have developed very different spatial distributions to those located on flat land. In Rio de Janeiro, for example, while most better-off people live in the south of the city and most of the poor live in the north and west, the pattern in the south is much more complicated than that. Because *favelas* were permitted to develop on the hillsides and only a few were ever demolished, some very exclusive areas are found next to poor neighbourhoods; for example one of the most exclusive *barrios*, São Conrado, is next to one of the most notorious *favelas*, Rocinha. Caracas is similar insofar as while most of the rich tend to live east of the city centre, many exclusive neighbourhoods have hillside *barrios* close by.

In another sense, however, social and residential polarization has diminished because of the vast growth in the middle classes. The gulf that divided the urban oligarch and the newly arrived migrant from the countryside is smaller today because most urban dwellers have been born in the cities. With industrialization, improvements in education and the growing demand for literate and skilled labour, the middle class has grown immensely. Housing and residential patterns reflect that change. Large swathes of formal housing have been built throughout the city to accommodate this development. In the consolidating self-help areas, many of the people are adopting patently middle-class aspirations and standards. Even if the middle class has been hollowed out after in some cities, like Buenos Aires, this has occurred because of economic recession, unsuccessful neoliberalism and/or the failure to adapt.

Much of the recent geographical and sociological literature is arguing that a new form of segregation is afflicting Latin America's cities (Caldeira, 2000; Salcedo and Torres, 2004; de Souza e Silva, 2007; Sabatini and Salcedo, 2007). Following the example of the United States, gated communities are

emerging in most cities in the region. Some of these communities are virtually autonomous, having everything from offices, supermarkets and recreation facilities. Fences and private guards keep the residents safe from crime and from the more unsavoury side of urban life.

Urban segregation is encouraged by inequality and by the fear of crime. Insofar as there is less criminality in Chinese cities, China may be spared the same degree of urban segregation. And since few people seem to approve of it, the Latin American and North American residential model is clearly one to be avoided.

### **Urban sprawl and transport**

Too many Latin American cities have imitated the urban sprawl of Los Angeles or Houston (Angel et al., 2005). The rapid growth in car ownership and the unwillingness of most governments to control either legal or unregulated urban development has allowed this to happen. Too many rich Latin Americans have been permitted to build large homes with extensive grounds on the fringes of the city; too few governments have been prepared to stop the poor invading land or buying plots in un-serviced or semi-serviced unregulated developments.

Urban sprawl has led to longer journeys to work, traffic congestion, air pollution and either overinvestment in infrastructure or a failure to provide services for the poor. Few Latin American cities have encouraged environmentally friendly architecture or urban design. Car ownership has increased too quickly everywhere except perhaps in Cuba. In Bogotá, for example, the number of private cars has increased by 438,000 over the last four years, an increase in the vehicle fleet of approximately a half (*Semana*, 2009). Impressive efforts to improve the bus system and to limit car usage have failed to prevent the emergence of awful traffic jams (Echeverry et al., 2005; Gilbert, 2008; Gómez, 2004). A metro system is now recommended for Bogotá when it has proved an expensive luxury in other Latin American cities, rarely carrying more than one-tenth of any city's passengers (World Bank, 2002b).

Latin American governments have failed to enforce land controls, to limit the growth of car ownership and, in most cases, have done too little to improve bus services. If the same process continues, Latin America's air will become even more polluted and it will take an eternity to get to work.

It seems as if China is learning from Latin America in the sense that several cities are adopting forms of Bogotá's *Transmilenio* bus system. But it is also wantonly ignoring other less admirable elements of Latin America's attempts to copy the West. If one-fifth of urban Chinese homes obtain a car, it will spell disaster for many Chinese cities, let alone the world's climate. And, if the bicycle is becoming more fashionable in European cities and bike lanes are flourishing even in many car-obsessed Latin American cities, why is China discouraging their use?

## Crime and violence

Koonings and Kruijt (2007, p. 7) claim that: 'Across Latin America urban poverty is persistent; urban crime and violence are on the rise; the effective presence of state authorities is minimal and the rule of law has changed into its antithesis.' And, in many respects, they are right (Cardia et al., 2003; Frühling and Tulchin, 2002; Silva, 1999). The quality of policing and the justice system throughout Latin America is sadly deficient and burglary, mugging and even murder are on the increase in too many cities (Linger, 1992; Márquez, 2002). However, the supposed link between crime and rising poverty, unemployment and inequality is not wholly convincing insofar as some cities have seen crime rates fall despite suffering from all those problems. In Bogotá, for example, the homicide rate fell from 59 per 100,000 inhabitants in 1995 to 18 per 100,000 in 2007. And other highly unequal cities, like Santiago, Chile, have a murder rate of only 2 per 100,000. Where crime rates have risen dramatically, as in Medellín, Managua, Tijuana and Rio de Janeiro, the explanation would seem to lie more with the growth of drug gangs.

If there is a lesson for China it is to maintain a competent police force, a fair and speedy justice system and to limit the consumption of illegal drugs. In Latin America, the growth of a huge private security system, gated communities and CCTV coverage of shopping areas has not prevented crime. Arguably these phenomena are symptoms rather than solutions to the problem of criminality.

## Urban governance

Until the 1990s, most cities in Latin America were run by appointed mayors or governors. But as democratic government swept through the region, it brought with it political decentralization (Campbell, 2003; Wilson, 2006). Today, most mayors in the region are democratically elected. Frequently, this has made little difference to the competence of local administration because so many towns and cities are too small to be run effectively and lack the resources to invest in new services and infrastructure. But, in places elected officials have made a real difference. Corruption has fallen, the tax base has broadened, public investment has grown and there has been a gradual improvements in the general quality of life. Clear evidence of improved urban governance is apparent in Curitiba and Porto Alegre (Brazil) and in Bogotá and Medellín (Colombia).

Curitiba is often considered to be the best planned city in Brazil and possibly in Latin America. Its success is usually associated with Jaime Lerner, three times mayor of the city and twice governor of Paraná, the state in which it is located. Several features distinguish the city. Its high level of planned development, its pioneer BRT system and the way it has attempted to involve the population in the better running of the city – both through participating in planning and in helping to recycle waste (Rabinovitch and

Leitman, 1996; Irazábel, 2004). Of course, as Macedo (2004) points out, its experience is far less positive than how it is usually portrayed and any improvements have certainly not been replicated in neighbouring municipalities where a rising proportion of the metropolitan area's population is living. There are even suggestions that many of the city's widely publicised innovations have been associated with corruption and rent-seeking on the part of the urban elite.

Bogotá is a more recent and, at the time of writing, a better candidate for an award of good governance. In 1992, the city was effectively bankrupt and its infrastructure and services were in decline. However, a combination of decentralized power, free election of mayors, a constitutional reform and a series of excellent mayors transformed the city (Bromberg, 2003; Gilbert, 2006; Montezuma, 2005). It is now able to provide water and sanitation to almost the whole population, has established the enviable *Transmilenio* bus system, has introduced a food programme to help the poor, has been building public parks and libraries for its population and its economy is thriving. While it still faces numerous problems, its transformation shows that good, honest, transparent urban government is possible even in a conflict-ridden country like Colombia.

The experience of cities like Bogotá should provide an important lesson for local administration in China. It is possible to eliminate corruption and to run cities competently, even in Latin America. Since many reports suggest that local government in China is sometimes rather corrupt and that housing and servicing is not improving as rapidly as the country's economic growth rate ought to permit, perhaps some mayoral visits should be organized to a handful of Latin American cities?

## **The future**

The links drawn between urban poverty and neoliberalism have become increasingly loose as this chapter has proceeded. I hope that it is obvious why. Neoliberalism creates opportunities for some countries and some cities within those countries that are able to grasp them. At the same time, it often punishes other places that do not play by its rules. When the world economy is expanding numerous cities benefit through growing trade and foreign investment. But, the impact of globalization and neoliberal economic management is highly variable. In some countries, some rural areas prosper and others suffer; some urban areas do well and others decline. China has already discovered how uneven the process of development can be and the recent experience of Latin America underlines that point.

The neoliberal world is also volatile. Of course, Latin America is no stranger to volatility; over the centuries it has always suffered when demand for its agricultural and mineral products has declined and prospered when demand for its goods has risen. It suffered in the 1930s and again in the

1980s but prospered in the 2000s. But today's world is different insofar as economic turbulence in one part of the globe now spreads much more quickly than it has ever done in the past. No doubt, we will observe that in the next couple of years as the USA's economic decline will greatly reduce China's export potential and that in turn will cut China's demand for Latin America's primary exports. Equally, the US and UK banking crisis will disrupt capital movements and slow investment world wide.

The majority of the urban poor in Latin America have probably benefited from globalization, even of the neoliberal kind. The poor have gained from better access to services and infrastructure and more opportunities for employment. Even those who have been forced to build and design their own shelter have managed to improve and extend their accommodation. Of course, there are now more poor people but this is principally because migrants have continued to move from the countryside. It is also a consequence of poor economic management in countries like Paraguay and Venezuela and in those of most of Central America. Whatever has happened to the urban poor in Latin America, it cannot be blamed wholly on neoliberalism because so much local economic management has never followed the line laid down by Washington and Chicago. Sometimes a touch more neoliberalism might even have helped.

Of course, no one would claim that neoliberalism, and particularly the form that it has often taken in Latin America, has done enough to improve the lot of the poor. This chapter has demonstrated many of the failings: too little productive well-paid work, too few social safety nets, too little control of urban sprawl, unfair judicial and policing systems and sometimes ill-conceived public investment. What is particularly worrying is that these problems have not been tackled during the last twenty years, when most economies have been growing.

The real concern for Latin America and, by implication, China is what will happen to the urban poor in a period of world recession. The next few years are unlikely to prove kind to most people in the world but Latin American experience shows that economic decline always hits the poor, and sometimes the middle class, very hard. Sudden economic downturns can also induce political turbulence, as in Argentina, Bolivia, Ecuador and Venezuela, although China's authoritarian regime can probably cope with that. More interestingly, can China improve urban living conditions and avoid the mistakes that too many Latin American cities have made over the last fifty years? Can it avoid becoming as unequal as Latin America and the negative impact that this has on both economic growth and social development? Whether it can or not, there is one thing China's local governments ought to be doing; they should be absorbing some of the positive experiences of Latin American cities and, even more importantly, should learn something from the many mistakes that most urban administrations in Latin America have made.

## Notes

1. To recall Alan Greenspan's famous euphemism.
2. Poor households are defined as those earning less than twice the cost of a minimum basket of food; indigence or extreme poverty those households earning less than the cost of the minimum basket of food.

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**Part II**  
**Property Rights and**  
**Marginalization in China**

# 4

## Entitlement to the Benefits of Urbanization: Comparing Migrant and Peri-urban 'Peasants'

*Chris Webster and Yanjing Zhao*

### Introduction

This chapter compares rural migrants and peasants from suburban villages with respect to rights to the benefits of urbanization. It argues that the entitlements facing the former are static because of the lack of scarcity of low-cost urban labour, while the entitlements facing the latter have increased because of the scarcity of peri-urban collectively owned land. This chapter offers a speculative reflection on the poverty experiences of two groups of villagers: migrants who have moved to the city to work; and villagers whose land has been expropriated by the state to build cities. The former are exercising their relatively recently acquired right to use the most fundamental of resource – their own labour – and have chosen to work in the more productive urban sector. At the same time, former farmers living on the periphery of the city have used ambiguities in their collective landed property rights to become landlords to rural migrants. With these immense empowering effects in mind, this chapter considers the results of the property rights lottery that turned some peasants into low income renters and others into landlords. The chapter does three things: (a) conceptualize the entitlement problem facing rural migrants; (b) contrast this with the entitlements of peri-urban villagers; and (c) using this contrast, demonstrates how the institutions that distribute the rights to the gains from economic growth are themselves dynamic.

We follow Sen's approach to analysing poverty through the lens of entitlements (Sen, 1981) but extend this by defining 'starvation' more generally. The poor may be starved of education and health care for analogous reasons to food starvation: their entitlement mapping excludes them from sufficient consumption. Rural migrants have limited property rights in the city. They own their own labour and little else. Few are able to purchase with that labour more than a month's secure housing at time and as we demonstrate in a conceptual model, once they have secured land (housing) from which to subsist, many find that the value of their labour is insufficient to secure other basic necessities such as health care and education. Since the supply

of migrants is infinitely elastic, they have little power to negotiate over the terms of trade. They therefore remain trapped in poverty, unable even to adequately reproduce labour within their households.

By contrast, peri-urban villagers have rights to land that is needed for the creation of cities and a modern economy. This land, by virtue of geometry and economy, is scarce. We reflect on how this scarcity has turned the terms of trade in favour of these villagers. In particular, the local state has made successive concessions in giving villagers a share in urban land value uplift (betterment).

We conclude by reflecting briefly on the way in which the institutions that allocate property rights and entitlements evolve in response to the scarcity value of those rights. The high value of peri-urban village land has led to a weakening of the government monopoly over betterment value. Up to now, the value of migrant workers to the urban economy has only been priced in terms of its marginal private cost – which, following Lewis–Fey–Ranis's classical model, means a low and relatively flat wage rate because of the ready supply of workers. There has been little incentive for urban governments to share urban public goods and services with migrants. The supply of labour is infinitely elastic and the institutions that allocate labour-based rights to the benefits from urbanization are slow to change therefore. Land is in fixed supply and the institutions that govern land-based rights to the benefits of urbanization are more easily changed by a pragmatic state.

### **Sharing the benefits of urbanization: the three mountains**

The Chinese have a saying that there are 'three new mountains' that make people poor: education, health care and housing. But the three mountains also make people rich: the problem is that the capacity to climb them is unequally distributed. The wealth of cities is built upon them and together they elevate society and economy, accommodating and shaping the social infrastructure that makes life more than bearable. More than that: they reproduce and improve the human factor of production, releasing indigenous enterprise, innovation, improvement and economic development.

The distribution of property rights to the three mountains: housing (and, by extension, land), education and health and to the jobs that convert labour entitlements to income and wealth, helps explain the patterns of enrichment and impoverishment found in cities. Because of the legacy of collective ownership, the story of contemporary Chinese urbanization has to be told with explicit reference to property rights. The distribution of property rights is now widely recognised as being a crucial factor in the pace and sustainability of national economic development (North, 1990; Sened 1997). Equally, the distribution of rights dictates the manner in which different groups share the benefits of growth. The same is true in respect of the benefits of urbanization (Webster and Lai, 2003).

China's version of the unequally distributed rights to the benefits of urbanization has four unique twists. First, its cities contain millions of workers whose expectations of income, housing, education and health security rights were shaped within the state organized work-units (*danwei*), within which they worked. For many, these were like mini-states – production-consumption clubs, providing access to jobs, housing and necessary public goods and services. Their management was typically responsive to workers' needs, using its rights to the residual value of the unit's production to earn rent for the entire community. This partly explains the vast swathes of worker housing built (or commissioned) by work-units in the 1980s and 1990s and now occupying the inner cities. Second, in the late 1990s, the state legislated for widespread redistribution of property rights (see Alchian and Demsetz, 1973) in assets accumulated by the two types of collective at the heart of the communist economy: work-units and village collectives. This redistribution of property rights has been driven by commodification of housing and other social benefits and privatization of village collectives. Many urban workers received title deeds to their apartments; some received shares in enterprises they worked for; and villagers received collective title to their fields and private title to the plots on which their houses stood. Third, unlike rural migrants in other developing countries, Chinese peasants are legally distinguished from urban workers by residence entitlement (*hukou*). Urban residency gives property rights to important scarce public goods within the city, including education, and puts migrants and their competitor urban workers on an uneven footing. Fourth, in China, the state (municipal government) has monopoly rights over the primary land market. This has a consequence for the spontaneous organization of low-income housing, because the municipality can firmly control the spread of squatter settlements. It is only in quasi-autonomous so-called urban villages that informal housing is supplied.

### Property rights propositions

Sen's tradition examines static terms of trade between entitlements. However, the institutions that allocate entitlements are subject to a relentless process of adaptation and change. They evolve to reduce the costs of competing over scarce resources and the direction in which they evolve is sensitive to the competition costs born by groups most able to influence the process. Peri-urban villagers have won concession from the state because negotiation and compensation costs are part of the cost of urban land and rural-urban land conversion has for a decade been the primary source of funds for the fixed costs of urbanization (i.e. infrastructure).

Urban public goods and services are scarce in even the most wealthy of countries. In Chinese cities, access to public education, health and other benefits are governed by the institution of *hukou*, overlain with other

regulatory rules and with price-based institutions. Institutions that allocate scarce resources constantly evolve under the pressure of demand. They evolve because they fail to clear the market, producing shortages. They may fail to discriminate quality in the labour force, thus inefficiently impoverishing the more skilled. They may, as in Sen's extreme case, price food at a level that brings starvation. They may price a vital collective good beyond a household's reach, causing education, health or housing 'starvation'. They may result in income distributions or public health risks that are politically unacceptable. But the overriding legacy of *hukou* – which might be viewed as government monopoly over the rights to and benefits of urban collective action – means that many of the adjustments that might be expected in the migrant worker political economy cannot easily materialize.

Consider the following propositions about institutional changes.

Resource scarcity changes with changing numbers of consumers, changing tastes and changes in the application of technology. More specifically, the scarcity of a given stock of resource increases through rising demand brought about by an increased number of consumers, an increase per capita quantity demanded or the introduction of technology that affects its conversion into final supply. A shortage of plumbers may accompany a housing boom; a lithium shortage followed the mobile electronic equipment boom; free-flowing urban road space in China is in short supply through rising car ownership. Peri-urban land is scarce because of the country's pace of urbanization.

As a resource becomes scarce it becomes congested and subject to competitive consumption. Homebuyers compete against each other for attractive and accessible housing by bidding away their non-proprietary wealth and their rights to future income. In the face of job scarcity, labourers compete by bidding away their rights to income and the consumption it entitles them to. Competition reduces the value of entitlement mappings in Sen's terms. Migrants bid away the value of their own labour. Peri-urban villagers have a degree of natural collective monopoly power in the exercise of their conventional, semi-legal and legal rights over land and compensation and this means they can effectively bid for a share in the fruits from rural land conversion.

Competitive consumption tends to induce the emergence of rules of competition (institutions), which prevent the dissipation of value in exchange (Umbeck, 1978). Migrant workers may seek to create their own rules to attempt to prevent dissipation of their labour value – such as organizing work gangs and informal or semi-formal certification and origin-based monopoly practices. On the other hand, high negotiation costs, strong vestigial rural political organizations and the risk of political bad press and hold-out over land conversion schemes by peri-urban villagers has created changes in the rules, by which urban land value uplift is distributed.

The new or adapted institutions that emerge in response to congestion reassign property rights between contesting consumers. The group with most

power over the design of a new institution is likely to secure redistributive benefits to itself during the process. The powerful group may have initiated institutional change because of its particular sensitivity to the costs of congestion.

The municipal state in China is very sensitive to the costs of land because it relies on land conversion for much of its revenue. It has therefore made institutional concessions to the villagers who collectively own the land it needs. The municipal state is less sensitive to the costs of congestion over urban goods and services. This is, in fact, also related to the land-conversion-based business model of Chinese cities. Since municipalities do not have to rely on domestic property tax for revenue and since urban governments are not elected by popular vote, they can readily allow their citizens to bear the cost of congestion over schools and hospitals. There is therefore less urgency for reforming the institutions that allocate urban public goods. This means that migrant workers in cities face a static set of entitlements, which has left many of them in poverty.

### **Migrant's static entitlements**

Assume that migrant households prioritize their need for food and shelter and that expenditure on education and non-emergency health care occurs only after these basic needs have been satisfied to some minimum level. Assume that emergency health care is either provided by the state or funded through loans; then when income equals rent plus food, no education or (non-emergency) health care is purchased. When income exceeds rent plus food, a household can choose between education, health care and all other goods. We can think of this variously as a trade-off between education and all other goods; health care and all other goods; or education and health care, assuming no expenditure on other goods. To give an example, consider the provision of education.

In principle, children should attend school in the district where they are registered, i.e. the place to which their *hukou* belongs. Therefore, migrant children without urban *hukou* are denied entitlement to state-run schools in the city. According to statistical data, in 2006 there were more than three million migrant workers in Beijing, which brought about 370,000 school-aged children to the city. This creates congestion in schools. A common response in Chinese cities has been both to quota and to price school places for migrants. In order to attend state-run schools which accept non-local-*hukou* students, migrants have to pay extra costs. For students undertaking the nine years of obligatory education, the extra cost will normally will be around 1,000 Yuan per semester; while for students attending high school, the cost can be as high as 6,000 Yuan per semester. Therefore, most rural migrants choose to purchase private education in the low-cost, informal and typically low-quality education sector. To accommodate a huge number

of children who cannot afford state-run schools, more than 200 informal schools have been developed in Beijing. The organizers, scales and qualities of these schools vary. Despite their low cost in comparison, informal schools cannot offer exemption from miscellaneous fees and other state subsidies since these schools are outside the state system. Furthermore, the informal schools are insecure, being technically illegal and are not protected by law. After the publication of the revised 2006 Obligation Education Law, increasing numbers of informal schools have been demolished in the name of providing quality education for migrant children and hundreds of thousands of migrant children have lost a cheap and convenient source of education. Although many state-run schools have started to exempt or decrease their charges and try to absorb more migrants, many migrants still cannot afford to attend. Through demolishing informal schools, the state intends to offer better education for migrants but it forces more migrant children to leave school.

Figure 4.1 visualizes the ‘educational starvation’ faced by many migrants as a result of their lack of entitlement to state schools in the city. It shows the budget curves of four households: budget curves defining the combination of two goods given a certain budget. The trade-off depicted is between education and all other goods once food, rent and other basic necessities are taken care of. A migrant household with budget curve B can afford to purchase between point c and point a of education in the informal migrant educational market. If E is the amount consistent with a minimum standard of education (below which the educational service is not worth purchasing),

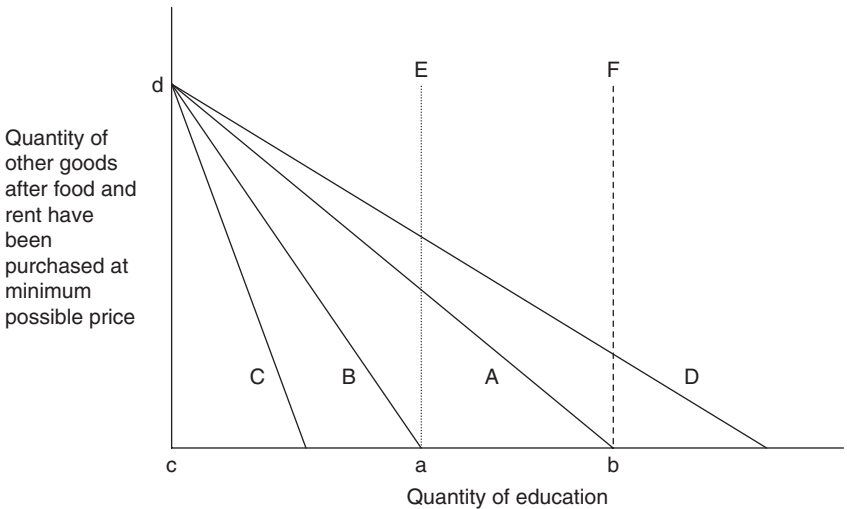


Figure 4.1 Education starvation

then household B has to go without all other non-essential goods to educate its children. We can think of this as corresponding to the quantity of education provided by the lowest-cost private migrant schools. If its budget line falls to C, because of a fall in the relative wage rate for example, or through some catastrophe, then it faces the choice of purchasing sub-standard education, sending children back to the home village or taking them out of school. If the costs (economic and psychological) of sending children home are too high, then the household can be said to face education starvation and its position in the urban labour market becomes untenable and unsustainable. It cannot reproduce itself as a unit of urban production. If F is a socially more optimal quantity of education, produced by state schools, then households B and C are starved of it (even if they have access in principle via supplementary fees); household A has to sacrifice all other non-essential consumption for the sake of its children's education; and household D (more wealthy urban residents) is able to reproduce its own labour and make other consumption choices.

Extending this, Figure 4.2 visualizes the trade-offs between the 'three mountains' in a three-dimensional budget plane. Triangle abc is a budget plane showing alternative bundles of education, health care and rental housing (the three mountains) after subsistence food is taken care of: consumption possibilities are limited by the triangular volume abco. A household can spend all residual income on housing (point a), all on education (point c), all on health (point b) or some mix within the extremes of volume abco.

In China, migrants adopt a cost-saving approach to housing, trying to minimize housing costs. But a room shared with another three or four

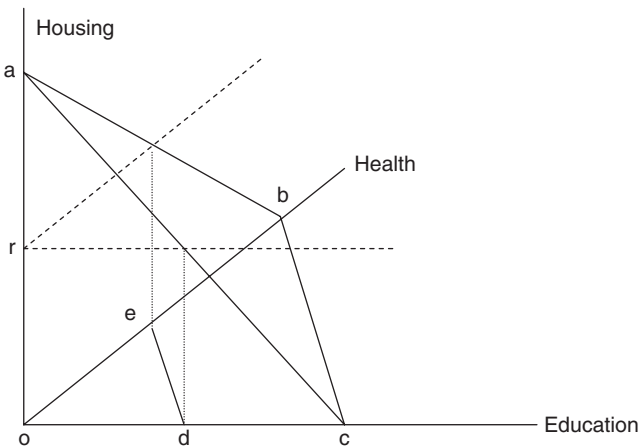


Figure 4.2 Three mountain budget plain, showing the expenditure advantage of land/housing entitlement

families still costs more than 150 to 200 Yuan per month while the migrants' average income ranges 600 to 900 Yuan per month. This minimum level of housing consumption is fixed (represented by  $r$  in Figure 4.2) and cannot be reduced through cost-saving tactics because anything below this would mean rough living on the street which is prohibited in China. It may be assumed that under competition from other migrants, housing quantity (space per person)  $r$  is set by the informal rental urban village market at a minimum bearable level and this would reflect the minimum level of education, health care and food migrants are generally willing to accept – which is at a level below social efficiency. In practice, this is a sub-standard living, which prevents the development of human capital. If the quantity of housing available on the rental market is set at  $r$  by the market, the migrant's budget curve is reduced to the two-dimensional curve  $de$ . Households can spend their entire residual budget on education (point  $d$ ), all on health (point  $e$ ) or some intermediate combination.

By contrast, an urban *hukou* holder with the same money income but with entitlement to a home faces the higher budget curve  $bc$  (zero quantity of rental housing purchased). Households with urban resident rights who have also been allocated tenure rights are therefore more likely to find themselves above the education starvation limits  $a$  or  $b$  in Figure 4.1. Urban villager landlords do not generally have urban residence rights but like the urban *hukou* holders, they do not have to buy any rental housing and, for the same income as the migrant, they face a superior choice-set for education and health care ( $bc$  in Figure 4.2).

### Urban villagers' dynamic entitlement opportunities

In reality, most urban villagers have more income than migrants and in Figure 4.2 would therefore have a budget plane to the right of the one depicted in the figure. The principal reason for this is, of course, the proximity of their village to a city. This has allowed these peri-urban villagers to secure *de facto* rights to the benefits of urbanization. This could happen, of course, through the labour market – and some villages have made much wealth from switching from farming to construction in the early days of China's urbanization phenomenon (see, for example, Webster et al., 2005). More widespread, however, is the use of land to secure these benefits.

The 'Township enterprise land' of the 1980s permitted villages to develop non-agricultural businesses and was aimed at spreading industrialization beyond the cities. This was followed in the early 1990s by a more orderly policy of 'reserving village industrial land'. Each village was assigned a certain area of industrial land based on a standard amount per villager and all schemes were meant to be approved by the municipal government. The industrial land thus created was reserved for businesses organized by villagers and for leasing to foreign enterprises. Collectives could build

factories for lease but were not allowed to sell the land, nor were they permitted to use it for residential development. This policy, like the more disorganized town and village enterprise system before it, effectively gave villagers limited property rights to a share of the benefits of urbanization. They were permitted to earn enterprise and industrial leasing revenue on a certain proportion of their village land. They could not, however, sell the land and capitalize the betterment value. They did, on the other hand, informally redevelop their village housing land into high-density residential quarters. Villages near cities thus started to share the benefits of urbanization formally through enterprise land grants and informally, through village housing redevelopment and residential leasing. Villages started to compete with each other to attract foreign enterprises on the enterprise land and by offering cheap housing and local consumer services for the rural migrants working in the enterprises. This affected a major change in the village economy, turning agriculturalists into savvy and competitive landlords.

The 1990s saw a series of land reforms that created a two-tiered land market. The state retained its position as monopoly supplier in the primary land market, being the only agent legally permitted to convert land from rural to urban uses; while a mature secondary market in urban land and property emerged, together with a formal leasehold market in industrial properties located in villages and an informal rental market in residential properties built by villagers on their village housing land. During this period, municipalities throughout the country took advantage of their power over rural land conversion to grab land. This was driven by inter-city competition and a growth target culture among city governors and bureaucrats and resulted in the massive expropriation of village land. Villagers were compensated according to national law locally interpreted, but there was growing resentment at the compensation-only culture as villagers – and the public – saw the huge leasing profits made by the municipality on expropriated village land. Popular opinion swayed in favour of giving villagers a cut in betterment but the municipality's business model was firmly rooted in the idea that it alone (on behalf of the wider urban population) had the right to the betterment that it had created.

From about 2005, many cities moved to a policy of 'village developmental land'. This was actually a profound departure in respect of the municipal state's treatment of villagers' rights and reflected both mounting public opinion and, more importantly, the increasing bargaining power of village collectives. In particular, it formally assigned villages permanent property rights to a share in the increase in urban land values. The policy assigns a village that is subject to land expropriation, the right to retain a certain amount of land, which it can develop on a commercial basis for profit. The displaced village collective forms a joint-stock company and distributes shares to villagers. As well as receiving a compensation package, villagers thus become shareholders in a piece of urban real estate and in urban businesses developed on it.

Consider the case of Xiamen in Fujian province. Xiamen, like many other coastal cities, now compensates villagers with urban land that can be used as a future income source. Xiamen's model is called urban developmental land reserved for villages: three ones or, more poetically, 'golden brim and silver fillings'. The 'developmental land reserved for villages' refers to the assignment of a piece of urban land to the village, which it exploits through a villager-owned stock company and uses to generate income. These villager-owned commercial areas often start out on the rural fringe but become incorporated into the urban area sooner or later. In the outer zone of Xiamen, the so-called 'three ones' procedure is followed. This gives a household one relocation apartment for private use to compensate for its house removal; one apartment for lease; and one shop for lease. This follows a specific spatial strategy in Xiamen. In order to accelerate development of new industrial parks, the local state expropriates farmland around the village centre. It locates the 'three ones' (the 'golden brim') around the edge of village centres to provide apartment leasing for migrant workers and later redevelops the village centres, which are known as the 'silver filling'.

The commercial development land in the compensation package may be developed in various ways. The per capita quota of developmental land in Xiamen is designated with a rule of 15 square metres of land or 30 square metres of floor area. Usually, the local state will assign use rights over this urban land to district governments (effectively turning it from rural to urban land) and constructs mixed-use buildings of apartments, office buildings and stores. Then the collectives purchase the real estate at a price equal to construction costs, using money from their compensation fund. The property rights of the real estate, once urbanized, are not limited to private villager or communal use and can be leased out on the market for profit. The sale of these assets is not allowed, however. In order to manage the real estate as a whole and ensure a long-term stable income for villagers, the shareholding company is set up to allocate shares and dividends to the villagers. What the local state implicitly gives the villagers through this process is the market value of the land lease. They can realize this value by letting but they cannot sell their rights as landlords. However, villagers can rent to an operator who then sublets. So long as the terms of the first- and second-tier let are sufficiently flexible and secure, this may amount to an open market system. The villagers remain landlords and owners of the initial 'lease' from the state (or land grant might be more accurate). Thereafter, there is nothing in principle stopping a relatively free market emerging in subleases. Unlike cash compensation, the rental value of a village's new urban real estate will increase along with economic growth. Therefore, this method of compensation turns the lump sum cash compensation into long-term regular income and helps the villagers integrate more successfully in the urban economy.

To illustrate further, consider some examples from Xiamen. Tongji Industrial Park, involving six administrative villages (including 31 natural

villages), had constructed 97 mix-used buildings with a total floor area of 338.5 thousand square metres before April 2008. Among them, 69 buildings totalling 235 thousand square metres have been assigned to the villages. Up to now, four natural villages and one administrative village have completed share distribution of 128.5 thousand square metres by issuing 4,672 shares. For villages whose per capita floor area of buildings exceeds 30 square metres, shares are created by dividing the floor area by 30. Each villager will be distributed one share and the residual shares are purchased by the collective. For villages whose per capita floor area is less than 30 square metres, shares are established by dividing the floor area evenly between villagers. Overall, there are 1,487 households with a population of 4,509 persons participating in the shareholding system in Tongji Industrial Park. The highest share value among these villages, was 38.7 thousand Yuan per share and lowest, 29.8 thousand Yuan.

Among them, in 2006, Houzhaqianpu Village obtained a per capita annual dividend income of 5,000 Yuan, equalling the per capita income in rural areas in Tongan District in that year. Wulv Village, located in the centre of the industrial park, contains four natural villages, 960 households, 3,100 villagers and 10,000 migrant workers. While many villages distribute all the land compensation to their villagers and raise a mortgage to finance construction, Wulv Village distributed 30 per cent of land compensation to villagers and kept 70 per cent for construction of developmental land. The village also unified the rent at 40 Yuan per square metre per month for shops and 11 Yuan per square metre per month for apartments. This increased villagers' annual income by 5,000 Yuan, much more than from their former agricultural output. It will increase further when enterprises enter the industrial park.

Land expropriation in this way turns villagers' regular income from agriculture and informal renting into a lump sum income of cash compensation plus income from formal urban commercial real estate leasing. This process has built up a symbiotic relationship between the expropriated villages and industrialization – the faster the rate of industrial development and the more migrant workers arrive, the more the rental income and the higher the value of the village-owned real estate. This has had some effect on the creation of incentives for villages to negotiate land-expropriation deals with the government. The resistance that remains is generally a result of attempts by villagers to hold out for even more favourable deals, especially the more wealthy and powerful villagers who have invested in illegal factory rental businesses. Once the principle of allocating villagers a degree of rights over unearned land value is established, then hold-outs and negotiation costs are likely to become more problematic, since there can always be argument and counterargument about the level of land profit sharing.

It is not just through land grants that concessions have been made in respect to sharing the rights to urbanization with urban villagers. The rules of compensation have also changed over the years in favour of dispossessed

village rentiers. In a case study of Xiamen, we found that, step by step, the land compensation package offered to dispossessed villages contained an element of betterment. For example, the area of allowable housing in a compensation scheme rose from 30 square metres per capita to 50; compensation based on agricultural production foregone has been changed to a comprehensive compensation standard that takes into consideration the location of a village; lump sum compensation for house removal has been replaced by a relocation apartment, which with steep land inflation is a much more valuable entitlement than a cash lump sum; the quota of illegal housing subject to (building cost replacement) compensation was raised from 30 to 80 square metres per capita; and there was an amnesty on illegal factories, allowing declared floor area to be included in a compensation package. All of these measures have rewarded villagers for the illegal and semi-legal acquisition of urban betterment value via self-built rental properties and have exchanged these asserted rights for legal rights to the benefits of urbanization.

In a study of Zhongzhai village in Huli District conducted in 2007, we found that the relation between the lump sum compensation and the opportunity cost of agriculture is as follows. Land compensation paid to villagers equalled 30 years of agricultural output. Compensation and subsidies for house removal equalled three and a half years of the original rental income from house leasing. Compensation and subsidies for illegal factory removal equalled ten months of the original rental income from factory leasing. But when the market value of the relocation apartments (one to live, one to rent) and the share in collective reserve land is considered, it is quite clear that urban villagers have received more than strictly compensation for their land: they have been offered a price that includes a share of the land profit that the municipality will make from urban development.

## **Conclusion**

Not all urban villagers have become wealthy. Quite how many will prove to have used their windfall gains from illegal renting to secure long-term livelihoods and wealth creation is a yet-to-be researched question. But the concessions made by the local state through revising the institutions of land expropriation have made it easier for them to do so. The scarcity of their collectively owned asset – peri-urban land – not only gives them beneficial terms of trade but has the tendency to change the rules of exchange in their favour over time. This is the result of two sides coming to the table with a credible bargaining position. We have contrasted this group with rural migrants, who do not have a credible bargaining position and face much more static terms of trade. They have few mechanisms for negotiating a share in the benefits of urbanization apart from participating in the labour

market. But this mechanism is not capable of securing them a share in urban public goods and services.

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# 5

## Property Rights, Citizenship and the Making of the New Poor in Urban China

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Market-oriented reform has remoulded Chinese citizenship. Through enterprise reform, housing reform and the reform of education and health care provision, all-inclusive entitlement has been converted to services based on property rights. 'Clarifying property rights' has led to the reconfiguration of the system of entitlements. This chapter examines change in the labour market, housing tenure, education and health care to provide an account of the making of the 'new' poor in urban China. The chapter starts by distinguishing the concepts of citizenship and property rights, and then moves on to reveal how 'ambiguous' all-inclusive strong entitlements are commodified. As for the 'residual' population, their rights are minimized into the minimum living standard support (MLSS) (*dibao*). The chapter also examines complex interactions among low-income groups (laid-off workers, migrants, and marginal urban residents) in poverty-stricken neighbourhoods and their survival strategies.

### The issue of urban poverty in China

Despite rapid economic growth and the accumulation of wealth, China has seen the increasing emergence of the poor in cities. The estimation of the poverty-stricken population varies significantly (Solinger, 2002) but it is suggested that between 15 and 37 million urban residents have fallen into absolute poverty (Tang 2003; Solinger 2006, p. 179). But even this figure is incomplete as it does not include migrants (Solinger, 2006). In addition, 15–20 per cent of migrant workers in cities live below the poverty line (*China Daily*, 21 May 2003, p. 3). In 2009, 69 million people have been included in the MLSS (*dibao*), among which there are 23.3 million urban residents and 44.7 million rural peasants (*Peoples Daily*, 6 August 2009). The average standard, according to the *dibao* line, is 221.15 Yuan per person per month in the cities and 95.7 Yuan per person per month in rural areas. Because the subsidy is used to make up the income gap to the poverty line, the actual

expenditure on urban *dibao* is 162 Yuan per person per month. Given the means test standard, the urban poor, accounting for 8 per cent of the total urban population, fall into extreme and absolute poverty.

The urban poor are becoming a new underclass, unprecedented in China (Solinger, 2006). The 'traditional' urban poor, consisting of the so-called 'three without' (without family, without stable income, without working capacities), are only a residual part of the urban population. But the new underclass is becoming a substantial social stratum. Different from the 'three without', many new poor people have working capacity. The aim of this chapter is to examine the making of China's new urban poverty. I will attempt to answer why the new poor are becoming the poor after they are given greater freedom to control their own labour (migrant workers, for example). I address this in the context of changing citizenship, thus relating the issue to the broad process of marginalization in advanced capitalism. The analysis is built upon two different concepts: property rights and citizenship. The concept of property rights emphasizes the use of transaction, whereas citizenship is derived largely from the membership in a political community. The hypothesis is that, even though the design of clarifying property rights follows a 'fair' market principle, marginal people receive such property rights at the expense of stronger citizenship, which has led to their vulnerability with regard to 'the right to the city'.

Recently a proliferation of research on China's new urban poverty has examined broad processes of marginalization such as economic restructuring and de-industrialization, welfare reform and the state's retreat from workplace-based welfare provision, and urbanization and socio-spatial transformation. Wang (2005) and Wu (2004) both argue that the gap between the socialist welfare system and the new market economy has become a poverty trap. Wang (2005) suggests that the urban poor were pushed out of the old welfare system but failed to find a new job in the market economy. Wu (2004) develops the notion of the 'poverty of transition', which describes the disjuncture between the two systems. Inequalities inherited from the old system are reinforced in the process of transition. Those who are institutionally excluded (e.g. migrants) or in a weaker position (e.g. urban residents in non-state enterprises) are more vulnerable and more likely to suffer from the adverse effects of marketization. Wu (2007) further investigates this process of transition in an industrial district in the city of Nanjing to show how the effects of market reform started from and concentrated on the 'margin of the system'. Liu and Wu (2006) elaborate the role of the state in the manipulation of various institutions that exclude the urban poor. Solinger (2002) examined the impact of labour market reform on laid-off workers, and suggests further that a new underclass has been created, which is comprised of 'recently laid-off workers, underpaid and underprivileged migrant labourers from the countryside, and any others who have fallen into penury with the

withdrawal of job and welfare security and the elimination of free health care in the cities' (Solinger 2006, p. 177).

Various studies suggest that there is a process of social exclusion going on for the marginal population, especially migrant workers (Fan 2004; Li 2006). But the exact source of exclusion is not entirely addressed. Most explanations are offered on a factual basis: redundancy from state-owned enterprises, the loss of land ownership, and discrimination faced by migrant families in the cities. Solinger (1999) is the first who explicitly proposes the notion of 'citizenship' vis-à-vis T.H. Marshall to address the underprivileged status of migrant workers. Smart and Smart (2001) examine the welfare system in China and suggest 'local citizenship' where welfare benefits are elaborated for the locally born while excluding migrants. Fan (2004) suggests that the state fosters the migrant labour market regime to exploit young female workers in urban China. She emphasizes the role of state and 'institutional' factors that facilitate the developmental regime which is attractive to global capitalist production. She argues that 'by doing so, the state has reinforced the construction of differences, defined by *hukou* status, locality, class, and gender' (p. 301). Weiping Wu (2002) describes the discrimination faced by the migrant population in the housing market, namely how migrants are not considered in the mainstream 'commodity housing' market and mostly live in peri-urban villages.

The aim of this chapter is to identify the source of exclusion, not only at the levels of concrete policies but also at the level of the structural foundation underlying the process of marginalization. I pursue the analysis along the lines of 'the right to the city' (Lefebvre, 1991, 1996; Isin, 2000; Purcell, 2003), trying to link the peculiar form of Chinese urban poverty to a broader process of marginalization in the neoliberal context.

## **Citizenship and property rights**

According to T.H. Marshall (1950), the universal provision of education, health, social security and welfare benefits leads to the development of full citizenship. In a broad sense, citizenship is defined as a set of rights, duties and membership in a political community of some kind (Brown, 1994; Purcell, 2003, p. 565). In terms of citizenship practices, that is, the operational aspects of citizenship, they are associated with entitlements: 'when states respond to the basic needs of disadvantaged citizens and when they do so universally, without stigmatizing those in need, they, through social welfare provision, enable the less fortunate to acquire the minimum competence required so that they too may participate – fully and with dignity – in their political communities as equals' (Garcia, 2006, p. 747).

In advanced western capitalist economies, citizenship is being transformed. Through political-economic restructuring, especially globalization, the national scale (i.e. the primary political community to which the citizenship

is attached) is 'de-hegemonizing' (Brenner, 2004; Purcell, 2003), which has led to the restructuring of citizenship. According to Purcell (2003), this involves 'rescaling' (especially to the local), 'reterritorialization' (to a specific political community) and 'reorientation' (according to diverse identities). These changes destabilize nation-state citizenship, but the inhabitants of cities, more evidently shown in global cities, are not able to expand the limits of nation-state citizenship to gain 'the right to the city' (Purcell 2003). This is because in global cities, while decision making involves a wide range of scales, institutional arrangements do not give inhabitants who are not citizens of the nation-state the right to participate (Sassen, 1999).

A different concept is property rights, which are a bundle of 'rights' to allow the owner's monopolistic use of 'property' (Coase, 1959). Others who wish to use the property have to pay the owner. The assignment of property rights through transaction is a market mechanism of resource allocation. Clearly defined property rights are a precondition for a market economy. Property rights are more individually based, and gaining such a right is not based on membership of a community; it can be purchased and transacted. Associating with a community does not 'naturally' grant one the right to property.

New institutional economics now expand the scope of 'property rights' from the right to use a privately owned property to the right to welfare benefits. Strictly speaking, welfare benefits are not 'property rights' but rather 'social rights'. However, if these benefits can be 'purchased' through and exchanged with other commodities, then in a broad sense they are also property rights. Used in this sense, property rights are close to, and in fact are better referred to, as 'entitlements'. Sen (1981) used 'entitlement failure' to study the Bengal famine of 1943. He suggested that there could be a wide range of reasons for a famine, including crop failure, the loss of purchasing power due to unemployment, and relative price changes leading to the decline of real wages. In that famine, he emphasizes, 'the decline in the real wages of rural labourers' played a crucial part in the genesis of the famine, which is 'closely connected with the asymmetric nature of the war-expenditure-based boom in the economy of Bengal – a boom that boosted the incomes of many urban dwellers but excluded the rural labourers (Sen, 1981; Sen 2000, p. 12). He explained the cause of real wage changes as an entitlement failure – and hence further proposed the notion of 'social exclusion'. Poverty, as he sees it, is caused by 'capability deprivation': the shortage of income is only a superficial and factual reason. The deprivation of capacity – in this case, the incapacity of exchanging one day of farm labour for a kilogramme of rice because of real wage changes – is a deeply rooted cause of poverty. Even though there was no significant reduction in crop production, the deprivation of capability could lead to a famine. Sen's tradition of 'entitlement failure' rightly emphasizes the social relations without which deprivation occurs. But 'entitlement' used in this sense is closer

to 'property rights' than 'citizenship', because it emphasizes the nature of 'exchange'. Entitlement is gained through exchange rather than membership of a political community.

It is worth noting that the two strands of the literature – (a) citizenship and disenfranchisement; (b) entitlement and social exclusion – are very similar in terms of their emphasis on the institutional cause rather than individual failures. In the post-nation context citizenship is taken as 'the right to the city', which emphasizes non-exchangeable and participatory rights. In general, citizenship theories assume citizenship cannot be transacted, even though in reality there are practices to 'sell passports', for example, through investor citizenship schemes. This kind of practice reflects the state's attempt to commodify citizenship status to gain economic interests. This transacted citizenship deviates from the original connotation of citizenship as derived rights and duties. Nevertheless, the majority of citizens gain their citizenship through their membership rather than transaction. On the other hand, entitlement failure, if seen from the perspective of property rights, is concerned with why exchanges through social relations in a particular context have led to the exclusion of particular social groups. To put it simply, citizenship, used by the advocates of the right to the city, is more fundamentally against the valorization of urban space rather than seeking a 'fair deal'. The underlying difference between the two is subtle but important, which reflects their different roots in the political-economic and economics traditions.

### **China's changing citizenship**

It must be recognized that under state socialism there was no universal 'citizenship', because citizenship practices were made by state institutions. The Chinese system of entitlements operated as a tiered system (Figure 5.1): at the core were industrialized/modernized state work-units; next to the core was the remaining urban population outside the state system, mostly living in the old urban areas and working in collectively owned street enterprises or self-employed. This group of people has urban household registration (*hukou*) but without formal work-unit affiliation. At the periphery is the rural population who do not have urban *hukou* or work-unit affiliation.

In relation to urban poverty, Chinese citizenship is composed of 'state workplace affiliation' and *hukou* (Wu, 2004). Both are in the form of non-exchangeable membership (at least before the reform). They are permanent and cannot be taken away (except for criminal conviction). They are not 'property rights' because they cannot be transacted. In the earlier stage of economic reform, the affiliation to a state-owned enterprise could be passed from the parent to their children if the parents chosen to retire. The practice is known as 'substitution' (*dingtì*), which was a temporary measure to cope with

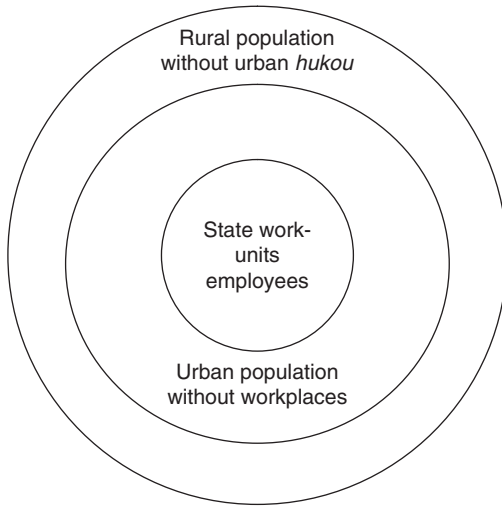


Figure 5.1 The tiered system of citizenship embedded in state institutions of work-unit and *hukou* prior to economic reform

underemployment of the urban youth. However, this 'transferable' nature reflects more of the affiliated membership than exchangeable entitlement. It is interesting to note that, under the name of socialism and an omnipotent state, citizenship is different from liberal-democratic/Westphalian (LDW) citizenship (Purcell, 2003, p. 565). More specifically, it does not take a universal form under the nation-state (although the nation-state is an ultimate membership), but rather it is institutionally embedded within the state apparatus – a hierarchy of institutions to facilitate state control.

This institutionally embedded citizenship creates an interesting dynamism of 'organizational dependency' and enfranchisement. The 'authoritarian' state is behind state-led industrialization; by 'authoritarian' I do not mean political dominance (i.e. dictatorship). Rather, authoritarian refers to the omnipotent and ever-present state in the organization of social life. Ironically, the by-product of such an authoritarian state is a tight relationship between the labour and state – the reproduction of labour was dependent on the work-unit system. Such a dependency originated from everyday life within the work-unit. Walder (1986) describes this as 'organizational dependency'. However, it is the rigidity of the labour system that forges the base of enfranchisement. To put it simply, labour could not be fired or dismissed, even though there was low efficiency or redundancy in state-owned enterprises (SOEs).

While the Chinese state still maintains all-powerful control over social life, we must note that there has been a 'radical' change since the economic

reform – the state has retreated from service provision, especially through the reconfiguration of service provision. The provision of public services has been increasingly transferred from individual state work-units to the municipality, and thence to the market. The tight relation between labour and state work-units, based on ‘service-derived dependency’, has been relaxed. In consequence, ‘natural’ membership is dismantled.

In the remainder of this section, I will discuss the transformation of various aspects of citizenship practices. First, in terms of *labour organization*, permanent and life-long employment – known as the ‘iron rice bowl’ – has ended (Guan, 2000). A more flexible labour regime has been developed, including contract labourers and semi-contract and temporary migrant workers. Laying off industrial workers and absorbing migrant workers converts permanent jobs into flexible and contract-based employment or even non-contracted work (for example, taken by migrants). This is a process of retrenchment of jobs.

Second, in terms of *housing*, China’s housing privatization programme is radical. China is now a nation of ‘homeowners’. The homeownership of permanent registered urban population, according to the 2000 population census, has reached 72 per cent (State Statistical Bureau, 2001), though a significant proportion came from ex-public housing. However, migrant workers are excluded from urban housing programmes (W. Wu, 2002), because they are not public housing tenants. Wang (2000) argues that housing privatization has had a negative effect on the poor because the programme squeezed the household expenditure of the poor, which required them to spend more on housing. Wu (2007) finds that, although low-income families became homeowners, they were captured by privatization programmes in poverty-stricken neighbourhoods. As for the extreme poor, they could hardly sell their property, while better-off households could move out of the place. This leads to the process of ‘residualization’ of public housing as seen in Britain (Lee and Murie, 1999).

Third, regarding *education*, although China operates free nine-year primary and secondary education, post-secondary education is increasingly treated as a private sector business. Parents are asked to ‘donate’ or pay voluntary contributions to fees. Migrants are excluded from free state education in the city, or in practice state schools do not admit migrants’ children. Many cannot afford formal education because of various bench fees. Some use ‘migrant schools’, which are ‘private’ schools but with low quality.

Fourth, with regard to *health care*, it is widely recognized that health care reform has been a failure. The result of reform is that health care puts more pressure on individual households. Wong et al. (2006, p. 140) find that the ‘reformed urban healthcare system is financially sustainable, but that individual citizens contribute the largest share of healthcare costs, whilst the state is reducing its financial commitment’. Illness and hospital costs often knock marginal people into deep poverty.

## From institution affiliation to property rights

Market-oriented reform has transformed the city from an industrial production site to an entrepreneurial entity. Housing, education and medical care have all become commodities that are provided through the market. The reform of public services in theory reduces the dependency of workers on their workplaces, which may enfranchise workers. But in fact they are disenfranchised. This is because the services available to the community have been reduced or replaced by commodities that have to be obtained through waged work. Laid-off workers are disenfranchised because they are detached from waged work (and thus cannot afford commoditized services); migrant workers are disenfranchised because they are excluded from the political community of the city. Neither laid-off nor migrant workers have the 'right to participate centrally in the production of urban space and the right to appropriate urban space', the two rights associated with the 'right to the city' (Purcell 2003, p. 577).

In the literature of the right to the city, some people such as immigrants and the homeless are 'disenfranchised'. They live in the city but without entitlement because they are not counted as citizens. How are the poor in urban China disenfranchised? Before we address the urban poor and migrant poor separately, it is worth noting that disenfranchisement is caused by the general trend of 'economizing labour' in China's economic development strategy. The state, now under the ideology of growth first, promotes a growth-oriented strategy.

The export-oriented economy adopted by China relies on a low-cost regime. China deliberately operates a regime of low labour cost by pushing labour into the market on the one hand and commoditizing public services on the other. The state has relinquished the ambiguous, enduring and citizenship-type social contract and facilitates profit making in service provision. Housing is no longer shelter for the labour force but rather the real estate business. Not everyone is impoverished during this transition. The younger and emerging middle class who manage either to demand higher market remuneration or to retain the property rights of privatized property have benefited from the process of transition. For example, wealthier urban households bought public housing and became property owners. Some of them managed to buy several apartments and successfully became landlords. They not only obtain rent but have also enjoyed nearly triple price inflation since 1998 when the state abolished in-kind housing benefits. By entering the property market at the right time and benefiting from heavily discounted public housing sales, some have come to possess several apartments. Empirical research on China's property market shows that housing commodification has a strong social stratification effect.

In the post-reform period, there have been two major shifts of the Chinese state: (1) scalar transformation: changing from the centrally dominated state

to a multi-scalar state; (2) partial 'neoliberalization': from the authoritarian state to the 'neoliberal' state in which the state acts after the market. Such shifts have implications for the substantial and practical definition of citizenship: the membership of political community is weakened because the interface between citizens and the state was the work-unit system, which has been dismantled and transformed towards a more territorial form – the city. For labour, the strong form of 'citizenship', over which the state maintained strong control, is reduced. The labour market has been established. The recognition of labour as a property is reflected by unprecedented labour mobility – large-scale rural-to-urban migration and changing from state-owned enterprises to the private sector. To some people, the demise of state control (tight citizenship) may be celebrated as a process of 'empowering'. But to many, the replacement of citizenship with property rights is a process of marginalization, which drives them into the trap of poverty, because their property of labour cannot be transacted for a price that enables them to sustain their livelihood in a market system, for both external and internal reasons (see Webster and Zhao in this book). For laid-off workers, because they are in the age range of 40s to 50s and have low levels of educational attainment, which means a low human capital endowment, they cannot exchange labour for privatized services. Migrant workers are young and highly active in the job market. So, why have they become a poverty-stricken population?

Despite migrants' cost-saving behaviour to offset the adverse market (for example, several families sharing a small room), living costs continue to rise, to such an extent that the market way of producing migrant labour as a commodity becomes impossible. To overcome this constraint, while the state has retreated from housing production, the private sector has begun to develop employer-controlled accommodation in order to maintain 'power not only over employment but also the housing needs of employees', a phenomenon which is referred to by Smith and Pun (2006) as the 'dormitory labour regime'. Concurrent with the difficulty in migrant labour 'reproduction', in the Pearl River Delta a 'migrant shortage' occurred before 2008 when the global crisis broke out. Similarly, low-income families cannot offset adverse market effects simply by adjusting their own consumption behaviour. While they are gaining the property rights of their labour, the wider labour retrenchment process is beyond their control.

As for 'appropriate urban space', in the process of urban redevelopment, there has been an intensification of the conflict over housing demolition. Residents of old housing try to defend their property rights, because the compensation is not enough to buy equivalent space in the commodity housing market. To them, what matters is the right to appropriate urban space. When dilapidated housing is evaluated in terms of physical structure, it has a low value. However, because the housing is located in premium locations, it has more use value because of its good accessibility.

Treating access to housing, education and medical care as property services effectively removes the users from direct participation in decision making. The provision of these services, once in commodity form, has to follow market principles. The priority of development is not subject to wider discussion. Urban space is increasingly determined by property uses; for housing, for example, the gated community has become the norm rather than the exception for the middle class.

Along with the commodification of services, urban governance has been transformed (F. Wu, 2002). The Chinese government is now promoting a territorial form of 'grassroots governance', which transforms vertical control by work-units into a horizontal structure of 'communities'. Under the notion of 'community building' (*shequ jianshe*), management as well as entitlements are transferred to the neighbourhood. 'Private' governance is emerging (Huang and Low, 2008), especially in luxury commodity housing estates where residents form homeowners' associations and relate themselves, both in legal and everyday life terms, more closely to property management companies rather than to neighbourhood residents' committees (Read, 2003). Along with the transformation of governance, citizenship is becoming propertied (Roy, 2003; Blomley, 2004). When entitlement is attached to 'property', the lack of property rights means the denial of the right to participate.

To give a concrete example to illustrate the above argument, we can see how landless farmers are affected by the 'clarifying of property rights'. During rapid urban expansion, agricultural land is converted into urban use. In the process of land development, farmland is acquired, while the village land on which the farmers' housing is built is left out because compensation for village land was higher. As a result, villages are encroached upon and become 'villages in the city' (*chengzhongcun*). Those who are able to retain their land plots manage to rebuild their houses into multi-storey apartment buildings and rent them out to migrant workers who are not able to access ex-public housing inside the city. Thus villages in the city become migrant enclaves. Farmers who retain their land thus gain a handsome rental income, while the landless peasants become the new poor.

The rural population without urban *hukou* have one 'privilege': they are allowed to possess the land plot of their own houses. However, the right is so far not allowed to be transacted or used as collateral. But some farmers manage to use this 'privilege' to develop an informal rental market. Evidence shows that the ability to retain the property right of their land is a critical factor differentiating the trajectories of landlord farmers and landless peasants. The development of *chengzhongcun* shows the social ramifications of converting 'entitlement' to property rights.

During urban expansion, entitlement is clarified into property rights which can be transacted. But the state monopolizes the purchase – that is, farmers can only sell the land to the state. By purchasing the rural land, the

state controls land supply in the primary leasing market. That is, the state is the supplier for the land to be leased in the land leasing system. Land users are not permitted to buy land directly from farmers, because according to the Land Administration Law, the land must be first converted into 'state land' before it can be leased through the new land leasing system.

That is why farmers in the suburbs refuse to become urban residents: urban *hukou* has lost appeal for them. The resistance to being granted an urban *hukou* is a very telling story, which reveals that urban *hukou* itself is not the cause of the poverty of landless farmers. They are 'disenfranchised' because their entitlements have been transformed, i.e. from ownership of private housing plots with the ability to capture rental income to nominal urban resident, the status of which does not grant them a job. As for migrant workers, they are disenfranchised because their citizenship of the nation-state does not grant them the 'right to the city', including the right to control how property rights should be 'clarified'. Neither group has the right to participate in the land development regime.

Rural land continues to be collectively owned. The result is a weaker form of ownership because it is difficult to execute such ownership. Rural land is not allowed to enter the urban land market. This puts farmers in a weaker position in the claiming of rights. When such a right is lost in land acquisition, they receive nominal citizenship (*hukou*) but at the same time they lose their substantial right to deciding its use, which is critical to their livelihood and may generate greater benefits. However, farmers in the peri-urban areas adopt the tactic of developing rental housing by themselves. They thus become landlords to gain rent from migrant workers. Some even develop so-called 'partial property right housing' (*xiao chanquan fang*), i.e. they become small-scale property developers themselves. The difference from commodity housing developers is that they are unable to obtain the deeds from the local land authority. They build housing on their 'own' land without proper title deeds. Another case is households relocated from the central area. They gain compensation or property in the suburbs but at the same time they can no longer engage in informal job markets in the city because they live too far away from the city.

The making of the urban poor in urban China shows the replacement of citizenship with property rights and the modification of citizenship. For migrant workers, living in the city does not automatically give them legitimate access to the citizenship, which is defined institutionally rather than territorially. The redefinition of citizenship is a direct cause of their poverty. Their weak position in socialist citizenship continues to put them in a vulnerable position. This is a feature of 'path dependency' which is identified in the transition of Eastern and Central Europe (Pickvance, 2002). The politically weaker is more likely to be the loser in the reconfiguration of property rights.

In addition to the change in formal citizenship, in the Chinese context citizenship practices are becoming more local and limited in form. They are increasingly tied up with property rights which are not granted according to membership of a political community. For example, migrants are asked to purchase the services of education, health care and housing; in fact, these services are no longer 'public' services provided under formal citizenship.

### **The making of poverty-stricken urban residents**

The local dimension of Chinese citizenship has profound implications for the post-reform assignment of property rights. Post-reform marketization builds upon the system of entitlement, through literally dividing up the big family's assets (Qin, 2003). Such a process has reinforced the inequalities existing under state socialism and transformed them into market inequalities. For example, housing inequalities in the post-reform period show some inherited inequalities between different work-units and their institutional ranks (Logan et al., 1999).

More deeply, the peculiar arrangement of differentiated citizenship under socialism was to facilitate control over social surplus (in the name of national interest, especially also state-led industrialization). Such an arrangement is relaxed and unfixed in favour of other scalar arrangements, similar to the rescaling of citizenship to a 'post-national' phase (Purcell, 2003). Along with the shift of the regime of accumulation from the state work-unit system to an urban-based one, citizenship practices have also shifted to localities.

The ethos of China's new social welfare and security reform follows that of workfare (Peck, 2001). Its design is targeted at those who have working capacity and are currently working. For example, labour unemployment insurance is used to cope with the risk of redundancy. The system constantly expands to include new premium payers who are actively working to support insurance payments to those who are being laid off. The new system subsidizes a basic living standard, while converting the majority of entitlements into commodity supply. The qualification of insurance has to be achieved through the use of labour. Insurance is thus a type of property right, gained through market transactions. This is broadly similar to the workfare state. Similarly, we see the retrenchment of welfare, such as education, housing, and medical care. For example, under the commodity production of labour, they are not treated as welfare but rather as investment in human capital. Such investment should secure a return (e.g. higher education attainment will lead to a higher market return of labour). If this were the case, the reproduction of labour could be sustained. But such property rights need to be purchased; for example, the employer is required to pay unemployment insurance. Converting from the entitlement embedded in citizenship

to property rights (in terms of human capital) is not a guaranteed process. To take housing as an example, it very much depends upon when and how the household entered the property ladder. With annual two-digit inflation in more than five years, missing the initial point of entry may permanently hamper the capacity to become a homeowner.

With the commoditization of entitlements, a minimum living standard support has been set up, which covers permanent urban households but is now undergoing a trial to include migrants and rural population with a different standard. The by-product of this system is that the poor are captured at the margin of poverty, because the minimum living standard only considers the means-tested need without considering human capital improvement (see Solinger in this book).

As for the urban poor, they are disenfranchised through the process of cutting off their workplace affiliation. Their years of service are bought out with cash compensation. Entitlements based on their years of service are converted into property rights. By retreating from labour reproduction, the state has effectively transferred the task to the market. Individuals therefore have their own responsibility to find accommodation, education as human capital investment, and medical care.

By denying labour as a social and political subject and emphasizing it as a commodity that can be reproduced entirely in a market-oriented way, the state keeps its distance from the process in which labour is consumed and reproduced. This disenfranchises labour, preventing them from making a citizenship-type claim. What labour can claim is a more property-rights based work contract rather than a 'social contract'. The state-labour relation is thus turned into a work contract which can be relinquished through compensation. The party-state has eliminated workers' movements, with the workers' union now organized into a state formal structure. The workers' union, controlled by the state, is not antagonistic to but rather facilitates capital accumulation.

In sum, we have seen a trend of 'standardization' of citizenship across state work-units in China, which is leading to a minimum form of citizenship based on the city. But this minimum form of citizenship is not equivalent to the 'right to the city' imagined by Lefebvre, because the latter is more pervasive. The right to the city 'imagines inhabitants to have two main rights: (1) the right to appropriate urban space; and (2) the right to participate centrally in the production of urban space' (Purcell, 2003, p. 577).

Countering this trend is the survival strategy of the urban poor. First, they try to enter the system of *dibao*. Those who fall into the bottom stratum of population are covered by the system and hence are eligible for exemption from some service charges. Second, they then seek informal employment to supplement their cash income. Their jobs are mostly flexible ones. They also negotiate with the state and other agents such as land developers to maximize their benefit during the conversion from entitlement to property rights, for example seeking higher compensation during housing demolition.

## The making of the migrant poor

Migrant workers have nation-citizenship, but the power of the citizen is executed at the local level (the city, for example, is responsible for land acquisition). Their relation with the local state is asymmetric, compared with the relation between the state and capital. Because of their suppressed income, they are not taxpayers. In a sense, they do not have the 'purchasing power' for political goods; the result is that for them the state exists in a limited form, e.g. maintaining law and order. As a result, what they receive is partial citizenship at the local level.

Migrant workers are disenfranchised, because even though they are physically in the city, they are not entitled to the welfare benefits. For example, they were not eligible for the *dibao* system until very recently; even so they are subject to a different standard. Because of very low standards and their working status, they are usually not included in the system. No matter how long they have been in the city, they are still treated as outsiders or sojourners. They are called the 'floating' population, a term that exactly reflects their rootlessness in the newly configured citizenship. Their situation is similar to that of 'undocumented immigrants' who are not covered by the system of citizenship (Wu and Rosenbaum, 2008).

The plight of the migrant poor is not simply that the state does not grant them the 'old' membership (urban *hukou*), because *hukou* itself is becoming nominal, and the privileges associated with *hukou* are residualized. Viewed from the perspective of citizenship, granting urban *hukou* to migrants will not automatically eliminate the cause of poverty. This is because *hukou* is not equivalent to citizenship, and moreover citizenship itself is not static. Formal citizenship from the liberal-democratic view of the 'social contract' (Kant, 1991; Locke, 1988) originates from the nation-state as the primary political community. Purcell (2003) describes contemporary changes in citizenship as being rescaled (the national scale being weakened), reterritorialized (political loyalty relaxed and changed from nation-state to the territory of everyday life), and reoriented (pluralized in association with identity).

For migrant labour, their poverty is linked to poverty in rural areas. In the socialist era, the state extracted social surplus from rural areas to support state-led industrialization, through the compulsory purchase of agricultural products at a suppressed price, known as the so-called industrial-agricultural price difference (literally the 'price scissor'). In the post-reform period, the city has been put at the centre of capital accumulation. The instrument of urbanization is used to support city-based development, through which the dominance of the city over the rural continues and is even strengthened.

The price of migrant labour is thus not determined by the supply of and demand for migrant labour physically in the city. The price for migrant labour as a commodity is determined at the scale of the nation-state. In rural areas, because of self-contained agriculture, labour can be reproduced at a

low price, as survival materials are not commodities. But in the city, under the market approach, migrant labour cannot be reproduced at the same price. To cope with the pressure, migrants consciously reduce their quality of life and save more to remit back to their rural families.

In the post-reform period, property rights are emphasized, which are more individually based and should be gained from the commodity market. Different from citizenship that is derived from membership of a political community, property rights are transacted. Associating with a community does not 'naturally' grant one a right. But migrants are engaged in commodity production. The question is why they fall into poverty. This is because they are confronted with the privatization of public services (e.g. schooling and medical care), but their income cannot afford the privatized services. The social surplus they generate is predominantly controlled by the enterprises that employ the migrant labour. At the local state level, the state does not act on behalf of migrants to make a claim for social surplus; rather, the local state often uses its regulatory power to make the city more 'entrepreneurial', i.e. investing in productive infrastructure such as airports and deepwater ports to make the city more competitive. Such competitive measures very often raise the cost of living in the city (for instance, demolishing informal migrant villages to make space for commercial and office uses).

The making of the migrant poor is due to their disenfranchisement in the city. Although migrants possess membership of the nation-state, such membership cannot be effectively put into citizenship practice locally. They are disenfranchised because the state is not their agent. Also, the party-state eliminates the reason for independent workers' unions. The state minimizes the power of organized workers' unions so as to smooth the process of capital accumulation. They cannot use the state to bargain for them for a better deal from capital. Because of the lack of political membership in urban institutions, migrants cannot influence urban politics. They cannot resist the trend of the local state towards becoming more 'entrepreneurial' and using migrant labour as an abstracted form of labour force.

The survival strategy of the migrant poor is not to participate in either a public goods regime (hence not contributing a membership fee) or property rights purchase. They adopt a cost-saving method and do not invest in buying housing. They attempt to set up schools by themselves (migrant schools). But when the cost of a migrant school is too high, they simply abandon their children's education. Because the medical cost is also too high, they usually do not see doctors, but rather buy medicine themselves. Because they are separated from the city life, they do not develop awareness of citizenship.

## **Conclusion**

Market-oriented reform is a process of 'clarifying property rights'. All-inclusive entitlements are commoditized into property rights that can be

transacted. The ambiguous but tight labour–state relation is also clarified and relaxed. Under the centrally planned economy, there was an institutionally differentiated ‘citizenship’, as reflected by the division between urban and rural *hukou* and the ‘insider and outsider of the state system’. This system has been converted to a basic national-scale citizenship that takes a minimum form, as reflected by the establishment of *dibao*. The remaining wide range of welfare benefits that were provided by state work-units are now commoditized services.

By giving the marginal population the property rights to their own labour, the state transfers some of its responsibility to the market, thus depriving marginal people of greater claims. In the context of local citizenship practices, these greater claims are the right to the city. Following the ethos of workfare, the state sets up a minimum living standard and is expanding its coverage, while pushing the majority into the job market. This expansionist approach in the minimum living standard system could be misleadingly read as a deviation from the aim to develop a market economy. However, it in fact sustains the critical conditions for possible marketization. A system based on minimum social security is a weaker form of citizenship, which often leads to the intensification of market control over the urban sphere. The process of marginalization in contemporary China is due to a whole range of market reforms that constrain marginal people from making a citizenship-type claim.

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# 6

## The Strength of Property Rights, Prospects for the Disadvantaged, and Constraints on the Actions of the Politically Powerful in Hong Kong and China

*Alan Smart*

### Introduction

The contribution of property rights to the marginalization of disadvantaged groups is intensely contested and has important policy implications. A succession of influential scholars, particularly John Turner and Hernando de Soto, have asserted that stronger property rights for the informal sector or collectively owned agricultural land will have a variety of positive effects. Others assert that strong property rights contribute to social polarization at all scales from the local to the global. In this chapter, I argue that there is no single outcome of strengthened property rights. Instead impacts will vary according to the specific nature of the property regime being instituted, and in relation to the prevailing situation that is being transformed. During episodes of primitive accumulation, the protection of the property of those who are being dispossessed would clearly help to reduce or at least slow marginalization. However, when informal or even illegal access to the means of production or reproduction have become crucial to the survival strategies of the poor, the consequences even of new property regimes that promise secure rights to those who have previously encroached on public or neglected private land are far from certain, despite the assertion of influential proponents.

In this chapter, I use a comparative grounded theory approach (Glaser and Strauss, 1967) to explore some of the factors that might influence the effects of the strengthening of property rights. I draw on two research projects that I have worked on for over two decades, in both of which property rights issues have been of central importance and have been intensely contested. The rationale for the comparison is that, in both cases, the clarification and strengthening of property rights can be argued to have increased the degree of marginalization of the affected populations, whereas the prior fuzziness

or lack of effective enforcement of the property rights plausibly contributed to the improvement of their social and economic positions. The first case focuses on squatter settlements in Hong Kong, with the relevant strengthening of property rights having occurred after 1984. The second case examines the situation of rural industrialization in China, comparing the fuzzy property rights of the first decade of economic reforms (1979–89) with the situation after the clarification of property rights after 1992 and particularly in the run-up to and aftermath of accession to the World Trade Organization (WTO). While disputes about property rights are prominent in both cases, few scholars consider both kinds of cases, and the issues and stakes are quite different between them.

Clearly, these cases do not represent a sample which would allow a test of hypotheses about the effects of property rights. However, that is not the intention of this chapter, or generally of the grounded theory strategy. Instead, the hope is that a comparison of these cases, with their complex mix of similarities and differences, will generate some new insights or hypotheses into the interface between property rights and marginalization. What are the common factors that associate fuzziness of property rights with advantages for the socially disadvantaged? Was the clarification of property rights inherently detrimental, or did it depend on the nature of that clarification? Do shared Chinese culture and social practices have any impact on the outcomes, or do the sharply different political economies have a greater effect on trajectories of marginalization?

## **Property rights and marginalization**

There is considerable disagreement about whether strong property rights will improve or harm the prospects of the less advantaged within a society. Hernando de Soto (2000) argues that strong property rights will further the interests of the poor by allowing them to take advantage of the equity otherwise frozen within their informally acquired and protected homes and businesses. Inclusion in the ‘mysteries’ of capital requires secure tenure and other forms of ownership. Others suggest that the opposite will occur, or, like Ann Varley (2002), that the outcome is a contingent matter depending on other more important factors such as the governance and regulatory practices prevailing in a particular context. In certain circumstances the weakness of some kinds of property rights may create advantages for the disadvantaged. While many other factors affect marginalization, property rights are of some strategic interest, among other reasons, because in a knowledge society, property rights are being extended in a remarkable way in order to help preserve the wealth of corporations and countries that depend less on producing goods and more on the monopolies over legal economic transactions that strong property rights provide them. With outsourcing of everything from business processes to tutoring being added to the offshoring of manufacturing,

arguably the key assets for the United States and its global corporations in the twenty-first century will be their control over the return on assets and intellectual property.

What, then, are the conditions under which the strengthening of property rights might improve the position and prospects for the marginalized sectors of a population, and when do they generate greater marginalization? The impact of the strength or weakness of property rights is not independent of the nature of the property right regimes that are instituted. Intellectual property right regimes that allow corporations to patent crop varieties developed over centuries by indigenous groups, a practice widely described as 'biopiracy', obviously contribute to greater marginalization of these groups through the uncompensated loss of their control over local knowledge. Copyright regimes that extend corporate capacity to exclude competition from smaller and newer competitors, such as business process patents, also seem to unambiguously portend greater concentration of power. The open source movement is an important contemporary effort to limit the concentration of power threatened by private ownership of standards such as Windows that are globally adopted in part because of the network effect: the utility of a network (or a tool used to network, or a standard) increases exponentially with the number of users already connected to the network.

This chapter focuses on how the impact of strong property rights depends on other conditions. Strong property rights can result in the marginalization of the disadvantaged, but so can weak property rights. The case of primitive accumulation is the clearest example of the latter. While 'Wild West' frontiers do create opportunities for the poor, they often end up dispossessed of them as groups with stronger means of violence move in, and indigenous groups have frequently been dispossessed or even subjected to cultural genocide. However, very strong property rights, at least in configurations that include strong intellectual property rights and restrictions on informal (tax-evading) practices, can result in strong barriers to participation for those who don't have substantial pools of capital. In such cases, social democratic strategies of levelling the playing field through redistribution, progressive taxation and skill formation may be the main paths to the avoidance of marginalization. For low- and middle income countries, such strategies are difficult to implement for all of the poor and disadvantaged. The result is that social welfare is either of minor importance, or when present is incapable of providing assistance and services to all who need them, frequently resulting in systems of patronage where redistribution is targeted to those who support the powerful (Nelson, 1979). Numerous scholars have shown that the welfare system in China is organized in such a way as to further exclude and marginalize the poor (Solinger, 1999; Zhang, 2001; Liu et al., 2008).

Depending on the situation, otherwise exploitative patron-client systems can still offer a modicum of influence to the disadvantaged, particularly in

cities where they have the benefit of concentration in reasonable proximity to the locales of wealth and power. In Brazil, for example, squatters served as useful voting blocks in a clientelist democracy, and political parties sometimes sponsored invasions of land controlled by their rivals or the supporters of their rivals (Collier, 1976). Even the thin gruel of benefits from patronage is prone to becoming technologically obsolete, however. Urban political machines in the United States seem to have declined not so much because of urban reform movements or intervention by higher levels of government, but because the rise of mass media produced cheaper ways to mobilize votes and political support and ended the need to redistribute aid and jobs to poor supporters (although the patronage system continues, of course, at higher levels of the political system). This suggests the true danger of marginalization in a polarized world. If the poor and unskilled are no longer needed for their work, for their votes, or even for the role of their consumption in soaking up the overproduction of capitalism (as suggested by Robert Boyer's (2003) ideas about a finance-led regime of accumulation driven by consumption based on income from assets rather than wages), what beyond the fear of social disorder will induce the maintenance of even the insufficient resources being redistributed to them at present?

Early reform China and Hong Kong in the first three postwar decades were both periods in which many among the disadvantaged experienced substantial social mobility, but the systems of property rights were very different. Both, however, shared the characteristics of the growth of entrepreneurial activity among the working classes and the widespread existence of informal or illegal property development activities that could be argued to have benefited lower income populations. In both cases the result was not necessarily what power holders would have preferred, but constraints on the actions of power-holders created situations where toleration and redistribution were useful in preventing destabilization of the situation.

### **Property rights and China's economic success**

The rise of China after reforms were initiated in 1979, with one of the fastest sustained increases of GDP in history, raises important questions about the role of property rights in economic performance. Property rights, and the conditions under which foreign and private enterprises could operate in a communist society that had previously seen 'taking the capitalist road' as one of the worst crimes, were underspecified in the emerging rules, and especially in their protection in practice. Lack of confidence in the rule of law and property rights had persistent effects, particularly for the first decade. Greater official acceptance of capitalism in the form of the 'socialist market economy' after 1992 began to routinize the rules of the game, a trend that was furthered as China met conditions imposed for accession to the WTO. The experimental and geographical diversity of the reform process

resulted in high levels of uncertainty about what was legal, or moral. Newly legal practices such as the dismissal of workers were often seen as immoral. The rectification and clarification process is still ongoing, but preparation for and accession to the WTO has greatly increased the degree of legal clarity in contemporary China. Even now, however, the Chinese economy is widely criticized for poor protection of property rights and problems of lack of transparency in decision-making and corruption (Smart and Hsu, 2004).

Hong Kong and Taiwan have been the most important foreign investors in China in part because of tolerance for regulatory uncertainty and fuzzy property rights and their reliance on social connections (*guanxi*) to protect their investments (Smart and Smart, 1991; Smart and Hsu, 2004). An experimental approach to reform was dominant in the first decade, with Guangdong province particularly likely to adopt practices in advance of what was officially accepted. For example, a real estate boom emerged well before it was clarified what actually was being bought in a country where the constitution still prohibits private property in land. Licensing of innovations that would have been harshly penalized during the Maoist era was combined with considerable uncertainty about exactly what was allowed. Experimentation facilitated 'pushing the envelope' of what was accepted. This in turn created conditions in which it was often useful to redistribute some of the new wealth being created to ordinary residents of the locality. As property rights have become stronger and more centralized, it can be argued that the need for local social consensus has waned, and the position of less advantaged residents has deteriorated.

Andrew Walder (1995) has tried to explain the seemingly anomalous performance of Chinese industry and the economy generally, despite its violation of 'the advice contained in plans for rapid stabilization and privatization' (p. 264). He responded in particular to Victor Nee's (1992) argument that hybrid organizations of mixed property rights, particularly in the form of what are called Township and Village Enterprises (TVEs), served as institutional solutions to underdeveloped markets and partial reforms that left property rights uncertain. Since reforms to the state-owned enterprises and the urban economy more generally were very modest before 1992, these TVEs were the key sector of the massive increase of manufacturing output and exports in the 1980s. Walder rejected Nee's claim that the dynamism of TVEs could be attributed to their 'hybrid' or 'semiprivate' form (Walder, 1995, p. 270). Instead, the rural reforms involved 'a devolving of property rights downward in political or administrative hierarchies, or reassigning and clarifying property rights among institutions and households' (Walder, 1994, p. 6). His analysis was a response as well to the argument of Janos Kornai that communist command economies can never operate as productively as market economies because of the absence of hard budget constraints for enterprises. In this context, enterprises have incentives to hoard resources allocated to them rather than to economize on factor inputs.

Walder does not believe that government enterprises are necessarily less efficient than private enterprises. The problem is rather that multiple agencies had influence on them and no single agency could benefit from efficiency and profitability gains. Decentralization hardened budget constraints and provided local officials with incentives to improve productivity and generate profits to benefit the local economy as well as the local government. As long as the right incentive structure was in place, firm-level involvement by government officials could promote growth through a developmental state strategy (Nee et al., 2007).

A number of China scholars have argued that the patterns that developed in the countryside after Mao is not privatization, but local state corporatism based on the ownership of most productive units by local governments (Oi, 1992; Walder, 1995; Chen, 1998). In this model, 'corporate-like lower-level governments not only engage in profit-making activities, they also spread benefits and risks to protect and promote local community interests' (Sargeson and Zhang, 1999, p. 78). Local social networks provide a stable basis for a locality using non-market structures to engage in external market transactions in order to accumulate collective capital, which is then invested in improving local welfare (Lin, 1995). In localities where such 'village conglomerates' have prospered, membership provides access to substantial levels of collective benefits including subsidized utilities, schools and housing. Living and working in a locality does not guarantee membership (Smart and Smart, 2001). In another case study of a village in Zhejiang province dominated by local government controlled collectives, welfare services were provided in order to obscure the lack of transparency of collective finances. Officials, Sargeson and Zhang (1999, p. 97) argue, 'are attempting to co-opt the residents through expanding construction and welfare programmes, and increasing in number and scale their acts of patronage'. From the other side, Oi (1994) notes the social and ideological pressures on the wealthy to redistribute to the community, and suggests that 'entrepreneurs only have limited rights over their new wealth. Property rights are still very much a fluid concept in China, dictated in some respects by traditional notions of the moral rights of one's neighbours to share in one's wealth' (p. 77).

In some cases, local governments endeavour to extract what resources are available from the local population, without providing services in return, taking on the predatory form described by Wu (2000) and Peng (1996). In response private firms often adopted what is known as the 'Red Hat strategy', disguising their private ownership by registering as a publicly owned organization, in order to protect themselves from predation by local governments or to gain advantages through governmental alliances (Chen, 2007). While common throughout the 1980s and early 1990s, further economic reforms made this stratagem unnecessary by the late 1990s. There was also by that time a strong trend in the foreign-invested sector to move away from joint ventures and create wholly foreign-owned enterprises.

What accounts for the differences between local 'developmental states' and local state predation? The economic situation has an important impact. Unger and Chan (1999) find an association between different kinds of local governments and their resource bases. The absence of economic dynamism tends to encourage predatory governments, they conclude, while locally controlled TVEs promote local corporatism and reliance on foreign-investment fosters a government reliant on the extraction of rents. The predatory/developmental axis of local governance is at most partly determined by the extent and source of local wealth. At least one other factor seems to be whether social opinion can effectively constrain the opportunistic behaviour of local officials and encourage them to devote some of their rent-seeking efforts to broader advantage (Smart, 1999). Welfare provision through local citizenship results in part from constraints on the freedom of action of both local officials and outside investors. A study by Lily Lee Tsai (2002) indicates that wealth alone does not account for the strategies adopted in the provision of public services. Villages with active temple associations and strong lineage organizations were more likely to avoid imposing unpopular policies and collected contributions for community projects. The most predatory practices were found in villages with neither active village-wide social institutions nor elected village representative assemblies. When social networks exist that 'incorporate both village officials and citizens, they restrict predatory behaviour and facilitate public projects that might not otherwise become a reality' (Tsai, 2002, p. 26).

Susanne Brandtstadter's (2003) ethnographic research on a Fujianese village provides more detail on the pattern that Tsai identified. She is sceptical about ideas that the vigorous revival of traditional religious practices and lineage organizations in many parts of China after the reforms is simply a revival of tradition after the ending of the period of repression. Instead, she explains it in the context of the decline of the collective economy, increased economic differentiation, the rise of the *nouveaux riches*, and increasing tension due to jealousy. The dismantling of the commune system 'left three groups in the village to directly compete with each other: the local cadres, the village entrepreneurs and 'ordinary' villagers' (p. 93). By building alliances with the entrepreneurs, officials personally benefited but lost status and legitimate authority. In turn, rich villagers were 'accused of being greedy and of slighting moral standards or reciprocity and then could face petty theft or other harassment by disgruntled villagers' (p. 95). Village resentment could even potentially result in allegations of misconduct being forwarded to higher levels. O'Brien and Li (2006) document how exploited villagers engage in 'rightful resistance' by mobilizing support from the centre against local officials to protect rights that they have on paper but rarely in practice. In the early years of reform, persisting fears of being presented as taking the 'capitalist road' produced an even greater desire to ensure locals believed that questionable practices were being done for the benefit of the locality as a whole and

not just the leaders (Smart and Lin, 2007). Brandstadter argues that in this context, official government agencies lost their capacity to mediate conflict, and lineage committees stepped into the void 'because lineages were the only institutions that integrated all competing but interdependent groups in the village. ... Under the umbrella of the ancestral cult, the lineage thus united the members of different competing elites' (p. 97), including overseas Chinese investors. It also allowed the conversion of power into prestige by providing a framework where 'elites, by organizing and managing funds for their lineage, could counterbalance a serious loss of reputation as "corrupt cadres" and "greedy businessmen" ...' (p. 98).

We need to be careful in over-generalizing these intriguing patterns. Local corporatist strategies that have been successful at containing tensions at one point may lose their capacity as outside conditions change, by making compromises less necessary or through competitive pressures that make them less viable. Chih-jou Chen (2005, p. 78) found that by the late 1990s, ideological constraints against high personal incomes had been eroding rapidly in southern Jiangsu, 'even though an ethos of socialism and community obligation remains, which gives villagers the first chance at available employment'. Government promotion of privatization at this time resulted in more than 95 per cent of TVEs in the region adopting some kind of property rights reforms. Chen (2005, p. 76) discovered that privatization was achieved not through open bidding, but through arrangements within the village clique which allowed insiders to amass huge wealth. While clearly an example of 'asset stripping' (Ding 1999), it also allowed the village administration to manage the process and maintained power over private enterprises, through the medium of a 'bundle of fees imposed on private enterprises to support village coffers and discretionary funds' (Chen, 2005, p. 78). In effect, privatization has moved local corporatist regimes that had organized production and business much closer to the rent-extracting regimes that had been common earlier in foreign-investment dependent regions (Smart and Smart, 1992). Control over land development has become a central element of local governmental political struggles (Hsing, 2008). The village administration that Chen studied 'now acts as a real estate and land-contracting company, appropriating land ownership rights to facilitate land planning and industrial development' (p. 79).

Whether these arrangements will survive is not fully under the control of local governments, however. Daniel Buck (2007) describes how the rapid rise of TVEs in the Shanghai region resulted from opportunities created by consumption deprivation under Mao. Reforms initially increased rural incomes, fostering a market hungry for consumer goods. The TVEs in the area were primarily subcontractors for large state enterprises in Shanghai who took advantage of the faster liberalization in the countryside to expand production. By the second half of the 1990s the shortage economy of socialism which had offered a sellers' market during the previous decade

gave way to an economy where 'production capacity in one sector after another caught up with and surpassed demand' (Buck, 2007, p. 765). State enterprises transferred the pressure to their subcontractors, reducing orders and prices and delaying or avoiding payments altogether. This undermined the previous political economy because 'TVEs were more expensive than private enterprises because of their high social burdens: owned by local governments, they were obliged to provide for large numbers of local resident peasant/workers' (p. 766). Privatization allowed them to avoid or at least reduce social burdens and increased their competitiveness. By the end of the 1990s a completely new countryside had emerged, with local residents thrown out of work and replaced by cheaper migrants from poorer provinces, and with the new private enterprises dominated by urban investors and contractors, with the profits now being 'remitted to the urban sources of the investment' (Buck 2007, p. 768).

Local corporatism involved a situation where profit maximization was tempered by desires to increase local government revenues and keep residents sufficiently happy to go along with arrangements that resulted in increased inequality. In the context of capitalism emerging out of socialism, these 'social burdens' were sensible investments: without them, it was unlikely that successful enterprises could be constructed or maintained. But as political and cultural changes reduce the riskiness of the capitalist road, and economic changes increase pressure to be competitive, the advantages of 'Red Hat' strategies have largely disappeared. In a quantitative study of publicly listed Chinese corporations, Nee et al. (2007) found that direct state intervention into the governance of firms yielded negative economic effects at the firm level. They conclude from this that the contribution of governments to China's economic success must be found elsewhere, particularly in the "state bureaucracy's capacity to set up and maintain an institutional environment that offers conditions favourable to private capital" (p. 44). Fiscal decentralization and the intergovernmental competition that it encouraged was a key part of this institutional setting.

The period from 1979 to 1992 involved trends towards engagement with the capitalist global economy and 'deep' decentralization, with localities and provinces not only increasing their share of revenues, but gaining powers to innovate in often radical ways. Successful local experiments were often adopted by the central government and implemented nationally. Opening up occurred earliest in the new Special Economic Zones, in the southeastern provinces of Guangdong and Fujian, in the countryside more than in the urban economy, and generally along the coast before the interior. After 1992, reforms spread more broadly, affecting the cities and state-owned enterprises to a greater extent, and market reforms were more explicitly acknowledged by the leadership. Despite deepening of the reforms, there was an accompanying recentralization of the state, with the centre substantially increasing its share of revenues and developing a more effective 'regulatory state'

(Yang, 2004). Preparation for and accession to the WTO in 2001 swung the pendulum definitively back to centralized and more universal 'rules of the game'.

Although fiscal decentralization in the 1980s had facilitated corruption, Kang Chen (2004) has argued that recentralization in the 1990s did not end corruption, but transformed it into a more destructive form. The previous tax system had provided incentives for local officials to promote local development since they would share in the proceeds. This produced what Chen describes as 'helping hand' corruption, done in the interests of the locality or collectivity, even if the official personally benefits as well. Recentralization reforms in the 1990s undermined these incentives, encouraging the development of more illicit 'extra-budgetary funds' and resulted in 'short time-horizon, grabbing-hand behaviour that was uncoordinated and more opportunistic, and which inhibited private sector development and economic growth, and so contracted the local tax base for both budgetary and off-budget taxes' (K. Chen, 2004, p. 1002). The central government's share of budgetary revenue dropped from 40 per cent in 1983 to just over 20 per cent in 1993. A new tax assignment system boosted the centre's take to almost 60 per cent in 1994. Although a substantial portion of this was reallocated to the provinces, the new system still gave Beijing much more effective power (Yang, 2004). A clear example can be seen in the loss of control by rural governments over urban development in their territories. The result seems to have been a much more predatory approach to development resulting in widely publicized confrontations with angry villagers (Brandtstadter, 2003; Zhang, 2001).

Yan Sun concludes that prior to 1992, corruption 'did not result in overwhelming harms that strangled reform' (Sun, 2004, p.80). Rampant bribery resulted in unfairness in access to resources and contributed to income inequality, but it also contributed to the flow of goods and information, and played an overall constructive role in a system (Sun, 2004, p. 80). After 1992, however, bribery could no longer 'be seen as individual efforts that chip away at a dominant planned economy and circumvent formal barriers to equal access. Rather, it undermines a dominant market and thus the reform program itself, making unequal ... competition the rule of the game' (Sun, 2004, p. 86). The 'grabbing hand' was the result of economic and regulatory changes that reduced the common interests of local elites and non-elite residents. Property rights had become strong enough not to require the support of other villagers, and economic pressures resulted in the termination or reduction of 'side payments' and privileged access to employment which had included them in the new wealth. Greater cultural acceptance of individual wealth may have contributed to the situation, but the high level of anger directed at elites suggests that this cannot be overestimated.

This brief account of property rights changes in reform China suggests that fuzzy property rights can, at least in certain circumstances, confer significant advantages to the less privileged, and that the strengthening of

property rights may result in their increased marginalization. I now turn to the next case study to see if this tentative conclusion can fit in that very different context.

### **Property rights and Hong Kong's squatters**

In this section, I consider arguments that strengthening property rights facilitates the integration of marginalized people into the mainstream of under-developed countries that will move much more quickly to prosperity. Then I consider the case of Hong Kong, where fuzzy property rights created certain advantages for the poor. While hardly a representative case, there are useful points for comparison. The toleration of squatting led to the vast public housing programme and great public benefit. After 1984 property rights were much better enforced; not in the form of providing title to squatters, but by facilitating their clearance and restriction of rehousing entitlements. New squatting effectively ended, the pathway from squatting to public housing restricted, the squatter property market transformed, and the marginalization of squatters was greatly increased. While the expropriation of squatter land is hardly what de Soto was proposing, the difference is not one of ends, but of the means utilized to achieve a strong property rights regime in urban land and housing. Essentially, the question is whether squatters receive a windfall or not from the way in which encroachment on property rights is curtailed.

John Turner (1976) had a significant impact on policy and programmes intended to improve the conditions of the poor residents of low-income cities. He argued that bureaucratic organizations, whether private or public, inevitably failed to meet the real housing needs. Aided self-help was necessary if scarce resources were to be used to support the priorities of the urban poor, which he saw as focused on proximity to opportunities, security of tenure and amenities (Turner, 1976; Harris, 1998). While any kind of foothold was the key issue for new migrants, as they became established, they wanted security of tenure so that they could with some assurance invest in improving their accommodations. He did not consider titling the only way of achieving security, unlike de Soto.

Initial conditions in illegal settlements are often bad. Settlements of minimal initial quality may improve over time, through rebuilding with better-quality or permanent materials, a process known as 'consolidation', and the upgrading of neighbourhood infrastructure and facilities. Some areas with illegal origins become almost indistinguishable from nearby areas with legal beginnings. John Turner (1976) argued that people will be less likely to invest scarce resources of time and money in improving their dwelling if it might be demolished without compensation or without prior notice. Increasing tenure security should lead to improvement of housing conditions. The most efficient and effective way of producing low-cost housing in poor cities is for governments to provide conditions that individuals could not achieve

by themselves, legal tenure and infrastructure, and let households produce their own dwellings, at their own pace, in consideration of their own priorities (Sanyal, 1996). A variety of sites and services and squatter upgrading projects were developed around the world, widely supported by the World Bank, to implement these ideas, although Turner himself was critical of the implementation.

It has been argued, however, that tenure regularization or formally supported aided self-help may generate unintended consequences that reduce the ability of the poorest to gain access to housing (Gilbert and Ward, 1985; Roy, 2005). Azuela and Duhau (1998, p. 163) summarize this argument:

When regularization involves the delivery of individual property titles, it produces a series of 'perverse' results that undermine the stated intention of providing security of tenure for the beneficiaries. Speculative rises in the price of land and the costs imposed on residents both directly and indirectly (in the form of service charges and property taxes) lead to the displacement of the original population.

Projects may increase the prices of building materials and again inhibit rather than promote consolidation (Ward and Macaloo, 1992). Varley (1998, p. 172) found that tenure regularization may be unnecessary for consolidation: other actions such as the provision of services by local governments may be sufficient. Using other ways to encourage perceived security may preserve some of the advantages of illegality for keeping land costs low (Ward, 1999, p. 121).

Regularization of tenure is only one influence on housing improvements (Smart, 2003). When informal housing is produced for rent, investment motivations and regulatory context will influence whether informal landlords are likely to consolidate (Kumar, 1996, p. 772). De Souza (1998) found in a study of informal housing in Brazil that there was little relationship between legal tenure security and the extent of housing improvements; other factors such as saving capacity, stable income and building skills were at least as important. Residents in areas with the least legal tenure security were often most likely to upgrade into permanent materials because:

Improving their housing conditions appears the best response for households to safeguard their lives. Bullets are less likely to pass through brick houses than plastic sheet shacks. In addition, personal belongings can be protected from robberies if houses are built more permanently. (De Souza, 1998, p. 26)

Kellett and Garnham (1995) found that migrant households from the mountain region of Colombia were more likely than local residents to rapidly rebuild in permanent materials, and that income differences did not explain

the difference. Instead, variation was due to greater importance placed by highland migrants on household and marriage stability, in contrast to greater 'instability of conjugal relationships and the predominance of consensual unions in the coastal groups' (p. 54). Such factors may modify or even be more important than the regularization of tenure in encouraging or inhibiting consolidation. The importance of tenure is contextual and not the universal priority for interventions.

As Alan Gilbert (2002) notes, Hernando de Soto's book *The Mystery of Capital* (2000) has received considerable attention in Washington and elsewhere for his argument that providing strong property rights to replace widespread extra-legality in the Lesser Developed Countries can help them follow the successful path of the rich countries. He argues that the problem is not a shortage of resources, since property held without secure rights in squatter settlements and the informal sector is immensely greater than any potential foreign aid that might be received. Instead, 'what the poor are missing are the legally integrated property systems that can convert their work and savings into capital' (de Soto 2000, p. 227).

Ann Varley (2002, p. 455) disagrees, asserting that legalization may be a 'less efficient engine of change than its supporters ... suppose' since the difference between conditions before and after legalization is not necessarily as great as they assume. If the costs of legalization are high, many of those eligible for titling of their homes do not apply. In many countries, illegal property is reasonably secure given certain political guarantees, can already be used as collateral for loans, and offers trajectories out of poverty into reasonable security and comfort. As Alan Gilbert says, 'Illegality is rarely the principal problem for low-income households. Despite requesting legal title, most "invaders" know that they will not be removed from the land because they have the backing of a powerful political patron' (Gilbert, 2002, p. 7). The crucial mystery may be how and why governments support or undermine either illegal or legal forms of property. As Collier (1976) demonstrated, contested elections can give squatters a degree of power through acting as voting blocks and labour in campaigns. Commonly in Latin America, if illegal settlements persist long enough, they become part of the permanent urban fabric, whether legal or not, and at a certain point, titling is relatively inconsequential. If so, the consequences of de Soto's proposals are likely to be less impressive than proposed. A review of the empirical evidence by Alan Gilbert (2002) concludes that formal title does not improve access to formal finance or generally make a major difference in the situation for the poor, either good or bad. In much of Asia, however, protections for security of tenure seem to be much less likely to be taken-for-granted. Demolition seems to be an always possible event in China, Hong Kong, and other countries. However, even in these situations, stronger property rights would not necessarily be of benefit to the marginalized. Strong property rights generally mean that those who have illegally encroached should be removed.

The Hong Kong administration's efforts to prevent, eradicate and control illegal settlements took three main forms. From 1945 to the Shek Kip Mei fire of 1953, the Government attempted to prevent new squatting, cleared those areas it needed to without providing compensation for the evicted, and tolerated squatters on land that it did not need for the moment. From 1954 onwards, the government became ever more involved in direct provision of housing, primarily through the resettlement of squatters in high-rise, poor-quality public housing projects. This uncharacteristic policy shift for the adamantly laissez-faire administration resulted from political constraints on the government's ability to end the illegal occupation of scarce land and crises generated by a series of fires (Smart, 2006). By 1984, new squatting was finally under control, and the ending of resettlement of new residents who moved into existing squatter structures served to exclude ever-greater proportions from access to permanent public rental housing (Smart, 2000, 2006). Throughout all three periods, the one consistent feature was the unwillingness of the government to do anything that could be seen as acknowledging rights by the squatters in the land and dwellings that they occupied. Compensation was always phrased as being 'ex gratia' or compassionate rather than as deriving from rights or entitlements. The squatter settlements that developed were heavily influenced by this strategy of toleration without legalization. No regularization of title has ever occurred in Hong Kong.

Given the housing and living circumstances of the poor in Hong Kong in the late 1940s and 1950s, being able to find relatively affordable accommodation in the squatter settlements was of significant assistance for them, especially since many were close to where they worked. They also capitalized on the cheaper space and looser government oversight to establish small factories or operate workshops from home, contributing substantially to the rapid growth of export-oriented manufacturing, the motor for Hong Kong until the early 1980s, when this kind of production was transferred to China (Smart and Smart, 1993). Limits to governmental capacity to eradicate squatter settlements also led to the creation of first the Squatter Resettlement Program and eventually a vast system of low-cost public housing that accommodated half the population. Manuel Castells et al. (1990) explained the anomalous existence of such a large public housing sector supported by a government with strong free-enterprise ideologies by arguing that it served to subsidize the reproduction of labour power and facilitated industrial success. While my archival research has revealed that this misinterprets the causal dynamics of public housing, it is still reasonable to suggest that the effect of public housing has been to reduce the cost of labour. While of great benefit to employers, this has also eased the circumstances of those who lived in government affordable housing. We should not minimize the human costs of often minimal living conditions and the risk to human life of fires and landslides in the squatter settlements, but the availability of the squatting option had benefits for the poor compared

to the situation in private housing at the time. While in formal terms the government never conceded any rights to the squatters, and therefore one could argue that property rights were clear rather than fuzzy, toleration of hundreds of thousands of squatters (the peak number was 800,000 in 1982, averaging over half a million for most of the period between 1950 and 1984) meant that these clear property rights were not in fact implemented in large swathes of valuable Hong Kong land.

Unlike in many countries, there has been little stigma attached to living in public housing in Hong Kong, and given the high costs of housing relative to income throughout Hong Kong's history, there has been a great deal of demand for access. Obtaining public housing through the waiting list for qualified applicants has often required as much as ten years. Given the extremely high costs and minimal quality of private housing affordable even by upper middle-class households, there has been a strong incentive for obtaining public housing. The possibility of getting into public housing more quickly through the resettlement of squatter areas attracted even middle class households to reside in irregular settlements. The result, combined with substantial social mobility for the working classes during this period, including through operating workshops in domestic premises and squatter areas, meant that many squatter areas had substantial numbers of middle class households and average incomes that were relatively close to the territory average. The median monthly income of private temporary housing (squatters in structures constructed of temporary materials) households in 1981 was 76.12 per cent of that of the Hong Kong median, indicating low levels of marginalization of squatters at that time. However, by 1991 this ratio had dropped to 60.2 per cent (Census and Statistics, 1981, 1991). Another significant outcome of the relative attractiveness of squatter areas was that despite the exclusion of recent migrants from China from public housing, their overrepresentation in the squatter population was less than might have been expected. There were many environmental problems associated with residence in squatter areas, caused in part because of government prohibitions on housing improvements. This impedance of self-help upgrading is in contrast to its wide use as development strategies in many other countries, and resulted from fears that permitting improvements could be seen in common law as acknowledging property rights (Smart, 2003). Despite these problems, the squatter settlements were not areas in which the poorest of the poor predominated, but were comparable in their demography with other working-class neighbourhoods. The regulatory regime that allocated rehousing to squatters affected by clearances fostered the presence of middle-class, Hong Kong-born households, since the status-based nature of rehousing allocation favored them in comparison to recent migrants (Smart, 1992; Smart, 2003).

Prior to 1984, protests by squatters, combined with a substantial amount of public support and media attention, resulted in a tendency to increase the

proportion of squatters who were eligible for public rental housing. These protests were only made effective, however, by a fragile geopolitical situation in which excessive street violence raised the threat of intervention by the People's Republic of China which could destabilize the complex diplomatic situation created by a British colony on the fringe of a communist nation during an era of decolonization (Smart, 2007). Increased eligibility occurred in two ways: by extending formal 'toleration' to squatter dwellings constructed after previous 'final' registration surveys, and by removing restrictions on rehousing eligibility based on residence and household composition characteristics. In 1984, a major shift in the regulation of squatter settlements occurred (Smart, 2001). All occupants of squatter areas were registered (before only structures had been surveyed, to avoid giving the appearance of property rights). After, only registered squatters would be eligible for permanent public housing at clearance. The government also finally managed to put a stop to construction of new squatter structures, although the intensification of use of existing structures increased the unauthorized population. The outcome has been a process of attrition of resettlement rights. The Diamond Hill squatter area was being processed for clearance during my 1999 fieldwork. Of the 6,251 residents, living in 2,528 structures (which also included 170 businesses), only 24.72 per cent qualified for permanent public rental housing, and 75.28 per cent were to be assigned Interim (temporary) housing (Smart, 2002). At the same time, the Hong Kong government has a policy of not leaving anyone genuinely homeless as a result of governmental actions. The solution to this situation has been the use of a series of second-tier forms of housing for those excluded from eligibility for the first tier: transit centres, temporary housing areas, and, most recently, the newly named interim housing.

The crucial change permitting intensified exclusion and strengthening of property rights was the signing of the Sino-British Agreement in 1984 to return Hong Kong to Chinese sovereignty. This agreement made possible much more effective control over illegal immigration, partially through the development of cooperation between authorities on both sides of the border, which reduced the demand for squatter dwellings. In the late 1970s and early 1980s, illegal immigration from China was at high levels, and intense efforts at best served to slow the influx. Similarly in the squatter areas, the numbers of illegal structures and population soared, and control efforts had only limited impact. With the influx reduced, it became feasible to prevent new squatting. Protests that would have in the past derailed initiatives like the demolition of the Kowloon Walled City were no longer effective when Beijing, London and Hong Kong cooperated to maintain stability and preserve confidence in the transition to the handover. A more repressive approach had become feasible, with the result that new encroachments were ended, existing squatter settlements contained and gradually removed, and the attractions of living in them diminished. A process of ghettoization

developed in the settlements, with squatter households incomes dropping from 76.12 per cent of the median in 1981 to 60.2 per cent in 1991. The proportion of squatters who were recent migrants from the rest of China also rose, during a period in which there was a considerable increase in stigmatization of recent migrants (Wong, 2007). In general, income inequality has soared since 1984, largely as a result of deindustrialization. The marginalized population who have had no choice but to move into squatter areas without any entitlement to permanent public housing in the event of a clearance are certainly being negatively affected by the stricter enforcement of property rights.

## **Comparison and conclusions**

This chapter was written on the premise of using a grounded theory approach to comparing two distinct cases with important debates about property rights and marginalization. While property rights have been major issues in both cases, the questions that have been asked are quite different, and little cross-fertilization has occurred between studies of illegal housing and socialist transition. The field of China studies in particular has been distant from studies of the informal sector in the capitalist Lesser Developed Countries. This separation is unfortunate because since the economic reforms began in 1979, one of the main trajectories of transformation has been convergence with the capitalist Third World (Smart and Zhang, 2007). This is generally neglected in favour of analysis of convergence with the rich Western countries, a tendency that is quite apparent in the work of China-based scholars, but also applies to foreign researchers. The reduction of controls on movement and action have resulted in the growth of a vast informal sector, the study of which is beginning but which deserves much more work. In particular, it would be useful to know to what extent the institutional legacies of communism influence the organization of the informal sector in different ways than the legacies of colonialism or advanced capitalism (see Wacquant, 2007 for the latter).

The cases are admittedly very different, one a capitalist and wealthy city-state, the other a reform socialist, middle-income country of vast size and concomitant challenges. Despite appearances, however, there are some important similarities, beyond the Chinese ethnic identity of the vast majority of the population. Neither has a full democratic electoral system, and in neither cases have political parties been important in the mobilization of the poor and excluded. Non-governmental organizations have been more important in promoting their interests in Hong Kong, although some modest parallel developments have started to appear in China. In both cases, private property rights in land are limited by the state monopoly on ownership, with 70 (mainland China) or 75-year leases (Hong Kong) the main form of private ownership.

The most important commonality is the way in which fuzzy or unenforced property rights have worked to the advantage of groups near the bottom of the social ladder, squatters in one case, poor villagers in the other. In Hong Kong, squatting as a way of producing new housing persisted from 1945 to 1984, while settlements established by then continue to provide accommodation for nearly 200,000 people, although few of them are now in the central urban areas. It also facilitated the emergence of small manufacturing enterprises, forced a reluctant colonial government to embark on the public provision of affordable housing, and arguably other elements of the social welfare policies that started to be expanded by the 1970s (Smart and Lui, 2009). In rural China, against what Walder claimed about the source of China's successes lying in the decentralization of control to those agents who would benefit from efficiency, property rights stayed quite fuzzy until after 1992. This resulted in both the Red Hat strategy of disguising one's private firm as an enterprise controlled by the local government, and in the widespread sense that other villagers needed to be incorporated into the wealth-generating machine, or local corporatism, if the boat wasn't to be rocked.

Why did the uncertainty of property rights benefit these groups? The main causal influence, I would argue, is that the political situation made it advantageous for the more powerful to avoid dispossession that they might otherwise have been prone to carry out to their own advantage. Tolerating squatters resulted from their potential to destabilize Hong Kong's vulnerable situation by militant action that might result in intervention by China. The eradication of all squatter settlements without resettlement did not seem viable to governmental actors at the time because of the likelihood that it would generate a political crisis. Providing large quantities of cheap public housing was an easier way out of the problem. But despite high levels of squatter demolition and resettlement, the problem was never under control, because of continued failure to control new squatting until after 1984. In rural China, ideological discomfort with wealth disparities, markets, competition, and other capitalist practices caused a great deal of local resentment against the new wealthy class. Government officials could squeeze resources out of these new classes, but there was also a sense in which spreading the wealth would reduce the likelihood of insiders reporting dubious practices to outsiders. And dubious practices were the order of the day given the fuzziness of the new rules of the game during the first reform decade. In both cases, as property rights became clearer and more effectively implemented, those who had previously benefited became more marginalized, at least those that had not been able to attain significant social mobility in the interim.

Fuzzy property rights do not always benefit those at risk of marginalization or exclusion. In the case of Hong Kong, the clarification of property rights in the squatter settlements is not in the form that would be suggested by reformers like de Soto. However, if we look beyond the interests of the sitting occupants, a property rights regime that would have any chance of

unlocking the 'dead capital' locked up in informality and illegality would seem to require that new encroachment would be effectively prevented. At best, then, regularization of title and the creation of a strong property rights regime would create a one-time windfall. The cost would be the loss of the path to housing that the previous generation had adopted. It seems plausible that it is only the informality and illegality that keeps this form of housing relatively cheap. What would be the fate of new entrants to the housing market? Particularly if they are also being marginalized within the labour markets? Perhaps if the windfall was effectively utilized, there would be an overall improvement in the economy that would create a virtuous cycle so that these problems would be resolved by the time the next batch of aspirants to 'the right of the city' arrive. That requires a leap of faith similar to 'trickle-down' economics.

The broader issue that can be derived from this comparison is the idea that fuzzy property rights can benefit the disadvantaged *if* they have some capacity to make things difficult for the elite should they not be cut in on the deal. The problem of strengthening of property rights is that these reasons for attending to the poor are diminished. This would not be a problem if there were other strong reasons for the elite to worry about the poor. Unfortunately, there are reasons to believe that the poor are no longer needed for their votes, since they can be manipulated without doing anything that is in their interest, or for their labour, due to automation and offshoring. If they are even becoming unnecessary as consumers keeping the economic pump primed (Boyer, 2000), things might start to look rather dire. In a dystopian projected future that might not be too skewed from the contemporary trajectory of development, the main reason that the elite might need to attend to the poor is in relation to their capacity to create trouble, through crime, riot or revolution (Body-Gendrot, 2000; Wacquant, 2007). With strong property rights that have become increasingly central to the post-industrial, knowledge economy visions of the elite, however, the consequences of the potential for the poor to create trouble might not be nearly as positive as the cases examined in this chapter.

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# 7

## Empowerment or Marginalization: Land, Housing and Property Rights in Poor Neighbourhoods

*Hyun Bang Shin*

### Introduction

In 2004, the Constitution of the People's Republic of China was amended to include non-violation of lawful private properties and people's right to compensation when their private properties are taken away by the state for the public interests (Article 13). Three years later, in March 2007, having taken five years after the first appearance of its draft, China's Property Rights Law was officially adopted by the National People's Congress, and went into effect on 1 October 2007. By implementing these two legislative measures, individual owners of legally acquired private properties including land use rights are given the highest degree of lawful protection. These legislative measures, however, are not the starting point of China's property rights reform. In fact, the country has been treading the path of property rights reform to clarify *who owns what and to what extent* since the 1980s, and the Property Rights Law in 2007 can be regarded as a mere endorsement of what China has achieved. The implementation of property rights reform and the emergence of individual private ownership have produced a very different context within which individuals in China consume and invest in family assets.

Examining the property rights in transition in post-socialist countries, Peter Marcuse once concluded that 'Property rights reform is unmistakably an issue involving the transfer of power and wealth. It involves the distribution of basic rights and privileges in the society' (Marcuse, 1996, p. 183). How this translates into individual residents' opportunities and constraints in contemporary China has not been well documented. In the real estate market, the 2004 amendment to the Constitution and the enactment of 2007 Property Rights Law could be regarded as aiming at the removal of the ambiguity in the operation of housing and land markets. In urban China, the last two decades have witnessed the advancement of privatization and the expansion of homeownership in much of urban built-up areas through new estate development and housing redevelopment. There are, however, urban poverty-stricken neighbourhoods, which refer to the urban space lagged behind in the process of urban

transformation (Liu and Wu, 2006; Wu, 2007). Such urban space includes traditional inner city dilapidated neighbourhoods and peri-urban settlements with a high concentration of migrant tenants. They accommodate mostly dilapidated public rental flats, representing the legacy of the planned economy, and self-built housing to accommodate migrants in particular. The implementation of market-oriented reform and resulting residential differentiation has meant that better-off residents fled from these dilapidated neighbourhoods, leaving behind a high concentration of poor and marginalized residents (He and Wu, 2007). These neighbourhoods are increasingly under pressure of profit-led urban redevelopment that involves residents' displacement and relocation, which in turn leads to the radical redistribution of the bundle of property rights.

What implications does the property rights reform have for urban residents living in dilapidated neighbourhoods as the loci of urban poverty? Does the reform lead to the aggravation of life chances and tenure security for the poor in cities and peri-urban areas? In this respect, this chapter examines the life of urban poor residents in relation to their housing and land tenure, and reports their experience of 'owning and disowning' some elements of a bundle of property rights in the planned economy and in the process of urban housing reform. By doing so, the chapter tries to argue that current practices of property rights reform and homeownership promotion in the housing sector produce differential impacts upon residents, and hardly contribute to the empowerment of poor residents in neighbourhoods subject to redevelopment. Discussions in this chapter are largely based on the reflection of author's previous research projects that consisted of field visits to Beijing on several occasions between 2003 and 2009. These research projects were to examine the process of urban redevelopment in various dilapidated neighbourhoods: two inner city neighbourhoods in Dongcheng district and two former rural villages in Haidian district. Each project involved semi-structured interviews with local residents.

The rest of this chapter is divided into four sections. First, it will briefly review the progress of property rights reform in China, and how it relates to poverty-stricken neighbourhoods. Second, the implication of property rights reform is discussed by examining the formation of extra-legal tenure<sup>1</sup> and fragmented property rights in poverty-stricken neighbourhoods. The third section will address the question of what it means to clarify property rights for residents in these neighbourhoods. The final section will summarize the discussions and re-visit the key questions.

## **From socialist ownership to reinstatement of private ownership**

### **Socialist ownership in the pre-reform era and the abolition of private ownership**

It is noted that in the former Soviet Union, there was a definite set of property rights, which included 'rights of occupancy and use for themselves and

their families' (Marcuse, 1996, p. 133). In Eastern Europe, property rights differed considerably from the private ownership-based forms of property rights in the capitalist economic system. In the former Soviet Union, two legal ownership of property existed: socialist ownership and personal ownership (Marcuse 1996, pp. 129–33). Land was in state ownership, not subject to sales or security for mortgage, and decisions regarding its usage were delegated to municipalities. To prohibit non-labour income, land users were not in possession of right to sell or lease to others. Individual house ownership was protected as personal ownership, but private renting was under strong rent control. Private house building was not prohibited as long as it was pursued for personal consumption. This was particularly encouraged in rural areas. Commercial construction was discouraged or prohibited. The economic transition in Eastern Europe in the 1990s involved a shock therapy of reinstating private property rights that granted legal entities rights to benefit from the use and sale of privately owned properties. In contrast, the rights of occupancy and use were considerably negated in the privatization process, making the transition very difficult (Marcuse 1996).

The establishment of the People's Republic of China by the Communist Party in 1949 did not lead to the immediate nationalization of private property. Various rights co-existed during the early period of socialization, which included the right to privately own dwellings and right to secure rents from private renting. In 1955, more than 50 per cent of the total housing stock in Beijing, Shanghai and Tianjin were still privately owned, and a large share of private housing remained in private hands until the mid-1960s (Wang and Murie 1999, p. 73). The social transformation of private rental stock in the 1950s maintained the retention of private tenancy, allowing landlords to retain a portion of rent income. Such an approach by the central government contributed to the survival of private rental tenure and owner occupation, albeit small in number, under the socialist planned economy for some time. This, however, faced heavy criticisms during the Cultural Revolution. In September 1966, the Central Committee of China Communist Party abolished all forms of joint state–private ownership of enterprises in industry, prohibiting any further payment to those who had a share in these enterprises (*ibid.*, p. 86). In line with this measure, the State Housing and Property Management Department also formally abolished landlord ownership in 1967, and landlords' rental housing stock became public assets. Even owner-occupied housing units were confiscated, especially those belonging to professionals, government officials at high levels and those who had overseas relatives classified as anti-revolutionists by the Red Guards (*ibid.*, pp. 86–9). As for rural lands, the rural collectives such as people's communes, production brigades and production teams retained land rights to own, use (including changes in land use) and benefit from the land use but the right to dispose of it was not granted (Tang and Chung,

2002, pp. 47–8). The right to expropriate was only with the state, under which circumstances the rural collectives were compensated for the loss of land and housing (Zhu and Hu, 2009, p. 1632).

### **Reinstatement of private ownership**

The reform policies from the 1980s brought radical changes to the land ownership structure in China. The private ownership of lands, which ceased to exist in the mid-1960s, remained absent during the planned economy period, but the 1982 Constitution officially promulgated the state appropriation of land ownership, and by doing so, laid the foundation of granting the possession and transaction of land use rights. The amendment to the Constitution in 1988, the enactment of the 1986 Land Administration Law and subsequent amendments enabled the transfer of land use rights and their private ownership. These legislative measures also restricted the property rights held by rural collectives substantially, as they were no longer in possession of rights to grant land use change as well as benefit from land lease. These rights were to be exercised by local authorities, thus effectively subordinating land use planning to the urban state.

The reform measures in the 1980s to allow land use right transfer created the development of a land use right market, providing urban authorities with lucrative opportunities to gain windfall land lease premiums. This process largely led to the expropriation of rural farmland for non-agricultural use, which from time to time raised an alarm to the central government that was anxious to prevent a rapid loss of cultivating land. The property rights reform from the 1980s also made it clear that land and buildings were separate entities. This meant that while lands were ultimately owned only by the state or rural collectives, buildings and any improvements on land were permitted for individual private ownership. Residents were to retain only the use right of the land they occupy.

The State Council approved the first comprehensive proposal for housing reform in February 1988. This aimed at the termination of welfare housing provision by employers, the promotion of homebuyers' financial contribution, the development of housing construction and related industry, and finally the promotion of homeownership (World Bank 1992, p. 27). The proposed reform, however, went through various modifications when put into practice. Employers still continued to provide housing for employees: instead of the direct allocation of welfare housing, state-owned enterprises and administrative institutions resorted to market approaches, developing and purchasing commercial flats for sale to their employees with price discounts (Wu, 1996). After a few years' setback incurred by the political turmoil in 1989, the State Council called for even more comprehensive reform practices in 1994, identifying five main housing reform policies as follows (Lee, 2000, pp. 65–6): (a) establishment of a three-pillar (state–employers–individuals) system;

(b) establishment of housing provident funds as a cornerstone of housing finance reform; (c) socialization and professionalization of housing management; (d) privatization of public rental dwellings; (e) provision of affordable housing for middle- and low-income homebuyers. The emphasis was, once again, on the establishment of individual private ownership of housing as the main tenure form.

In Beijing, the concentration of government institutions stymied the rise of homeownership in the 1980s and 1990s. Municipal surveys indicated that the proportion of public rental tenants was nearly 77 per cent in 1998, and that of homeowners just over 20 per cent in 1999 (Beijing Municipal Bureau of Statistics, 2000). About one-third of these homeowners were in possession of only partial property rights, which meant that their rights to dispose of their properties were restricted. The proportion of public sector tenants decreased steadily since the termination of welfare housing allocation at the end of 1998. It reached 32.8 per cent in 2002 and just over 15 per cent in 2007. In contrast, the share of homeowners accounted for about two-thirds in 2002, and about four-fifths in 2007. The majority of these homeowners consisted of the ownership right holders of privatized public housing, but the growth of commodity housing owners was also noticeable. Throughout the period, the proportion of private tenant households remained marginal, occupying less than one per cent in 2007 in the formal rental sector (Beijing Municipal Bureau of Statistics, 2003, 2008).

### **Poverty-stricken neighbourhoods and privatization**

As explained earlier, the operation of the planned socialist economy from the 1950s meant that the postwar private housing sector went through the process of socialization, and public rental tenure became the dominant form of tenure in urban China in the pre-reform period. The majority of residential units found in Beijing's dilapidated inner city neighbourhoods were public rental units owned and managed by either work-units or municipal housing bureaus. By 1990, a wide scale of run-down low-rise (*pingfang*) dwellings remained in Beijing, and the majority were concentrated in inner city districts (Lü, 1997; Wu, 1999). While the whole municipality was swept with the national fever of housing production in the early to mid-1990s, these dilapidated dwellings remained largely unaffected. Part of the reason for this is attributed to the fact that these dwellings were in general owned by financially weak work-units or the municipal housing bureau, which could not initiate housing redevelopment on its own due to budget constraints, let alone introduce a scheme of timely maintenance for the upkeep of their housing stocks. Dilapidated dwellings were also exempted from the sale to sitting tenants when the city-wide privatization process took place. In Beijing, for instance, any dilapidated dwellings that were classified by the municipal property management bureau as the categories of Grade 3 or higher were not permitted to be sold to the sitting tenants because of their

poor conditions (Wu, 1999). The Ministry of Construction also made it clear in its announcement on the 'Advancement of the Public Housing Reform' in October 1999 that in order to facilitate the reform of the public housing sector, public rental dwellings could be sold except the following ones: (1) Public rental dwellings located within neighbourhoods where changes in household registration are not permitted and which are subject to demolition; (2) Dilapidated dwellings, makeshift houses, seriously damaged and illegally constructed; (3) Historically significant dwellings; (4) Dwellings that are located within party and government complexes, research institution sites, university campuses and hospitals, and office buildings that cannot be separated.

As for rural peasants, they held the right to use individual allocated land plots for own farming and housing, and as members of rural collectives, the right to benefit from the use of land held by rural collective units (Zhu and Hu 2009, p. 1632). When rural collective units make decision to transfer (often illegally) land use rights in return for land use premium, 'peasants as individuals would lose their land use rights completely' (Tang and Chung, 2002, p. 49). If displaced, they are entitled to resettlement housing or cash compensation, which often becomes the source of dispute and popular protests in recent years. Those peasants who were cornered into their residential space without land for cultivation, investment in housing for illegal renting (largely to rural-urban migrants) has become a widely spread phenomenon (Tang and Chung, 2002; Tian, 2008; He et al., 2009).

### **Extra-legal tenure and fragmented property rights in poverty-stricken neighbourhoods**

Nearly two decades ago, China's land reform was already implemented so as to detach land use rights from the bundle of rights. This was prompted by the 1988 Amendment to the Constitution, followed by the revision to the Land Administration Law to translate the constitutional amendment into concrete legal requirements. These measures also acknowledge the superiority of communal land ownership in rural collectives, thus endorsing the dichotomy embedded in the property rights reform applied to urban and rural areas. As the following section explains, this transition has not been without problems. Ambiguity and fragmentation of property rights exist in both urban and rural areas, which were reinforced by entrepreneurial competition among institutional players to benefit from the use and transfer of property rights. A more detailed examination into residents' housing tenure experiences also illustrates that over the years of establishing individual private ownership, residents in poverty-stricken neighbourhoods have adopted various tenure strategies to overcome their housing constraints and build on existing family assets, leading to the formation of diverse extra-legal tenure structure.

### Prevalence of self-built informal space in dilapidated inner city neighbourhoods

One of the most evident forms of extra-legality that partly reflects the legacy of the planned economy is the prevalence of informal self-built residential space in dilapidated neighbourhoods and peri-urban areas. Most dwellings in Beijing's dilapidated inner city neighbourhoods built in the pre-reform period were not self-contained, unequipped with private kitchen or toilets. Over time, residents made use of empty spaces in front of their house or in alleyways to meet housing needs, building makeshift kitchen or providing an additional room(s) for growing families. These extended spaces were known as *zijianfang* (lit. 'self-built room') and came to constitute an important part of one's right of occupancy and use, but was not formally acknowledged and hence not subject to compensation at the time of demolition and redevelopment. Although they were illegal in nature, for residents in overcrowded living conditions, these spaces were supplementing the incapacity of local authorities or work-units to provide adequate housing to meet family needs. In inner city districts, the incidence of informal extension to existing formal dwelling space was more commonly found in *pingfang* dwellings rather than in walk-up blocks. Unlike *pingfang* dwellings, the structural rigidity of walk-up blocks did not allow informal extension, and their original design feature appeared to have remained largely untouched.

Table 7.1 summarizes the extent to which the housing space of residents interviewed in 2003 depended on the self-built portion of their residence. About one-third of residents' total floor space was accounted by the self-built informal space, clearly indicating the important role that the informal extension had played for the residents. When the number of co-habiting household members was considered, the per capita floor space for those nine households, subject to displacement in future, turned out to be only 6.8 square metres even after including the self-built space. If the self-built portion of their housing space were excluded, their per capita floor space would turn out to be merely 4.9 square metres. This meant that these households fell into the category of official housing poor in accordance with the municipal statute, experiencing overcrowded living conditions.

Table 7.1 Informal self-built extension in *pingfang* dwellings

(unit: m <sup>2</sup> )	Formal space	Self-built extension	Total
Total	20.2	9.0	29.2
Households subject to displacement (9 households)	19.4	7.7	27.1
Households displaced and relocated (6 households)	21.5	11.0	32.5

Source: Data from interviews conducted by the author in 2003.

To some extent, the self-built extensions to existing formal dwellings received support from the municipal housing bureau, thus creating a false conviction by residents that self-built space was not informal. A 43-year-old female interviewee lived in a *pingfang* unit that consisted of 20 square metres of formal space and 20 square metres of self-built extension. She recollected that her family built the self-built extension to add one bedroom and a lounge and received support from the housing bureau for the construction. She had been paying housing rents for the self-built bedroom for nearly 20 years, because the housing bureau agreed to acknowledge the self-built bedroom as belonging to the housing bureau property. The housing bureau, however, changed its position in the late 1990s, arguing that there was no contract regarding the self-built bedroom. This meant that her right to the occupancy of the self-built bedroom and its acknowledgement upon future displacement were denied.

The major problem associated with the informal space is its ineligibility for redevelopment compensation upon demolition and redevelopment. Since the termination of welfare housing allocation in 1998 by the State Council, the redevelopment compensation has been largely geared towards cash-based compensation. In the case of Beijing, the major municipal regulations in this regard would include the 1998 Measure for the Management of Urban Housing Demolition and Relocation and the 2001 Measure for the Management of Urban Housing Demolition and Relocation (see Shin, 2007, for more details). While the 1998 Compensation Measure took into account both household composition and dwelling space, the 2001 Compensation Measure dictated that only the market appraisal of formal dwelling space would be considered in the estimation of compensation. The cash-based compensation measure and subsequent revisions based on formal dwelling space have led displaced residents from redevelopment neighbourhoods to experience a differing degree of property ownership upon displacement and relocation based on their economic capacity.

### **Self-built housing in peri-urban areas**

In peri-urban areas (or areas of rural–urban transition) extra-legality thrives in the form of self-built housing that lies outside existing planning regulations. China's urbanization process in peri-urban areas has resulted in land use patterns that are deemed 'illegal' by governing planning regulations. Often known as 'urban villages' or 'migrants' enclaves' in the literature, these peri-urban settlements are developed on rural lands that were under the communal ownership of rural collectives (Zhang et al, 2003). It was explained earlier that the legislative reform measures in the 1980s restricted the landownership held by rural collectives. This, however, has not deterred them from engaging in entrepreneurial endeavour to benefit from the sale and lease of land use rights. The prevalence of illegal land use in peri-urban areas is closely linked to the entrepreneurial activities pursued

by rural collectives, many of which evaded governing regulations to benefit from illegal transfer of land use rights.

Since the 1990s, with the rapid urbanization process and high level of demand for housing, rural villagers have invested in self-built housing not only for their own consumption but to a great extent for renting out to migrant families and workers. Experiences elsewhere in the developing world with the experience of communal land rights privatization suggest that formal property rights are not a precondition for farmers' investment and innovation, and that land titling had no significant impact on farmers' access to formal credit institutions (Hunt, 2004). In Vietnam, another country in a process of transition from a socialist to market economy, its weakly developed legal property rights in land and housing has resulted in the majority of the population lacking official title deeds, but there is a thriving private real estate market (Kim, 2004). The same applies to peri-urban settlements or urban villages in China where private renting in illegal dwellings has substantially evolved.

The practice of self-built housing appears to have stemmed largely from the perception of tenure security. Gilbert (2002, p. 6) notes, in his study of Latin American informal settlements, that the sense of security is enhanced with 'the backing of powerful political patrons' – no perceivable threat of eviction, thus 'illegality is rarely the principal problem for low-income households'. In urban villages, the sense of security seems to derive from the fact that their activities are within the tolerance of local authorities. There is an unspoken agreement that, as long as building heights do not exceed official guidelines, illegality is to a large extent beyond official oversight. Hence, the 'urban villagers' in one of my field-study neighbourhoods in Beijing continue to invest in illegal housing construction, making sure that their self-built housing for private renting do not exceed three storeys, and that this rule was the most strictly adhered to on the peripheral areas of these villages so that passers-by do not notice this immediately.

### **Informal private renting**

As in socialist Eastern Europe where the notion of absentee landlord ownership was abolished (Marcuse, 1996), private owners in socialist China during the pre-reform period were strictly prohibited from exercising their right to gain profits from private renting. Throughout the 1990s and 2000s, with the increasing number of incoming migrants, public rental dwellings became the source of private rentals, if existing tenants purchased a commodity housing unit and vacated their dwellings without handing them over to their work-units or municipal housing bureau. An interview with a 48-year-old university professor reveals that she and her husband both retained their work-unit rental flats even after purchasing a flat in the commodity housing market, which became the family's main residence. She regards these work-unit flats as being some kind of compensation to their period of

serving in their work-units. It was claimed that while others in power or in higher positions abused the system to acquire many flats, they do not think it is fair to them to give up their work-unit flats just because they bought their own commercial unit. The couple receive informal pressure from their work-units to give up their flats, but are determined to keep them. While the interviewee does not hint on any private lease of their vacant flats, it has been recognised in other literature that such flats were frequently used for informal private renting (Liu and Wu, 2006). Temporary migrants would often be the main clients, as their housing options were severely restricted due to high rents in the formal private rental sector and inability to legally access the public rental sector imposed upon by the decades-long household registration system. The regulatory state denies the claims over urban space by migrants, driving them towards the informal private rental sector (Zhang, 2002).

This practice of informal private renting was, however, against regulation. According to an interview with a manager at a public-rental housing management company in 2003, private renting in public rental dwellings could only be permitted after these dwellings were privatized. Private renting in villagers' self-built housing was also illegal, as they were to make use of their housing for personal consumption only. To villagers with the possession of land use right over their residential space, the illegality stems from the fact that they are absent of the rights to benefit from the commercial use of their residential space (Zhu and Hu, 2009, p. 1640). The illegality of their landlordism, however, hardly deters them from making up-front investment in housing for commercial gain, as they regard it as legitimate exercise of what they own, that is, land use rights of their residential space.

Another form of extra-legal tenure would include the rent-free occupation of self-built space without access to formal housing. One example involves those returnee households who were sent to rural areas during the Cultural Revolution period (known as *chadui* in Chinese) and came back hometown in the early 1990s. Upon their return, they faced difficulties in obtaining a secure rental dwelling due to public housing shortage and housing reform measures that increasingly discouraged welfare-housing allocation. A 54-year-old female interviewee told the author about her brother-in-law's family, who had been living in a self-built dwelling with a use floor space of 15 square metres. Her brother-in-law returned to Beijing in 1994 after having lived outside the city with his father who had been sent to countryside in 1966. When he returned home, there was no longer any housing allocation, and his family had to live in a self-built dwelling next to the interviewee's house. In the absence of any formal agreement with the municipal housing bureau, the family was in informal rent-free tenure, and their right of occupancy and use would not be protected upon displacement. Such families were entitled to redevelopment compensation only under very limited circumstances, which includes that they maintain separated, independent

household registration records; they do not own other dwellings within and outside the redevelopment neighbourhood.

### **Fragmented property rights in inner city dilapidated neighbourhoods**

In Chinese cities, the *de jure* ownership of urban lands lies with the state. The reform measures in the late 1980s include land reform, permitting the transaction of land use rights. Subsequent measures in the early 1990s involve the devolution of the power to dispose of land use rights to local district governments, leading to the establishment of local authorities as *de facto* landlords (Shin, 2009). The local authorities, however, are not the only claimant to the land. There are multiple claimants to the bundle of property rights vested in urban lands and improvements to the lands including dwellings and offices. According to He (2007), such situation leads to the fragmentation of property rights, which provides urban players such as real estate developers with a substantial degree of difficulties in 'sorting out the fragmented property rights for all the houses' (p. 191).

When a redevelopment project takes place in dilapidated neighbourhoods, the fragmentation of property rights would occur in two dimensions. First, there are multiple claimants to the land use rights within the boundary of a redevelopment neighbourhood. These claimants would include various work-units and government institutions that have kept their offices and residential compounds to accommodate employees and/or retirees. The distribution of urban land during the period of planned economy made them legitimate holders of urban land use rights, bestowing the power to enter into negotiation with local authorities and/or developers when it comes to land assembly for redevelopment. Public sector tenants and private owner-occupiers also have their share to lay claim on the land use rights and corresponding compensation.

The second dimension involves the presence of multiple claimants on the property rights of residential dwellings. One particular case that reflects the legacy of the planned economy is the multiple occupants in courtyard houses in Beijing. Most courtyard houses, especially those located in inner city districts of Beijing, were confiscated after the 1949 Liberation to be used as rental dwellings or offices. Even though their restitution to original owners began to take place in the mid-1980s, the process has been a painstakingly long one and often, original owners failed to reclaim their properties due to the lack of official certificates to prove their ownership.

### **Property rights reform and its meaning to the urban poor**

As mentioned earlier in this chapter, the main purpose of the Property Rights Law is to clarify the extent of ownership and protect individual property rights in compliance with the 2004 amendment to the Constitution.

The underlying basis is to endorse the already proliferating private ownership. This leads to two discussion points worth considering: (1) the issue of ambiguous property rights in urban redevelopment; (2) the implication of protecting individual property rights.

### **Redefinition of ambiguous property rights in urban redevelopment**

Urban redevelopment during the planned economy period and up until the early 1990s focused largely on guaranteeing permanent residents' existing right of occupancy and right to urban space, which meant that re-housing on site or relocation to a resettlement housing was the norm. The monetarization of redevelopment compensation since 1998 was to follow the government policy that terminated any direct allocation of welfare housing by employers. The shifting emphasis on cash compensation coincided with the domination of property-based and profit-led redevelopment since the 1990s.

The property rights school claims that clear and well-defined property rights relations are what propel economic success. In former socialist countries, this was equated with the privatization of collective ownership of land and housing in order to standardize and institutionalize property rights for trading in the market. In China, the gradualist approach to any reform measures has meant that property rights reform has also been taking place on a piecemeal basis. The transition from socialist collective ownership to private ownership inevitably accompanied a high degree of ambiguity in the way in which property rights were distributed and administered (Ho, 2001, 2005; Oi and Walder, 1999).

Ambiguity, however, can be interpreted in different ways – from the viewpoint of the growth coalition consisted of land-based interests, and from the viewpoint of local residents who face permanent displacement upon redevelopment. Ambiguity results from the failure of the state to clearly delineate the extent of ownership of land use rights among stakeholders, which in turn facilitates the establishment of informal growth coalition to capitalize on financial gains (Zhu, 2002). In peri-urban areas, ambiguous property rights are the driving force of unco-ordinated land conversion of agricultural lands into non-agricultural use (Zhu and Hu, 2009). Here, the issue of ambiguity is largely 'between the central state and the local governments and *danwei*, when agents are actively pursuing their own interests' (Zhu, 2002, p. 44).

What would ambiguity mean to local residents and rural villagers? For homeowners with title deeds in their hands, ambiguity is no longer an issue, unless the legality of their title deeds is questioned. For residents in extra-legal tenure, among the bundle of property rights, what matters the most would be the right to use and inherit, that is to keep the use right ownership within families. Because of the different histories of property rights distribution and

redistribution in urban and rural areas, the formalization or clarification of property rights would also have differing impacts on local residents. For residential land users, this is less problematic. It is far more problematic for those in charge of land assembly (e.g. the central and local states or any other companies that are commissioned to carry out such tasks) who would have to negotiate with numerous individual rights holders. Redevelopment projects in Hong Kong are illustrative: the redevelopment of high-rise residential blocks is an arduous task because of the fact that numerous owners are entitled to claiming legitimate rights on their properties, thus 'fragmented property rights' becoming a huge obstacle to any neighbourhood renewal project (La Grange, 2004, p. 346). In management science, the issue of fragmented property rights is thought to have become a significant barrier to technical advancement and market innovation, as multiple complementary patents on a particular product leads to the fragmentation of property rights in connection with the said product, thus limiting firms' incentives for research and development (Clark and Konrad, 2008).

This is what has been argued by critics such as He (2007). Public rental stocks, for instance, which are owned and managed by either work-units or municipal housing bureaus, only allow tenants to hold on to use rights. Owners of privatized public rental stocks also command limited ownership rights as legal title deeds are often missing in the transaction. These act as a barrier to property development, which is removed by the intervention of entrepreneurial local states in Chinese cities (He, 2007). The aforementioned changes in compensation measures in 1998 and subsequent revisions are one example. The elimination of household factors in estimating redevelopment compensation and the simplification of cash compensation on the basis of formal dwelling space write off any pre-reform property rights relations. This makes it easier for developers to negotiate and push forward with urban restructuring and gain planning permission relatively easily, thus speeding up the process of land assembly. It drives, however, displaced residents towards financial uncertainties in their post-displacement life and much less security of tenure (Shin, 2007). On the other hand, if the process of urban redevelopment is driven less by entrepreneurial local states, fragmented property rights are sustaining local communities. There may be many rights claimants including work-units (as owners and managers of dwellings for their former/current employees), municipal housing bureau, registered tenants, actual users who may have sublet from registered tenants, etc. The multiplicity of rights claimants may possibly keep poverty neighbourhoods intact, less threatened by externally driven physical transformation, and more resistant to market forces.

Upon demolition and re-construction, the municipal district government on behalf of the state allocates and administers the redistribution of land use rights, and any commercial premises or houses built on cleared sites would have formal property rights and simplified ownership structure. Zhu and

Hu (2009) argues in their study on China's peri-urbanization that ambiguous property rights system in China's peri-urban lands leads to 'disordered land-rent competition' to capture land-rent differentials, which leads to a situation in which 'lands are often not used for the "highest and best" purpose' (Zhu and Hu, 2009, p. 1642). This suggests that clarifying property rights and erasing ambiguity would improve the land use efficiency and increase the value of land and housing, which accords with what Hernando de Soto has been advocating for many years (de Soto, 2000). The problem is that most local residents are hardly beneficiaries of any land and housing development that aims to achieve the 'highest and best' purpose. The experiences of urban redevelopment and gentrification in Chinese cities provide ample evidence for this (He, 2007; He and Wu, 2005; Shin, 2009).

Finally, one of the essences of the property rights reform in urban China accomplished by the 2004 amendment to the Constitution and 2007 Property Rights Law is the lawful protection of private property and requires non-violation of the state. This receives positive responses, especially from the homeownership sector. These measures undoubtedly provide enhanced security measures for the greater protection of homeowners from the 'entrepreneurial' state and the capital, which often work in coalition to proceed with arbitrary expropriation of private properties in the name of public interests (Shin, 2009; Fang and Zhang, 2003). The increased awareness of self-interest on the basis of property ownership may give rise to the emergence of what Lee (2008) refers to as 'property rights activism'. The recent phenomenon of 'nail households' (that is, households that refuse to vacate dwellings upon neighbourhood redevelopment and demolition) would indicate an incipient form of this activism.

### **Consolidation of unequal distribution of property rights**

It is now widely recognised that urban housing in China had been unequally distributed among residents under the planned economy. Occupational differences, ranks and the degree of relationship with gatekeepers and higher-ranking officers were identified as being the main causes of this unequal housing distribution (Logan et al, 1999; Gu and Colwell, 1997; Huang and Clark, 2002). Housing inequality problems in urban China were exacerbated by the occupational welfare system whereby housing-in-kind benefits varied according to the status of employers: employees were largely better off in the order of the following: (1) government workers, especially in central government; and (2) state enterprises better off than the collectives. Those living in dwellings owned and managed by local housing bureaus enjoyed the least space standard and quality (Lee, 2000). Since the enhancement of reform measures in the late 1990s, in-kind distribution of housing by work-units was ceased in principle, and urban residents were to be provided with a new set of choices (e.g. subsidized sales of public houses in the 1990s or

the housing provident fund for employees). However, these choices were often in favour of those urban residents who were already privileged in the previous pre-reform redistributive system (Li, 2007). This process excluded those who were affected by the economic reform measures (evident examples being those laid off or unemployed) as well as those temporary urban in-migrants (Wang, 2000).

The monetarization of redevelopment compensation since 1998 has made it official that the extent of the existing formal dwelling space would be considered when it came to cash compensation. This presents problems especially to those residents who failed to benefit from the earlier welfare housing allocation by their work-units. During the period of urban housing reform in the late 1980s and early 1990s, urban residents affiliated with state sector employers received various subsidies to make them homeowners. The most common method was to buy work-unit houses, either existing or new, with cash subsidies (or price discounts) that took working years and household registration factors into account. Civil servants, party cadres and managerial/professional staff of state-owned enterprises tended to be 'offered the best deals (in terms of price and quality of housing)', and their transition to homeownership accompanied 'huge redistribution of wealth in society' (Li, 2007, p. 158). For instance, a couple interviewed by the author bought a 90-square-metre two-bedroom flat in a high-rise estate in 1996. Both husband and wife had been working for research institutions in Beijing, and their combined working years were given consideration when calculating price discounts. The final price they had to pay was about 40,000 Yuan, and they spent 20,000 Yuan in addition for furnishing and interior decoration. This was in contrast with another interviewed couple: the husband used to work for a state-owned enterprise, which was not able to provide housing subsidies. The couple was living in a 40-square-metre non-self-contained flat in a medium-rise estate built in the mid-1950s. Given the husband's seniority at the time of retirement, he was entitled to a 90-square-metre flat, but his work-unit was too poor to provide cash subsidies for this under-entitlement part (that is, 50 square metres). Under the current compensation system, this neglect would be equated with the loss of a substantial share of family property assets. The interviewee feared that once the house was demolished, there would be no other way to correct the ill-doing that deprived him of his legitimate claim according to the reform policies. This was indeed very likely to happen. As demonstrated by Shin (2007), the total amount of cash compensation under the 1998 and 2001 compensation policy was clearly proportionate to the formal dwelling size, suggesting that the winners of pre-reform period welfare housing allocation would continue to enjoy greater benefits upon displacement and redevelopment of dilapidated neighbourhoods. In short, property rights reform over the last two decades has acknowledged the status quo of property rights ownership regardless of their origin of acquisition.

## Conclusion

People who were in better-off positions during the planned economy era have a greater chance of securing private ownership at favourable terms (in terms of both price and housing quality) in the process of urban housing reform. Unlike those working in better-off state sectors (with cash or in-kind incentives) or joint ventures (with higher salary), residents in dilapidated neighbourhoods were 'trapped' in poverty-stricken neighbourhoods, as they no longer had protection from either work-units or local authorities. Various forms of legal and extra-legal tenure have come to coexist in these neighbourhoods, as residents adapt to the changing structure of property rights in times of implementing land and housing reform. In this regard, neighbourhood redevelopment represents the process of simplifying property rights and regularizing extra-legal tenure. As a result, homeownership and private property rights become dominant in redeveloped neighbourhoods.

In the pre-reform planned economy, property ownership was in principle based on one's needs, even though the actual distribution of property rights was skewed and unequal. The property rights reform and housing privatization, however, 'created the conditions for a new logic of entitlement defined by rules of individual property and private ownership' (Davis and Lu, 2003, p. 96). In the process of post-socialist transition in Eastern Europe, the development of private property rights was often recommended as part of reform policies, but in practice, this accompanied 'the reallocation of already existing rights that have been lodged elsewhere' (Marcuse 1996, p. 143). This chapter has shown that property rights reform in China has contributed to the consolidation of existing inequalities in housing consumption and asset accumulation, and subordinates various types of extra-legal tenure to the logic of private ownership.

As Gilbert (2002) notes, for the poor people, 'illegality is rarely the principal problem' and that the proliferation of informal settlements in Latin American cities owes to the reality that demolition has never been the norm (p. 6). Illegality or as discussed in this chapter, extra-legality has not been a problem in China, at least from the perspective of poor residents' access to use rights in poverty-stricken neighbourhoods, and rural villagers' investment in housing for profitable gains. However, unlike the practices of Latin American cities, Chinese cities experience demolition as a norm, which significantly threatens poor families' tenure security. Without the presence of electoral democracy to win popular support from the electorates, urban poor residents in China's poverty neighbourhoods face a difficult fight to preserve their tenure security and their right to the city. Gilbert's argument that self-help housing nurtures the idea of private ownership and fosters conservative values among the poor (*ibid*, p. 6) may also apply to post-reform capitalist China. The homeownership as an ideological basis in times of rapid economic growth and societal transition in the East Asian

region (Ronald, 2008) has also sprung up in urban China, and the protection of individual private ownership of real properties may have become the basis for maintaining social stability. This, however, favours the winners of the reform period, and leaves 20 per cent of the people who have failed to enter the homeownership tenure. Those in extra-legal tenure would be the most vulnerable, as their control of use value is substantially outweighed by their deprivation of exchange value in the process of profit-led urban redevelopment.

This does not necessarily suggest that property rights reform to enhance the protection of individual private property is not significant for the poor in extra-legal tenure in poverty-stricken neighbourhoods. As explained briefly earlier, the implementation of the Property Rights Law and the 2004 amendment to the Constitution may possibly lead to 'property rights activism', especially among homeowners. The growing emphasis among critics on the governance of homeowners' associations also reflects this expectation (Tomba, 2005; Read, 2003). In poverty neighbourhoods, however, the challenge would be collecting a sufficient number of homeowners to make sure some degree of influence can be exercised. For rural villagers in peri-urban areas with homeownership, this may be less insurmountable than the residents in dilapidated inner city neighbourhoods where public rental tenure is dominating. Then, as far as safeguarding the tenure security and resisting demolition and/or forced eviction from taking place are concerned, perhaps the way forward is to resort to the fragmentation of property rights, supported by the coalition of residents on the basis of rights-based awareness.

## Note

1. Here, 'extra-legal' tenure is used instead of 'illegal' tenure, as the former refers to tenure outside legal domain without necessarily criminalizing residents (Varley, 2002, p. 450).

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**Part III**  
**Rural–Urban Migration and**  
**Marginalization**

# 8

## Rural–Urban Migration in China: Scale, Composition, Pattern and Deprivation

*Athar Hussain and Youjuan Wang*

### Introduction

This chapter has two aims. The first is to present a comprehensive account of the scale, composition and the pattern of rural-to-urban migration in China. The second is to discuss issues arising out of the presence of a large population of migrants in cities with reference to housing and basic education. Here migration refers to the voluntary movement of rural workers, who leave their home villages for urban localities to seek employment in industry and services, either temporarily or permanently. Their urban destination could be any of the 661 localities that fall under the official heading ‘cities and towns’. Each of these localities has an administrative status in the four-level division: provincial, sub-provincial, prefecture-level, and county-level. The status determines the scope of decision-making powers of the government of the locality. The distance covered by migrants can vary from a short trip to a neighbouring town or city to a journey to a city on the other side of the country.

It is important to note that ‘rural’ and ‘urban’ have particular connotations in China (Chan, 1994; Chan and Zhang, 1999; Zhou and Ma, 2003). Normally, the ‘urban’ refers to localities with a combination of a high population density and industry and service being the principal income sources. Reflecting the limited cultivable land area relative to population, numerous rural counties in China have long had population densities similar to those in urban or peri-urban settlements. With rural industrialization, many such counties have also come to derive most of their income from industry and services. Therefore, they are urban in terms of both population density and the structure of the local economy. Yet, they continue to be classified as ‘rural’; and the classification matters because it determines powers at the disposal of the local government. They are ‘rural’ in name but ‘urban’ in characteristics.

The findings on migrants and migration patterns reported here are based on the data from the 2004 rural household survey conducted by the National

Table 8.1 Provincial groups in China

Coastal	Central	Western
Beijing; Tianjin; Hebei; Liaoning	Shanxi; Jilin; Heilongjiang	Inner Mongolia; Guangxi;
Shanghai; Jiangsu; Zhejiang	Anhui; Jiangxi; Henan	Chongqing; Sichuan; Guizhou
Fujian; Shandong; Guangdong	Hubei; Hunan	Yunnan; Tibet; Shaanxi
Hainan		Gansu; Qinghai; Ningxia Xinjiang
Percentage of the total population: 39.4%	Percentage of the total population: 32.5%	Percentage of the total population: 28.00%

Bureau of Statistics (NBS). By design, the survey excludes urban-to-urban migrants and does not distinguish between rural-to-rural and rural-to-urban migration. In the present context, the neglect of the first is not a lacuna in the present context given that the principal focus here is rural-to-urban migration. But the second does make a difference because rural-to-rural migration is reckoned to be significant.

In the NBS dataset there are 312 entries for each household including details of household composition, income and expenditure, and production. For the purposes of reporting the findings from the data, 31 provinces are grouped as follows: coastal, central, and western regions (Table 8.1).

### Scale of rural–urban migration

Scaling up the results of the NBS rural household survey, the outflow per year of migrant workers from the countryside in the four years from 2003 to 2006 for the whole country is as presented in Table 8.2. The annual outflow of ‘migrant workers’ represents the total number of rural workers who left their usual locality of residence for work outside during the calendar year. This figure includes both permanent and temporary workers. The latter group also includes many making more than one trip during or over the years. But a worker is counted only once during the year regardless of the number of trips during the year. There is no minimum duration of trip for a worker to be counted as a migrant, in contrast to, for example, the population statistics which count as migrants only those staying away for six months or more. The above figures cover only the workers; the figures for the outflow from the countryside would be much higher if non-participants in the labour market were also included.

Table 8.2 Migration out of rural areas, magnitude and composition

	2003	2004	2005	2006
Migrant workers outflow, million	113.90	118.23	125.78	132.12
Rural labour force, million	489.71	496.95	503.87	516.09
% of the rural labour force	23.2	23.8	25.0	25.6
Lone migrants, million	89.60	93.53	100.38	105.68
(% of the total)	(78.7)	(79.1)	(79.8)	(80.0)
Emigrating with household	24.30	24.70	25.40	26.44
(% of the total)	(21.3)	(20.9)	(20.2)	(20.0)

It is important to point out that the figures for internal migrants in Chinese statistics vary very widely. There are two sources of variation: first, difference in the location where data are collected and, second, the definition of a migrant. There are two different ways of counting migrants: (a) Destination-based: counting the population with household registration in a locality other than the current place of residence; (b) Origin-based: counting the population with household registration in the locality but currently resident in another locality.

Whereas the destination-based surveys are usually conducted in cities, the origin-based surveys are normally conducted in rural counties. They do not yield the same totals. Cities-based surveys exclude rural-to-rural migration, which can be substantial. In turn, counties-based surveys exclude city-to-city migration. There are various definitions depending on the time since arrival at current location and the official status, which divides into three categories: granted a change of *hukou* from the original to the current location, with a temporary *hukou* for the location and without a temporary *hukou*. The definition of a migrant here is very broad, and encompasses all other definitions. It includes everyone leaving the usual place of residence for work during the calendar year.

In the Chinese context permanent migrants pose a particular problem for data collection. They move with their households, leaving behind no trace in the countryside in the form of a part of a household, who would serve as the source of information for a survey, or a dwelling, which is the identifier of a household. Once migrated, such households fall outside the frame of the annual rural household survey. Although living and working in an urban locality, a large majority of permanent migrants continue to be regarded as rural on the grounds that they have yet to get their rural *hukou* changed. As a result, they also fall outside the frame of the urban household survey. The exception is a minority who succeed in getting their *hukou* changed, which gives them the status of a permanent urban resident. The combination of the impediments to getting the *hukou* changed and migration creates a blind spot in the coverage of rural and urban household datasets whereby a significant percentage of the population falls outside the sample frame.

The figures in Table 8.2 give a more comprehensive picture of the number of rural workers involved in migration than do various current figures on migrants. In the three-year period 2003 to 2005, the numbers involved in migration have risen by 18.2 million, and in 2006, more than a quarter of the rural labour force was involved in migration, with most of them returning after a period. The notable feature of the figures is the sheer magnitude, not only in absolute numbers but also relative to the total rural labour force.

The dataset does not differentiate directly between those who leave the countryside permanently and those who leave temporarily and return after a period. But it does provide a breakdown of the total between those who emigrate individually and those with families, a distinction which overlaps with the one between permanent and temporary migrants. Individual migrants leaving their households behind have a good reason to return, a reason that is absent when the whole household migrates. Individual and household migrants are, however, related in that emigration of a household may follow temporary migration by some members of the household. The notable feature of the above table is that a vast majority of migrants, between 79 and 80 per cent are single individuals with their households remaining in the countryside. For most of these, if not all, migration is temporary and, most likely, repetitive activity. It is the temporary nature of much of migration that frames most of the salient issues concerning migrants, such as housing, participation in the social insurance schemes and the education of children left behind in the countryside. However, migration by families, which raises particular issues, is still a substantial 20 per cent. A justifiable assumption is that all lone migrants return to the countryside, and all those who leave with their households leave permanently and are counted as migrants until they are fully integrated. As shown below, permanent migrants will generally constitute a higher proportion of the migrant population in the destination cities and towns than they do of the rural workers leaving the countryside.

The figures in Table 8.2 represent, for the most part, the numbers who leave the countryside or the numbers arriving in cities during the year; those are flow figures. This raises the question of how many migrant workers (both temporary and permanent) there are in urban areas at any time. It is this population rather than in- and outflow of migrants that is relevant for policy. The number of temporary migrants depends on both inflow and their average period of stay. Focusing on 2006, the average outflow from the countryside or inflow into cities per month is 8.8 million temporary migrants per month. On average, they stay more than 8.3 months. Thus, the total number of temporary migrants in the last quarter of 2006 will be just over 73 million, given by (8.8 million per month multiplied by 8.3 months). The total number of permanent migrants will be equal to the number of permanent migrants yet to be integrated with the local population, one index of which is the conversion of *hukou*. If the average integration period is two years, then their

Table 8.3 Integration period for permanent migrants

Years	Total number of migrants, million (Temporary, Permanent)
2 years	125 (73, 52)
3 years	150 (73, 77)
4 years	174 (73, 101)

total number at the end of 2006 will be the sum of the arrivals of permanent migrants in 2005 and 2006, which is approximately 52 million. The total number of migrants, including both temporary and permanent migrants for various integration periods will be as follows (Table 8.3).

The general point is that given the institutional impediments to the integration of migrants, the integration period is likely to be long, certainly longer than the average length of stay of temporary migrants. In all such cases the proportion of permanent migrants in the migrant population in cities and towns (the destination) will be higher than their proportion in the outflow from the countryside. Given a long enough integration period, permanent migrants may make up a majority of the migrant population in cities, even though they may constitute only a small minority of workers leaving the countryside.

How does rural-to-urban migration, as indicated by Table 8.2, look from a comparative international perspective? The American population is generally reckoned to be highly mobile, with 3 per cent of the total population moving across state boundaries. Although not strictly comparable with the US figure, with 15 per cent of the rural labour force (in full-year equivalent) involved in migration the scale of current internal migration in China is high by international standards. This is the exact opposite of what one would expect, given the *hukou* system and the long history of restrictive policy towards rural-to-urban migration. The implication is that changes introduced since 2000, that is, to relax the control over migration, have radically altered the internal migration regime.

The division of rural-to-urban migrants between permanent and temporary is universal but there are two features particular to China that shift the balance towards temporary migration. One is the household registration (*hukou*) system and its ramifications. The other is the terms on which land is distributed amongst rural households. Arguably, these two reduce permanent migration but not temporary migration. The household registration system is not used to control travel or any longer to control the taking up of employment outside the usual place of residence, but it accentuates the

differences between migrants and permanent residents and prolongs the time it takes for migrants to integrate with the local population.

The land tenure system acts as an impediment to a permanent emigration from rural areas to urban areas because of the way it is structured and operates in practice. Land plots are not transferred to rural households in perpetuity but are leased for a definite period on a renewable basis. In principle, land leases can be sold or transferred freely, but in practice, this is subject to severe restrictions. Depending on the locality, land allocation to households is occasionally revised to take account of births, deaths, and migration. Long-term absence from the village may lead to the loss of the household land plot. Change of household registration leads to the revocation of the right to a land plot for cultivation and to build a house. Rural households receive little or no compensation for giving up user rights on the allocated land. This arrangement is in effect tantamount to a tax on leaving farming completely. The close connection between the land tenure and the household registration indicates that a change in the framework that underpins the latter, such as the distinction between 'agricultural' and 'non-agricultural', has important repercussions for the allocation of land to rural households. The implication is that these have to be taken into account when considering a change in the household registration system. In sum, compared with the hypothetical situation whereby after a period migrants automatically acquire the status of permanent residents and rural households are able to sell their leases freely, the current situation raises the cost of permanent relative to temporary migration.

The migration flows and the migrant population of the magnitudes indicated in Tables 8.2 and 8.3 point to a substantial impact on the rural economy (the origin) and the destination (for the most part the urban economy). To get a more accurate idea of impact, one needs to take into account two facts. First, lone migrants (temporary migrants) who make up a large majority of migrants are on average away for 8.3 months, rather than for the full 12 months. Their numbers have to be proportioned (i.e. multiplied by the ratio of 8.3/12) to obtain the equivalent number of workers absent for the full 12 months (full-year equivalent). Second, workers who leave permanently no longer have a continuing impact on the rural economy and should therefore not be counted when analysing the impact of migration. Two indices of the economic impact of rural-to-urban migration are the ratio of the number of temporary migrants in full-year equivalent to the rural and to the urban labour force. The figures are presented in Table 8.4.

The conclusion is that migration has a significant impact on the rural labour market. The impact is unevenly distributed; in some localities the ratio is high enough to cause a labour shortage in rural localities sending migrants. In terms of this index the impact of rural-to-urban migration should be far greater on the urban than on the rural labour market because the urban labour force is substantially smaller than the rural labour force.

*Table 8.4* The migration population in China in comparison with the rural labour force

	2003	2004	2005	2006
Full-year equivalent of temporary migrants, million	61.97	64.69	69.43	73.10
Rural labour force, million	489.71	496.95	503.87	516.09
Full-year equivalent of temporary migrants / Rural labour force	12.7%	13.0%	13.8%	14.2%

For example, in 2006, the urban labour force was 41 per cent smaller than the rural labour force. Thus, 132 or so million rural emigrants in 2006, most of whom went to urban areas, amounted to 47 per cent of the urban labour force compared with 26 per cent of the rural labour force. In the rural economy the impact flows through two channels: first, through a rise in household income; and, second, through a lower labour force employed in the rural economy, especially farming, than would otherwise be employed there. The latter indirectly raises rural household income by reducing surplus labour in farming.

## Composition of the migrant population

The composition of the migrant population in terms of gender, age, and educational attainment is of crucial importance in determining the impact of rural-to-urban emigration on the rural and urban economy and society. The crucial feature is that the composition of migrants in terms of gender, age and education is very different from that of the rural labour force or population. Some of the salient issues concerning migrants are associated with this divergence.

### Gender

Table 8.5 gives the gender breakdown of migrant workers nationwide and from the three regions at the departure points. There are two notable points about the figures. First, conforming to the pattern in many countries a large majority of migrant workers are male, although women make up a substantial minority. Further, the percentage varies across the regions. It is the highest in the coastal region, followed by the central and western regions. Variation in the gender balance is even more marked across cities receiving migrants. For example, in Shenzhen and a number of cities and towns in the Pearl River Delta, women constitute a large majority of migrant workers. Second, compared with their male counterparts, women migrant workers tend to be younger. Related to this, they are more likely than male migrant workers to be unmarried (for a discussion, see Roberts, 2002). The age profile

*Table 8.5* Gender composition of migrant workers

	Percentage of women at origin
Nationwide	33.7
Coastal region	37.4
Central region	26.0
Western region	23.6

and the marital status of women migrants reflect a prevalent life cycle pattern of rural women. Many of them do not continue education beyond the age of 15 or 16 and remain single for several years before getting married. It is during this period that many of them become temporary migrants (see also Fan, 2004).

### Age

To bring out the interaction of age, gender, and migration, Table 8.6 presents the data for six categories: male, female, and all (both male and female) for the rural labour force, including migrants, and for just migrant workers. The last entry in each column gives the median age, which is the summary statistic for the age distribution of the category. There are two notable points about the table. First, both male and female migrants, which are respectively subcategories of male and female members of the rural labour force, are clustered at the younger age end of the distribution and have very few older members. Only 19.6 per cent of male migrant workers are aged 40 and above, compared with 45.9 per cent of the male rural workers. Accordingly, the median age of male migrant workers is 9.2 years less than that of their counterparts in the rural labour force – 27.7 compared with 36.9. The age bias is even more pronounced amongst female migrant workers; only 14.4 per cent of them fall in the age range of 35 and above, compared with 57.7 per cent of females in the rural labour force. The median female migrant worker is 15.1 years younger than her counterpart in the rural labour force.

Second, the age profiles of males and females, while very similar in the rural labour force, are very different amongst migrants. Across the age ranges the differences between Columns (1) and (3) are minor, as are the corresponding median ages: 36.9 and 37.3. But the differences between Columns (2) and (4), which refer to male and female migrants, are very marked. Female migrant workers are heavily concentrated at the younger age end of the distribution – as high as 62 per cent of them fall in the narrow age band of 15–24 years. In comparison, male migrant workers, although generally young, are more spread out across the age ranges. Particularly striking is the wide gap in the youngest age band of 14–19 years, with a high 28.4 per cent amongst female migrants and less than half of that, 13.3 per cent, amongst their male counterparts. This may be a reflection of the general phenomenon

Table 8.6 Age composition of rural labourers and of migrants by gender (%)

Age Range	Male		Female		All	
	Rural LF (1)	Migrants (2)	Rural LF (3)	Migrants (4)	Rural LF (5)	Migrants (6)
15-19	15.1	13.3	14.7	28.4	14.9	18.3
20-24	11.9	24.2	11.1	33.7	11.5	27.1
25-29	8.5	16.8	7.5	14.2	8	15.9
30-34	8.6	13.2	9.1	9.2	8.8	12
35-39	10.1	12.9	11.4	7.4	10.7	11.2
40-44	9.5	8.3	10.4	3.7	9.9	6.8
45+	36.4	11.3	35.9	3.3	36.1	8.7
Median age	36.9	27.7	37.3	22.2	37.2	25.4

of lower educational attainment amongst females than amongst males (see Table 8.8 below). The gap suggests that whereas girls predominantly finish education and enter the labour force upon completing the lower middle school, a higher percentage of boys than girls go on to the higher-middle stream and therefore enter the labour force later.

To summarize, the median female migrant is young, just over 22 years of age. She entered the labour force at 15 upon finishing the lower middle school, or after nine years of basic education. She left to work in a city soon after her twentieth birthday. Her sojourn as a migrant worker ends a few years later upon marriage. The median male migrant worker is 27.7 years old, almost six years older than his female counterpart. It is likely he also finished education after the middle school but with some possibility of a period in the higher-middle school stream. He left to work in a city a few years later than his female counterpart. Unlike with her, marriage did not mark a major break in his stint as a migrant worker. Further, his work history consisted of an alternating sequence of work spells in the city and the countryside.

### Educational attainment

Turning to the educational attainment of the migrant workers, Table 8.7 presents the distribution of educational attainments for each of the three regions. Starting from the lowest rung of educational attainment, there is still a substantial minority that has completed fewer than nine years of mandatory education, which was promulgated in 1986. This includes the illiterates and those with only five years of schooling (the primary level). Their percentage ranges between 13.4 per cent in the coastal region and as high 28.9 per cent in the western region. A large majority, 65.4 per cent countrywide, has just 9 years schooling, up to the lower middle school.

By way of comparison, Table 8.8 presents the data on the educational attainment of migrant workers (all regions taken together) and the rural population aged 15 or more, which is a close proxy for the rural labour force.

*Table 8.7* Educational attainment of migrants (%)

	Illiterate	Primary	Lower Middle	Upper Middle	Middle Occupational	Higher
All China						
Coastal	0.8	12.6	67.0	12.7	5.0	1.9
Central	1.4	14.6	68.1	11.7	3.0	1.1
Western	4.5	24.4	59.4	9.2	2.0	0.6

*Table 8.8* Educational attainment of the rural population, above-15 (%)

	Illiterate	Primary	Lower Middle	Higher Middle	Higher
Migrants	2.0	16.5	65.4	11.4	3.5
Rural Population, 15+	11.8	39.9	40.8	6.6	0.9
Of them Male	7.0	38.4	45.2	8.3	1.1
Of them Female	16.8	41.5	36.2	4.8	0.7

Comparing across educational levels, it is clear that migrants are a significantly better educated section of the rural population. This is due to the fact that migrant workers are predominantly young (Table 8.6 above) and have benefited from improvements in rural schooling. Nevertheless, the educational attainment of migrants is low. Almost a fifth of them, (18.5) are illiterates or have had only 5 years of schooling, compared to the target of at least 9 years of schooling for all. Further, the educational level of female migrant workers is significantly poorer than that of their male counterparts.

What are the implications of the low educational attainments of migrants for the types of jobs they do, and how does mass migration affect the educational attainment of younger members of the rural population or would-be migrants? Migrant workers are mostly engaged in unskilled and menial jobs, many of which are shunned by local workers. The common occupations for women migrant workers include housemaids, cleaners, serving staff in restaurants and hotels, and assembly operations in the manufacturing industry. There is a close correspondence between the low levels of educational attainment of migrant workers and the jobs they commonly have. The causation runs from low education and lack of skills of migrant workers to the job types. The implication is that migrant workers would get better jobs if they continued schooling beyond the lower-lower middle level.

In general, migration widens employment opportunities and should thereby raise return to education and increase the economic incentive to acquire further education. However, this may not be valid in some cases for two reasons. First, in some cases individuals are assigned to jobs on the basis of not only individual qualifications but also the prevalent characteristics

of the group to which they belong. Thus, a migrant worker who continued education beyond the lower-middle level may still get the same jobs assigned to the large majority who did not continue. Second, by opening up the possibilities of getting better-paid jobs than those available in the countryside, migration increases the immediate cost of continuing schooling beyond the lower middle level, when reckoned in terms of foregone earnings. The implication is not that further education beyond the mandated 9 years is of no consequence. Rather the argument is that leaving it to individuals to continue education beyond the lower middle level and acquiring skills may not succeed in raising the general level of education attainments of migrants. To accomplish this requires a policy aimed at raising the incentive for the whole group.

### Duration of migration

As pointed out above (Table 8.2), close to 80 per cent of migrants are lone individuals with their households remaining behind in the countryside. Most, if not all, of these must be temporary migrants who will be returning to the countryside. Many of these would be repeating the round trip in future. Temporary migration raises the issue of the duration of migration. Table 8.9 presents the data on the length of absence of migrants from the countryside. The sample consists of lone individual migrants and excludes migrants leaving with their families. The information on duration is collected retrospectively.

The length of stay depends on the destination. Almost two-thirds of migrants in the coastal region, around 47 per cent, stay nine months or more. In contrast, the percentage of migrants staying nine months or more is substantially lower in the central and western regions. The pattern raises two issues: first, the likely reason for the difference and second, the implication of the length of duration. The most likely reason for a longer stay is a longer employment contract, which is more common in the manufacturing than in the construction industry. Here it is interesting to note that the largest employer is the manufacturing industry in the coastal region but the construction industry in the central and western regions.

*Table 8.9* Duration of migration

Destination	Months		
	1-3	3-9	>9
Coastal	3.7	30.7	65.6
Central	10.2	47.4	42.4
Western	12.7	46.2	41.0
Total	6.0	35.6	58.4

## Poverty and deprivation amongst migrants

Migrants suffer multiple disadvantages (Solinger 1999; see also Solinger in this volume; He et al., 2009), which may be grouped under three headings: (a) low income/expenditure. There are competing arguments in favour of using income or expenditure as the indicator of poverty, but the general approach of using a money measure remains the same, so in this context income/expenditure are used interchangeably; (b) specific deprivations in various dimensions, e.g., poor housing and foregoing needed medical care; (c) social exclusion or lack of power.

### Poverty

There are a number of issues involved in defining and measuring poverty. Is the focus solely on material aspects of life, or does it also extend to the social and cultural aspects? Is the concern with what may be achieved on the basis of disposable resources, or with what is actually achieved? Given that most rural-to-urban migration is circular, a temporary stay in a town or city followed by a return home, how crucial is the time dimension of deprivation? Each of the above represents a particular aspect of poverty. They overlap, but only partially. Each aspect is relevant for policy. The implication is that alleviation of poverty amongst migrants requires a combination of policies directed at various disadvantages, rather than just one, such as low income.

The average wage rate of migrant workers is 783 Yuan per month, slightly less than half of the average wage of local workers in towns and cities. The wage rate among migrants varies regionally: the regional averages are 794 Yuan per month in the coastal region, 718 Yuan per month in the central region, and 706 Yuan per month in the western region. Further, it varies by gender; the average wage rate is lower for female migrants than for male migrants. It also varies by age and education. The minimum wage provision, whereby local governments fix the local wage rate for their locality, also applies to migrant workers. In principle, if a migrant worker is employed and paid the minimum wage, then his/her income is higher than local poverty line as defined by the 'Minimum Living Standard Support' (MLSS, i.e. *dibao*, see also Solinger in this volume). The local government is expected to observe the following ordering when determining the following, defined on the monthly basis: MLSS allowance is lower than unemployment insurance allowance, which is lower than the minimum wage rate.

However, the officially set minimum wage rate is not fully enforced. There are numerous instances of migrant and local workers receiving less than the statutory minimum. Because of their low bargaining position, the violations are more frequent among migrant than among local workers. A more serious issue is the delay or the non-payment of wages. This problem was particularly serious in 2003, when the central government started its campaign

against the non-payment of wages. It has since diminished but far from disappeared and is still common in the construction industry. Recovering wage arrears is made difficult by the indirect recruitment of migrant workers, whereby a contractor recruits the workers and supplies the recruited workers to various enterprises according to demand. The recent labour contract law that came into force on 1 January 2008 should make it easier to pursue claims of unpaid wages.

Turning to the poverty line, the usual analysis of poverty is conducted in terms of expenditure or income required for meeting basic needs. Depending on what it is used for and who determines it, a poverty line can be either just a diagnostic line or both a diagnostic and a 'benefit line' (line used for poverty relief).

The two are, in principle, distinct and can be very different. The diagnostic poverty line is purely for the purpose of identifying the poor. It is not constrained by how to provide assistance to those below the poverty line. Such a line can also serve as a benchmark for assessing the adequacy of the existing benefit lines and setting a horizon for poverty alleviation. A notable example of such a line is the \$1-a-day line. In contrast, the benefit line serves to identify recipients of social assistance and determine the magnitude of assistance. Therefore, it is directly affected by the concern with the financing of assistance. The obvious example of a 'benefit line' in the Chinese context is one used to determine eligibility for MLSS, i.e., a household is entitled to an allowance when its income per head falls below the line determined by the local government. For most migrant workers, the MLSS line is not relevant because they are entitled to MLSS in the locality of origin, not where they are actually living and working.

What line should be used to analyze income/expenditure poverty amongst migrants? The answer is that it cannot be one poverty line because of two crucial differences between migrants: first, the duration of their stay in an urban locality varies very widely and, second, while a large majority of migrant workers is separated from their households, which are still in the countryside, a percentage of their households accompany them. The latter group will grow in numbers over time because they are less likely than the former to return to the countryside. Whether the household is split between the city and the countryside or is entirely based in the city matters because the household is the unit of consumption based on the sharing of incomes. Further, the official poverty lines are very different for urban and rural areas and so too is the cost of living. Whereas the official poverty line for rural area is 683 Yuan per person per year, the urban poverty lines, as used for providing MLSS, ranges between 1,200 to 3,600 Yuan per person per year with an average of 2,016 Yuan per person per year. A rural poverty line calculated from an integrated urban-rural household survey and a consistent definition of income, which currently does not exist, would still differ from the urban poverty line because of differences in the cost of living.

There are strong arguments in favour of treating migrants with their households in an urban locality in the same way as the local population for the purposes of analyzing poverty and providing assistance, after a period such as six months, which is the time period used in Chinese statistics to distinguish between visitors and migrants. But there is no clear-cut choice in the case of migrants with split households. There are two possible alternatives. The first is to use a weighted average of rural and urban poverty lines with weights being equal to the split of household members between the city and the countryside. The second is to focus on individual migrants as urban units and to disregard the part of their households still in the countryside. Both alternatives suffer from disadvantages, but the second is preferable since it is more transparent.

How does the incidence of income/expenditure poverty amongst migrants compare with that among local workers? An answer is provided by an analysis of a one-off survey conducted by NBS in 1999 (hereafter referred to as the 1999 survey) aimed at collecting data on issues concerning the urban population, such as housing and migration as well as income and expenditure. In contrast to the sample of around 39,000 used for annual urban household surveys, the 1999 survey used a sample of 137,000 households supplemented later by an additional sample of 3,600 immigrant households. The additional sample was collected because the first sample contained too few immigrant households, only 2.6 per cent of the total. Sampling was restricted to migrants who have been resident in the current locality for at least six months. The data sample covers 146 cities, 80 county towns, and 72 townships drawn from all 31 provinces. Aside from the population censuses, the 1999 survey provides by far the most comprehensive coverage of the urban population.

However, the dataset is not well designed for poverty analysis for three reasons. First, the 1999 survey collected household income and expenditure only for the month of August 1999, when the survey was conducted. Neither income nor expenditure is evenly spaced over the year. As a result, income and expenditure reported for one month is likely to show much greater fluctuation than would monthly income and expenditure obtained by dividing the yearly total by 12. For example, whereas the 1999 survey records a significant number of households with zero incomes, annual household surveys report none. Second, unlike the annual urban survey, the one-off survey did not collect data on components of expenditure, which rules out the possibility of focusing on comparatively regular items of expenditure, such as that on food, for the purposes of poverty analysis. Third, the income and expenditure data in the 1999 survey are subject to a high margin of error because they are based on a one-off response by sampled households rather than on several visits by surveyors.

Two related implications follow from the above considerations. First, the poverty rates obtained from the 1999 survey are not strictly comparable to

those obtained from the regular annual household survey. The former is likely to be higher than the latter because of the comparatively high dispersion of income and expenditure in the 1999 survey. Second, the analysis of poverty amongst migrants has to be from the comparative perspective of poverty among permanent residents. Around 95 per cent the sample in the 1999 survey is comprised of permanent residents, which makes the survey biased. To ensure comparability between migrants and permanent residents a matched sub-sample was selected from the 1999 survey as follows: in the first round, all households with zero income were excluded. In the second round, for each of the 31 major cities a sub-sample of permanent resident households was selected on a random basis such that their number is the same as that of immigrant households. The 31 cities, which cover all the major urban centers, include 26 provincial capitals and five other major cities: Dalian, Ningbo, Xiamen, Qingdao, and Shenzhen.

The 1999 survey does not provide any information on expenditure other than the total for one month. As a result, the incidence of poverty among residents and migrants is analysed in terms of the poverty lines for 31 cities calculated from the 1998 annual urban household survey. These lines are reported in Table 8.10.

One notable feature of the table is the strikingly high poverty rates in some cases: for example, amongst locals in Huhot, Shenyang, and Xian and amongst migrants in Huhot, Nanjing, Jinan, Zhengzhou, Yinchuan, and Urumqi. Also notable are the wide variations in the poverty rates both amongst locals and migrants. These two features partly reflect the type of data used to derive the poverty rate. On average (the last row entitled 'all cities', column 3), the incidence of poverty amongst migrants is around 50 per cent higher than amongst locals, a figure that appears plausible. One may also note that in ten out of 31 cities (almost a third) the poverty rate amongst migrants is lower than that amongst locals, which emphasizes the point that the poverty rate amongst migrants should not be assumed to be always higher than among permanent residents.

Migrants occupy a disadvantageous position in the urban labour markets. They are restricted to the jobs that permanent residents do not want. Moreover, they may receive lower pay for the same job than do permanent residents. Given these facts, the presumption is that the incidence of poverty is higher among migrants than among permanent residents. This may well be true in many instances. However, the conclusion is not automatic and may not always hold. Here, two considerations are relevant. First, low pay does not automatically translate into poverty. The chances of a person in full-time employment falling below the poverty line are low because poverty lines are low relative to the corresponding local average wage (see also Wu, 2007). Second, the unemployment rate among migrants may be lower than that among permanent residents. The reason is that the decision to migrate may be conditional on the promise of a job. Further, a migrant may

Table 8.10 Comparative poverty rates, migrants and locals

	Poverty Line (Yuan)	Poverty rates		
		Locals (%)	Migrants (%)	The ratio of migrants to locals
Beijing	3118	4.6	10.3	2.3
Tianjin	2912	3.5	11.9	3.4
Shijiazhuang	2706	5.1	13.3	2.6
Taiyuan	1894	14.9	17.4	1.2
Hohhot	2144	23.0	28.7	1.2
Shenyang	2118	22.9	15.0	0.7
Dalian	2901	14.1	14.3	1.0
Changchun	2048	8.3	8.1	1.0
Harbin	1899	7.1	7.6	1.1
Shanghai	3652	5.8	18.3	3.1
Nanjing	2972	9.5	29.0	3.1
Hangzhou	3414	7.1	7.8	1.1
Ningbo	2940	3.7	5.7	1.5
Hefei	2283	12.2	10.9	0.9
Fuzhou	2161	3.8	2.7	0.7
Xiamen	3543	8.2	2.0	0.2
Nanchang	1747	12.8	19.0	1.5
Jinan	3017	11.0	39.3	3.6
Qingdao	3209	16.8	12.1	0.7
Zhengzhou	2504	11.2	20.5	1.8
Wuhan	2428	6.3	15.1	2.4
Changsha	2488	8.4	5.0	0.6
Guangzhou	4221	9.2	15.0	1.6
Shenzhen	6227	0.0	16.9	
Chengdu	2742	17.2	10.7	0.6
Chongqing	2612	16.9	9.4	0.6
Xian	2644	27.5	17.9	0.7
Lanzhou	1676	8.6	12.5	1.5
Xining	1668	16.2	9.8	0.6
Yinchuan	2547	11.4	22.7	2.0
Urumqi	3026	14.2	54.0	3.8
All Cities		10.3	15.2	1.5

have an incentive to return home upon losing a job and returning to the locality when another job appears likely. In contrast, a permanent resident may have no other option but to remain in the locality.

There is a significant problem of income poverty amongst migrant workers. The earnings of migrants are unequal, and a percentage may have incomes that fall below the local minimum wage or even the local poverty lines. For example, in a survey of 1,269 migrants conducted in Shenzhen in 2004, 7.0 per cent of the sample had a monthly income of less than 450 Yuan, which was lower than the local minimum wage of 465 Yuan per

month and, in some cases, even the local poverty line. The other dimension of income poverty is variability. In some cases, earnings may average to a figure higher than the local poverty line but fall below the local poverty line for a significant period. This is highly likely when wages are paid with a delay, as frequently occurs with migrant workers and in the case of casual workers.

Ultimately, one must recognize that poverty lines, however defined, will always represent an arbitrary cut-off point that, alone, may not offer the best guide for policymaking. More important than searching for the 'single best' poverty line is to explore the sensitivity of poverty estimates to the choices and assumptions behind the statistics, as well as the use of alternative lines and measures.

### **Specific deprivations**

Often, it is not transitory or chronic income poverty so much as other specific deprivations that weigh heavily upon migrant workers. These deprivations include: (a) crowded and cramped housing short on basic facilities; (b) an unsafe working environment; (c) foregoing medical care or resorting to self-medication when ill. Migrants are more likely than locals to be in jobs which have no medical insurance and because of their household registration they may not be entitled to medical assistance; (d) obstacles and impediments to migrant children receiving basic education and their poor educational record.

These deprivations affect a much larger percentage of migrant workers than the percentage affected by income poverty. They constitute the principal obstacles in achieving the goal of removing all unjustifiable differences between the sections of the population and building an integrated labour market that spans both urban and rural areas. These deprivations are mutually reinforcing and have knock-on effects. For example, crowded and unhygienic housing increases the risk of illness and is conducive to epidemics or pandemics. Similarly, poor housing may contribute to a poor educational performance among migrant children. Another dimension of specific deprivations is that because of their impact on children, they carry on to the next generation.

### **Lack of power and social exclusion**

Migrants suffer from handicaps that do not affect local workers, or not to the same degree. Inordinate delay in the payment of wages is one of these, and the other is the practice of employers impounding the ID cards of migrant workers. The issue here is not economic, but one of social status. The remedy lies in changing the structure and rules that segment the population into groups with different privileges and benefits. Broadly, although unintentionally, this is what the distinction between holders of agricultural *hukou* and non-agricultural *hukou* has engendered, and the goal should be to create one

class of citizenship where all have the same rights and status (see Wu 2004 and Wu in this book).

One specific remedy is to give migrants a voice. Now, problems concerning migrants are identified by outsiders (non-migrants). Migrants themselves do not play any significant role in voicing their problems or disadvantages, nor do they play any role in proposing corrective policies. As an example, one way to give a voice to migrant workers is to require all enterprises employing a significant number of migrants to have a consultative committee- and/or legally-backed complaints mechanism. Another measure would involve strengthening and widening the remit of the joint office established by the State Council, which at present has a focus on skills training and labour market integration, to provide a wider overview of the process of migration and the welfare of migrants. Issues affecting migrants form part of the work of numerous different government departments. Given the importance of migration and the number of people affected, there are strong arguments for establishing a body with overall responsibility for the welfare and economic issues concerning migrants and their households.

## **Conclusion and policy implications**

### **Scale and duration of migration**

The migration flows are substantial and the migrant population is huge, even relative to China's massive population. To a degree this is due to the *hukou* system that impedes the absorption of migrants; as a result individuals continue to be classified as 'migrants' for much longer than is the case in other countries. The sheer number of migrants suggests the necessity of a concerted and coordinated policy response to deal with the issues created by migration and migrants, including the basic education of migrant children, health care, housing, and the social protection of the migrant population. As pointed out above, policy initiatives in the above areas need to be backed up over a considerable period by substantial government expenditure. In most cases the expenditure is too large to be undertaken by the relevant government tiers without transfers from higher government tiers. What is needed is a fund, to be replenished at regular intervals, say every year, that finances initiatives concerning migrants, such as enrolling migrant children in the local state schools.

Although much migration is temporary, in that 80 per cent of migrants are lone individuals with their households remaining behind in the countryside, the average length of stay is not short. It is more than eight months – that is, nearly three-quarters of a year. Further, for many workers, migrating to a town or city is not a one-off activity; it may be repeated on several occasions. The implication is that for many migrants, the qualification 'temporary' does not mean 'short-term' (Solinger 1999) because they may be spending most of the time in a city year in and year out. The conjunction of 'temporary'

and 'medium- or long-term' may be source of some problems concerning migrants. For example, a percentage of migrants may be living in a make-shift accommodation on a long-term basis because they view their stay as temporary even though far from short. A resolution to the problem lies in granting a change of status after a period of living and working in a city.

### **Positive selection and negative impact on the countryside**

Rural-to-urban migrants are generally younger and better-educated members of the rural population. Further, the percentage of women and children amongst emigrants is significantly lower than their respective percentage in the rural population. Migration leads to an increase in rural household income but it also has negative consequences such as split households and the exodus of the dynamic segments of the rural society. Thus, the negative impact of continued migration on the sending communities in rural areas falls disproportionately on the elderly, children, and women left behind in the countryside. It is to these groups policies to compensate the adverse impact emigration from the countryside have to be directed.

Notable among the adversely affected groups are a large number of children left behind in the countryside by their parents working in cities. They are looked after by relatives, in many cases by elderly grandparents who may themselves be in need of personal care. The problems of 'left-behind children' have not received as much attention as those of the children who accompany their parents to cities. There is a need for the establishment of a national fund that is available to finance initiatives aimed at migrant children in urban areas and 'left-behind' children. These initiatives could take the form of the establishment of boarding schools and the setting up of a network for the personal care of the 'left-behind' children. There are examples such as grassroots organizations, both governmental and non-governmental, undertaking such initiatives. But the problem is too large in scale and too dispersed to be left entirely to local initiatives.

### **Patterns of migration**

Regions, whether sub- or supraprovincial regions, do not divide neatly into sending and receiving localities. Migrants originate from widely dispersed rural localities, but their destinations are comparatively few urban localities. The impact of migration on recipient communities is far more visible than that on the sending communities. As a result, the focus of the policy concerning migrants has been biased towards the urban end rather than the rural departure points of the migration circuits. It is time to restore balance and give more importance to issues concerning out-migration in the countryside.

### **Poverty and deprivation**

Income poverty is less of an issue among the migrant population than in the population as a whole. As pointed out earlier in the chapter, migrants

are predominantly young. Given that rural-to-urban migration is driven primarily by economic differences between the countryside and cities, migrant workers are highly motivated to take up employment. Two measures that can have a substantial impact on reducing the incidence of income poverty among migrants are: first, a more vigorous enforcement of the minimum wage; and, secondly, continuing and strengthening the campaign to eliminate long delays in the payment of wages.

Specific deprivations, such as foregoing needed medical care in case of illness; poor and crowded housing; a dangerous, unhealthy working environment; and low educational attainment are far more serious issues among migrant workers than is the incidence of income poverty. The government has removed the nexus of laws and regulations that served to discriminate against migrants. This is an important step but not sufficient to end the disadvantages from which the migrant population suffers. The specific deprivations from which migrant workers suffer are not particular to them; they also affect the urban poor, albeit less seriously. The implication is that what is needed is a vigorous policy to deal with specific disadvantages, such as sub-standard housing, poor educational attainment, and ill health as a result of to shortcomings in curative medical care and public health policy.

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# 9

## Private Rental Housing in 'Urban Villages' in Shenzhen: Problems or Solutions?

*Ya Ping Wang, Yanglin Wang and Jiansheng Wu*

### Introduction

Sustained economic growth in China was accompanied by rapid urbanization over the course of the past 30 years. Rural to urban migration played a very important role in the economic development and urbanization processes (Wu, 2002 and 2004; Ma and Wu, 2005; McGee et al., 2007; Wang, 2004). Official statistics reported that more than 100 million rural labourers were working away from their rural homes. The majority of them have moved to large cities to work in factories, construction sites, and private businesses. Each of the large cities of the coastal region contained several million migrant workers. Indeed in some cities and towns located on the Pearl River Delta, more than half of the residents were migrants (Shen, 1995; Shen et al., 2002).

There were no public housing assistance payments to migrant workers in cities. A number of employers (mainly large industrial factories) provided dormitories to some of their migrant employees. Construction companies normally offered on-site accommodation to their manual labourers. Most migrants found accommodation either in the run-down inner city housing areas or in the urban-rural interface areas and rented rooms from local villagers. Some of these suburban villages gradually become parts of the built-up areas due to the rapid urban sprawl. They were surrounded by other modern buildings and structures and became transformed into the so-called 'urban villages' (Ma and Xiang, 1998). In every large city, several hundreds of these 'urban villages' could be found. In the fast emerging conurbation or metropolitan regions, all traditional villages have been transformed into some sort of 'urban village', although some of them have not yet been submerging into the formal urban built-up area. The majority of original residents from these villages are no longer engaged in agricultural activities.

The housing style in urban villages varies substantially from region to region, reflecting the intensity of the influence of urbanization on the area (Liu and Liang, 1997; Wu, 2004 and 2006; Wang, 2003, 2004 and 2005;

Wang and Wang 2008). One thing, however, is common to all urban villages: These are the principal living places for migrant workers. The living conditions in urban villages are normally poor in comparison to other urban areas. Houses were often built without formal planning permission; the design and construction of the buildings are of poor quality; the infrastructure (such as roads, sewage and drainage systems) is either nonexistent or seriously inadequate; the local sanitation and safety are sub-standard; and there is generally very poor provision of public facilities such as schools and hospitals. Urban villages are also associated with higher crime rates. Because of these problems, some urban planners and government officials regard urban villages as ‘the cancer’ in Chinese cities. They would like to remove these images of poverty and backwardness. Over the last few years, many large cities have drawn up ambitious redevelopment plans for urban villages. These plans often give a very short time frame for redevelopment.

There have been a number of studies on housing and the poor in developing countries (see, *inter alia*, Drakakis-Smith, 2000; Held and McGrew, 2003; Montgomery et al., 2004). Many international organizations, such as the World Bank and the United Nations, are heavily involved in developing policies to address the housing problems of the urban poor (Gilbert and Gugler, 1992). Although there is considerable variation in the approaches toward housing provision, there is a general consensus about the positive contributions made by the self-help and informal housing sector. Large-scale eviction and redevelopment have proved to be ineffective and are rejected as policy options for many developing countries. More emphasis is now placed on housing upgrading in combination with other legal and financial assistance. These international wisdoms question the effectiveness and legitimacy of the Chinese urban village redevelopment policies and the official attitude towards migrant housing (Jenkins et al., 2007).

The research in this chapter examines migrant housing in urban villages and tries to answer the question of whether Chinese urban villages are problems or assets. It will first consider housing development and conditions in urban villages. It will then focus on the housing affordability among migrants by analyzing their employment, income, rent and other spending, and their housing preferences. By comparison of the current living costs and their affordability, we can have a better understanding of the migrant housing problems and propose better and necessary actions.

The study focuses on the city of Shenzhen. The fieldwork in the city was conducted between 2005 and 2008. Shenzhen is one of the fastest-growing cities in the country; most of the local villages having been turned into ‘urban villages’. They supply housing for several million migrant workers (some estimates put to the figure as high as ten million). Shenzhen is also seen as being the frontrunner for reform in China. This study of the situation in Shenzhen will shed some light on the future trends for other cities. The study adopts a quantitative approach and involves a large household

survey of 807 migrant families (including one-person families) living in urban villages. The sample was taken in two separate stages. The first stage involves the selection of typical urban villages to give a good coverage of different areas across the city's administrative areas. A total of 16 villages were selected: four villages from the central area, eight villages from inside the Special Economic Zone, and four villages from outside the Special Economic Zone. The second stage of sampling involves on-site systematic selection of the migrant families in each village for interview. Typical or main streets in each village were selected first, and residential buildings along these streets were sampled at equal intervals with a random start. The majority of these buildings are high-rise blocks with multiple floors. In each building only one household on each floor was selected for interview. Face-to-face interviews, using a questionnaire, were conducted inside the migrants' homes with either the head of the household or their partner.

### **Migration, village housing development and policy responses**

From the late 1950s to the early 1980s China operated a strict control on migration through the *hukou* (residence registration) and food rationing system. The *hukou* system classifies population in the country into two categories: the agricultural (rural) population and the non-agricultural (urban) population (Christiansen, 1990; Day and Xia, 1994; Solinger, 1999). Movement from rural to urban areas had to be approved by the authorities. This system resulted in a very slow growth in the urban population, from 12 per cent in 1952 to 18 per cent in 1978. This control of population movement between rural and urban areas was relaxed gradually after 1978. In 1985, rural migrants were allowed to register as temporary residents in urban areas. Rural to urban migration has since become a very important part of urban development (Goldstein, 1990; Knight and Song, 1999; Davin, 1999; Fan, 2001; Ma and Xiang, 1998; Yang, 2000).

Population growth in Shenzhen over the past 30 years has been the direct result of migration. Some migrants were officially approved by the government. This included government and party officials, state-owned enterprise managers and professionals who were transferred from other cities to Shenzhen on the instructions of the government. These moves were endorsed by the population control authorities in both the sending and the receiving cities. Shenzhen became their only residence and these people are no longer referred to as migrants once they have settled down. Other migrants came to the city simultaneously, and were not arranged by the government. These include all rural migrants, and poorly educated urban youth from other cities or towns who came to Shenzhen to work. The *hukou* of these people remains at their original residences. Initially the proportion of people from this route was small, and they stayed in the city on an ad hoc basis. When their number increased dramatically during the

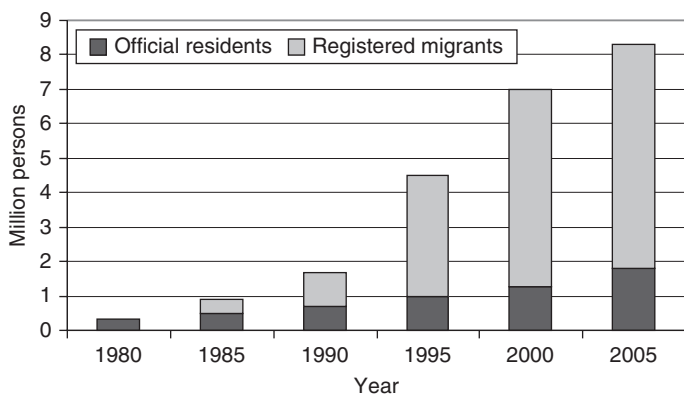


Figure 9.1 Population changes in Shenzhen, 1979–2006

Sources: Shenzhen Statistics Bureau (2001); Shenzhen Statistics Bureau, online information (<http://www.szjtj.com>) (2001–2006).

late 1980s and the early 1990s, the municipal government introduced the system of Temporary Residence Registration. Migrants with the necessary identity cards could register and get a temporary resident card in the city (Wang et al., 2009).

As a new city, the numbers of migrants through both routes were enormous. Official residents in the city increased from less than half a million in 1985 to about two million in 2006 through the first route of migration. Registered temporary residents, i.e. migrants, increased from a similar amount in 1985 to over 6 million (Figure 9.1). Over three-quarters of the residents in the city are temporary resident card holders. This official figure is widely believed to be an underestimate, as it is impossible to get an accurate count of the number of migrants in the city. Some other estimates have put the migrant population in the administrative area of the city at around 10 million.

Large-scale migration brought great pressure on housing and other infrastructure in the city. The municipal government initially adopted a hands-off approach to the provision of migrant housing. Urban development plans did not provide any land for migrant housing and schools and other facilities. Non-resident status and high housing prices in the city prohibited migrants from gaining access to properly built flats in new commercial housing estates or the government-supported welfare housing. The only housing option left for migrants was the poor-quality housing provided by the private rental sector. Older houses and smaller rooms with poor internal structure and facilities become the main sources of housing for rural migrants.

When the Special Economic Zone was set up at the beginning of the 1980s, the new civic centre, major public buildings and road networks were planned on agricultural land between local traditional villages. The villagers

and the privately owned family homes were allowed to stay. Traditional houses in villages were of poor quality. Each family occupied a small yard. The size of these yards were quite similar and often lined up in rows, with a narrow street in between. Within the individual yard, one or more simple houses were built. Larger and richer families have more buildings. Most of these traditional houses were either one or two storeys and built with timber, stones, bricks or sun-baked bricks.

When the new municipal government was suffering from financial pressures, they found it difficult to make any other housing arrangements for the original village residents. They also did not see the simple and traditional village housing as a problem for future redevelopment, anticipating that there would be new housing development by local residents in these villages. In order to control and manage the expansion of village housing, the government issued a policy which imposed a limit on household residential land use. While the existing household courtyards are allowed to remain, new ones (for family expansion or division) should be not more than 150 square metres (the normal size for a traditional courtyard). On this land only 80 square metres could be used for housing, which should be one or two storeys (Shenzhen Municipal Government, 1982).

The loss of village cropland for urban development was accompanied by the loss of agricultural income. Village residents needed to find other ways of earning a living. They therefore turned their attention to land- and property-related businesses. The demand for cheap rental housing from the incoming migrants provided them with an excellent opportunity. During the 1980s, when the number of migrants increased in the city, some villagers rented their spare rooms out to make some supplementary income. This rental income, along with the compensations for loss of agricultural land from the government, were then invested to extend the house. Extra rooms were added on to original buildings either side by side or on top of the original buildings. Some better-off families began to rebuild their older housing into multi-storey buildings.

Private rental started in those villages located near to the central areas. When the city expanded into the suburban areas, increasing numbers of traditional villages became involved in the property business. Public and private competition for land also became intensified. The municipal government reduced the village residential land allocation and issued more detailed control policies on private housebuilding in the 1990s. The new residential plot size was reduced from 150 to 100 square metres per household. An adjustment was also made to the standard floor space permitted for the construction of new housing. Rather than limiting the land area used for housing, a control on the total housing floor space was introduced. Each household was allowed to build up to 480 square metres of construction floor space over the 100 square metre land allocated (Shenzhen Municipal Government, 1986, 1993 and 2004).

These policies did not stop or slow down housing development in urban villages. From the mid-1990s onwards, most original households in urban villages in Shenzhen were able to rebuild their houses. The reduced plot sizes served only to push up the construction density and building height. To help the building process, some villages planned new housing areas to relocate every household out of the old site. These new villages have better infrastructure provision, including water and electricity supply, sewage and drainage systems.

New houses in urban villages were built with steel and concrete frames and bricks. Each household tried to maximize the building areas on the land they occupy. The allocation of 100 square metres of land and 480 square metres of construction floor space per households has made it impossible to pursue low-rise building. The only option is to build upwards and to increase the number of floors. In the late 1980s, and early 1990s, most buildings were less than five storeys in height. From the later 1990s, 80 per cent of new buildings are between six and nine storeys; 5 per cent were over ten storeys; and some have reached as high as 20 storeys. In order to maximize building volume, avoid direct contact with neighbours and maintain a detached house style at the same time, very narrow gaps were left between neighbouring buildings. This practice resulted in extremely high density and the so-called 'kiss building' (people could kiss each other through their windows between neighbouring buildings). In Futian District, the average construction floor space per building was 910 square metres, well above the government limitation (480 square metres) (China Academy of Urban Planning and Design Shenzhen Branch, 2004). Each household has about 900 square metres of housing for rent (The Editorial Committee for Shenzhen Real Estate Yearbook, 2005). On average, each original household provide rental housing for 88 migrants. This brings a significant amount of income to the local villagers.

Since the mid-1980s, there have been several building booms in the urban villages. In response, the government has issued several policies aimed at bringing an end to the 'uncontrolled development'. Each of these policies has actually resulted in a rush for more buildings, as the villagers tried to 'catch the last bus'. Because of the different systems in rural and urban land and people management, the municipal policies seem powerless in the villages. Without a detailed land use plan for each village, the general control limits have been largely ignored. Market demand for cheaper rental housing is the main driving force for private development in urban villages. In 2003, the municipal government formally 'urbanized' all rural areas under its control. Local village residents were given urban *hukou* registration status; all land under the control of villages was transferred to the municipal government; and old village committees (a form of rural administrative organization) were replaced by the neighbourhood committees (local urban organizations).

Over the past few years, under the central government's drive for a harmonious society, all municipal governments have begun to examine the housing problem of migrant workers. In 2004, the Shenzhen municipal government carried out a survey of migrant housing conditions and demands. This study resulted in proposals to improve the living conditions of migrants (Shenzhen Municipal Housing System Reform Office, 2004). So far these efforts have remained largely at the pilot stage and only a small number of migrants have benefited directly. In addition, in 2004 the municipal government introduced the Rental Housing Comprehensive Management System which consists of several tiers of organizations from the municipal down to the neighbourhood level. Rental Housing Comprehensive Management Offices (RHCMO, at municipal and district levels) and local RHCMO stations at village/neighbourhood level were set up throughout the city to help to implement policies pertaining to the management of village housing and migrant residents. The RHCMOs have been given the power to:

- Identify and register private landlords and rental properties;
- Identify and register tenants living in private rental accommodation (mainly migrants);
- Record the migrant's employment situation;
- Regulate and report safety- and security-related problems in rental housing;
- Record and manage health-related problems;
- Collect rental income tax from landlords;
- Collect management fees from landlords;
- Regulate and report illegal business and enterprises;
- Monitor and enforce family planning policy among migrants.

As the name of the above list indicates, the responsibilities of the RHCMO are comprehensive and wide-ranging; but its key attention has so far been directed at rental properties and tax collection, rather than at the welfare of migrant workers. In 2006, the income tax rate of private rental residential property was 8.22 per cent. This tax income goes to the municipal tax office. On top of the tax, there is also a management charge of 2 per cent for legally registered properties and 3 per cent for illegal buildings (buildings without planning permission or not complied with the municipal policy, for example, floor spaces in excessive of 480 square metres). The management charges are used to run the RHCMO system. Both the tax and the charge are payable by the landlords, but these costs eventually fall on the migrant tenants (some landlords simply passed these on to their tenants). In this sense the new management system has become a burden on migrants rather than a source of support for them. Nevertheless the migrants stand to benefit from building regulations pertaining to fire, health and safety. The effectiveness of this system in terms of improving migrant workers'

living conditions is limited by both landlords and tenants who are reluctant to meet the RHCMO officials and try to avoid the tax. The registration of migrants by the RHCMO staff is less intimidating than the previous registration with the police. The registration data are shared between the police and the RHCMO.

## **Housing conditions among migrants**

Two types of housing can be found in urban villages in Shenzhen: private housing built by individual families, and collectively owned housing built by the village committee (or village shareholders' companies). The buildings owned collectively by the village usually specializes in one form of rental housing, for instance, as dormitories for single workers or families employed by the village enterprises. Family-owned rental housing varies substantially between buildings and also within each building. In each village there are also differences between the older traditional areas and the new areas built recently. Housing in the older areas (pre-1980s) are normally low rise, poorly designed, and of lower quality. New areas are dominated by multi-storey buildings. Poor migrants tend to live in the old parts of villages where the rents are low. Better-off migrants live in the new areas where there are better living conditions.

It is also very common among the migrant population for rooms or flats to be shared with other people. Around 40 per cent of migrants in our survey shared either a room or a small flat with other people. Those who shared a single room with other families or individuals had the lowest living standards. On average, four people shared a room with an average floor space of only 7.7 square metres per person. In some instances more than twenty people shared a room, and some individuals had only two or three square metres of living space (Tables 9.1 and 9.2). Although the majority of those who shared a room were one-person households, there were 25 families (5.8 per cent) with two or more persons in the sample shared a single room with other people. Wooden board, cardboard or curtains were used to keep some privacy between families.

Housing units in urban villages are much smaller than the average new house units built by commercial developers. The most common size of flats in urban villages is around 40–45 square metres (no commodity housing or government-supported welfare housing were built at this small size). The internal structure also differs from building to building. Some buildings offer three relatively large units on each floor, while others offer six very small one-bedroom units on each floor. Some new buildings were constructed with only small flats or even single rooms with toilets and cooking areas. The facilities inside these houses are generally poor. 37 per cent of migrants do not have exclusive use of a toilet, bathroom, or kitchen; 35 per cent do

*Table 9.1* Housing condition among migrants who share accommodation

	One-person households		Two or more person households		Whole sample		
	No. of households	%	No. of households	%	No. of households	%	Floor space per person (m <sup>2</sup> )
Sharing a room with others	162	43.1	25	5.8	187	23.2	7.7
Family use 1 room	57	15.2	74	17.2	131	16.2	13.0
Family use 2 rooms	2	0.5	3	0.7	5	0.6	–
Family use 1 whole unit	152	40.4	327	75.9	479	59.4	23.7
Other	3	0.8	2	0.5	5	0.6	–
Total	376	100.0	431	100.0	807	100.0	

*Table 9.2* Sharing one room: number of persons in room and floor space per person

Number of persons sharing a room	Number of respondents	%
2 people	77	42.5
3 people	32	17.7
4 people	28	15.5
5 to 10 people	36	19.9
10 to 20 people	8	4.4
Total	181	100.0
Housing floor space per person		
Less than 2 m <sup>2</sup>	13	7.3
2.1–4 m <sup>2</sup>	37	20.9
4.1–6 m <sup>2</sup>	49	27.7
6.1–8 m <sup>2</sup>	20	11.3
8.1–10 m <sup>2</sup>	27	15.3
10–15 m <sup>2</sup>	18	10.2
Over 15 m <sup>2</sup>	13	7.3
Total	177	100.0

not have exclusive use of a running water tap. Although gas and electricity has become the main fuel in Shenzhen, many migrants still use coal fire stoves for cooking. Some migrants put the stoves or gas cookers inside their bedrooms, which could be a fire hazard and uncomfortable heating source during the hot summers. Most rental rooms and flats in urban villages are unfurnished, with migrants being expected to bring their own furniture. Some migrants also use their rental home as a place of production.

### **Affordability of housing for migrants**

There is a consensus among researchers and government officials in China that the majority of rural to urban migrants live under very poor conditions in cities. Shenzhen is a migrant city and the living conditions in urban villages are actually better than those in many other cities, because of large-scale new construction carried out by the local villagers. Still, migrant housing is by no means comparable to that enjoyed by the official residents in the city. Why do migrants choose to live in urban villages? Why do they live under such conditions? The answers to these questions lie in the economic profiles of migrants themselves and their financial situations. Migrant housing choice is determined by many factors, but their income and the cost of living are the most important ones. Income in turn is related to the type of their employment. To make a proper assessment of migrant housing affordability, we have to examine the economic sectors and the employment conditions under which most migrants work.

## Economic and employment sectors

Economic reform has brought significant changes to the Chinese urban economy. Figure 9.2 highlights the relationships between different economic sectors. Taking a broad and simple classification, four different categories of economic sectors and associated employments could be identified in Chinese cities:

- Old knowledge-based: party and government officials, professionals and state enterprise managers;
- Old labour-based: industrial workers employed by state factories and collective enterprises;
- New knowledge-based: employees of private and international corporations
- New labour-based: private sector industrial workers and employees in other labour based service industries.

The two old sectors made up the urban economy during the pre-reform period. They have experienced substantial changes over the past 30 years. The knowledge-based state sector experienced less dramatic changes with some expansion into the new market-based knowledge sector. Many state enterprises have been privatized and become part of the new economic sector. A large proportion of their manual workers have been being laid off. The collective industry sector experienced continuous decline over recent years. The remaining ones operate more or less on market principles. The major

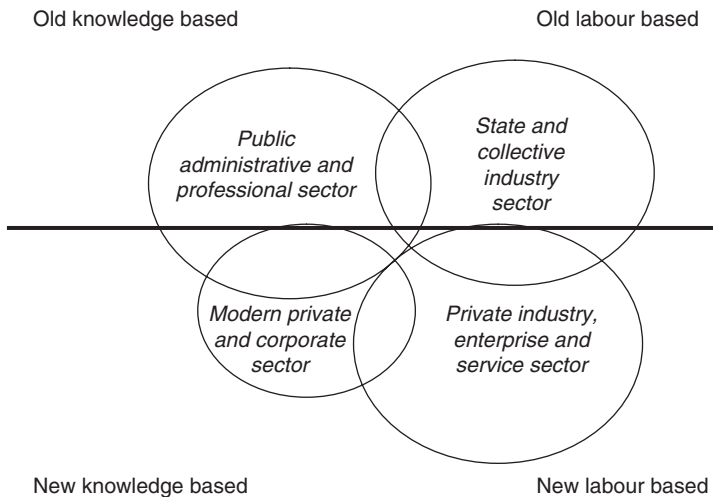


Figure 9.2 Changing urban economic sectors in China

expansion of the urban economy came from the expansion of the private sector. Again we can divide this new expansion into a knowledge-based sector and a labour-based sector. Rural migrants are the main labour force in the new economies of the private enterprise and service sectors. Although these are important parts of the urban economy, employment opportunities offered by them are normally low paid, and unstable.

In Shenzhen, most migrants, especially the heads of households, were in work. There was a low unemployment rate among migrants living in urban villages (6.7 per cent), including those who had only recently arrived in the city. The majority of migrants worked in the private sector. As Table 9.3 shows, 51.2 per cent of the heads of migrant households were employees of private companies; another 29.5 per cent were either self-employed or running a family business. Only a very small proportion of them were employed by the traditional public sector. Employment among the partners of the household heads showed a similar pattern; apart from a much higher percentage of them not being in employment (37.5 per cent). In terms of economic sectors, nearly 80 per cent of heads of households worked in labour-intensive sectors such as hotel and food services, retail, trade, manufacturing and construction. In relation to employment types, 42.5 per cent of heads of migrant households were general workers; 23.8 per cent were either private business owners or senior managers; 15 per cent were involved in professional occupations. These statistics confirm the analysis in Figure 9.2 that the majority of migrants were employed by the new labour-intensive private economic sectors. Part (c) of Table 9.3 also shows that not all migrants living in Shenzhen's urban villages were unskilled labourers. Many of them set up their own businesses or engaged in professional and managerial works.

*Table 9.3* Employment sectors of migrants living in the urban villages in Shenzhen

	Head of households (HoH)		Partners of the HoH	
	No. of respondents	%	No. of respondents	%
<b>a) by ownership</b>				
Employee of a private company	286	35.4	87	20.7
Self-employed/family business	238	29.5	108	25.7
Employee of a family business	66	8.2	19	4.5
Employees of a foreign/joint venture company	61	7.6	19	4.5

(continued)

Table 9.3 Continued

	Head of households (HoH)		Partners of the HoH	
	No. of respondents	%	No. of respondents	%
Employee of government and other public organisation	31	4.0	13	3.1
Employee of a state enterprise	21	2.6	3	.7
Employee of township/village enterprise	18	2.2	5	1.2
Employee of a collective enterprise	7	.9	1	.2
Other and unspecified	24	3.0	8	1.9
Unemployed	54	6.7	158	37.5
Total	807	100.0	421	100.0
<b>b) by economic sector</b>				
Hotel, food and other services	206	27.5	77	29.3
Retail/wholesale/trade	175	23.3	75	28.5
Manufacturing	145	19.3	46	17.5
Construction	69	9.2	15	5.7
Transport, warehouse, post, communication	38	5.1	7	2.7
Education, health, art	19	2.5	10	3.8
Finance/insurance	14	1.9	1	.4
Property development	3	.4	2	.8
Agriculture, fishing, mining etc	2	.3	3	1.1
Other and unspecified	80	10.7	27	10.3
Total	751	100.0	263	100.0
<b>c) by employment types</b>				
Office clerks, general and service sector workers	323	42.5	112	31.7
Owner or senior manager of Private Company	181	23.8	87	24.6
Officials/professionals	114	15.0	22	6.2
Middle level manager	61	8.0	20	5.7
Other unspecified	36	4.7	7	2.0
Self-employed	34	4.5	12	3.4
Retired	8	1.1	4	1.1
Housewife	2	.3	89	25.2
Total	759	100.0	353	100.0

No employment contract 464 (62.5%)		Has an employment contract 278 (37.5%)	
Has long term contract 185 (66.8%)		Has short term contract 85 (30.7%)	No written contract 7 (2.5%)
Time left in current contract			
More than 2 years 41 (15.2%)	1–2 years 28 (10.4%)	1–12 months 96 (35.6%)	Less than 6 months 104 (38.5%)

Figure 9.3 Employment contract situations among migrants

Our survey also found that more than 60 per cent of heads of migrant households had no formal employment contracts with their employers (including 29 per cent of those who were either self-employed or ran family businesses). Of these who had a contract, the majority of them had a 'long-term' contract (rolling forward or no specified end date) (Figure 9.3). The time that each migrant had stayed in his/her current job varied substantially, ranging from less than a month to over 20 years, with an average of 3.5 years and 3.6 years for heads of households and their partners respectively. Most migrants living in Shenzhen's urban villages worked more than five days a week and for more than eight hours per day. Over 42 per cent of heads of households, and 52 per cent of partners worked seven days a week (Table 9.4). More than 60 per cent of migrants had not joined any social security schemes, including the unemployment benefit scheme and the pension scheme (Table 9.5).

### Income

With the relatively poor employment profile, income among the migrants is low in comparison with the city average. In 2004 the Shenzhen municipal government found that the average monthly income among migrants was only 1,149 Yuan, well below the average personal income in the city (2,195 Yuan). Table 9.6, based on the survey, shows that the median monthly wage income was 2,000 Yuan for heads of households and around 1,500 Yuan for their partners. The mean income was higher than the median income in every group and the standard deviations were very large. Around 62 per cent of heads of households earned less than 2,000 Yuan per month; among the partners, 64 per cent of them earned less than 1,500 Yuan per month. Our survey did not include the large numbers of migrants employed by industrial factories and stayed in the factory-owned dormitories. The industrial workers tend to have a lower income than those who own their own businesses.

Table 9.4 Average number of working days and hours per day

Working days in a normal week	Head of households		Partners of HoH	
	No. of respondents	%	No. of respondents	%
7 days	308	42.7	132	52.4
5 days or less	186	25.7	43	17.1
6 days	171	23.6	63	25.0
6.5 days	31	4.3	9	3.6
5.5 days	26	3.6	5	2.0
Total	722	100.0	252	100.0
Average hours worked in a normal day		9.2		9.6

Table 9.5 Access to employment and social welfare by migrants

Joined the following insurance/benefit schemes	Head of households (HoH)		Partners of HoH	
	No. of respondents	%	No. of respondents	%
Unemployment	88	10.9	23	6.1
Retirement pension	168	20.8	50	13.3
Health	225	27.9	63	16.7
Work-related accident	172	21.4	47	12.5
Maternity leave	35	4.3	12	3.2
Have not joined any insurance/benefit scheme	485	60.2	287	76.1

Table 9.6 Monthly incomes among migrants

Median and mean monthly income				
	No of respondents	Median monthly income	Mean monthly income	Standard Deviation
All head of households	745	2000	2749	3630
Male	537	2000	3081	4127
Female	208	1500	1891	1489
Living alone	348	1900	2320	1861
Living with family	397	2000	3125	4627
All partners	222	1500	2082	2318
Male	65	1500	2926	3147
Female	157	1200	1733	1770

### **Rent and other living costs**

There were also variations in the amount of rent paid by migrants for their housing in urban villages. On average, migrant households paid rent of 534 Yuan a month. Those living on their own or sharing with others paid slightly less. Single females paid more rent than single males; and rents for those families headed by men were on average higher than those charged for families with a woman in charge; and migrants from urban areas spent slightly more on rent than migrants from rural areas. Although this level of rent was not extraordinarily high for a very prosperous city, it did take up a large portion of migrant workers' income. On average, migrants spent 24 per cent of their total household income on rent, and around a quarter of them spent more than 30 per cent of income on rent.

Housing affordability is also affected by other factors such as the cost of food and travel. Food cost is always a major expenditure for migrants. In Shenzhen migrants on average used 26 per cent of their income on food. The combined spending on rent and food cost about half of total household income for more than 40 per cent of migrants in the sample. Transport could be another cost item for migrants. Over half of the sampled migrants avoided travel costs by walking to work.

With this level of incomes, there is no way that migrants can afford to buy a house in the city's normal housing market. The average house price in Shenzhen in 2006 was around 7,000 Yuan per square metre of construction floor space. For a small flat of 60 square metres, the total price would be near to half a million Yuan. This was equivalent to more than 12 times the migrant's average annual salary. Since no banks ever considered providing loans or mortgages to rural migrants, it was impossible for migrants to buy any properties in the city. In 2008, the average price in the city had doubled. In some good areas, the price per square metre of floor space had reached 30,000 Yuan. Furthermore, most commercial housing was built for the rich and the middle classes, with housing units being more than 90 square metres of floor space.

Rent in the properly built housing estates was much more expensive than that in the urban villages. There were also more strict controls on the tenants from landlords. Most low-paid migrants preferred to share a room with others to reduce costs and had more residents in a house, while landlords' concerns about the value of their houses and would like to rent to proper urban families rather than migrants. The exclusion from the proper housing market made the urban villages the only accommodation for migrants.

### **What do migrants think about their living condition?**

Our interview explored the housing preferences among migrants living in urban villages. Over two-thirds of migrants felt that their existing homes in

Table 9.7 Housing choice and preferences

	Most suitable housing with the current income level	
	No. of Respondents	%
Current house or rent other urban village housing	547	67.9
Rent government-sponsored cheap rental housing	73	9.1
Rent private housing in commercial housing estate	70	8.7
Buy housing in urban village	8	1.0
Buy government-sponsored affordable housing	52	6.5
Buy ordinary commercial housing	38	4.7
Other	17	2.1
Total	805	100.0

urban villages were the most suitable accommodation under their current employment and income situation. About 9 per cent of them would like to rent from the government-proposed cheap rental schemes; 8 per cent of them felt they could afford renting from commercial housing estates outside urban villages. Slightly more than 12 per cent migrant families could afford to buy their own houses. Most of these families wish to buy from the government-supported 'affordable housing scheme'; less than 5 per cent wish to buy from the commercial housing schemes. Only a very small number of people wished to buy a house in urban villages (Table 9.7).

For outsiders, urban villages are very poor and dangerous places. Most migrants living there seem to be relatively untroubled by the living conditions. Many of them were actually satisfied with their living in the city (Table 9.8). Nearly 36 per cent of migrants were satisfied with the housing floor spaces they occupy, although sharing and overcrowding were quite common – as shown in the previous section. Another 47 per cent thought that the housing floor spaces were acceptable. This means that only about a quarter of them were not happy with the amount of housing floor space they had. The table also shows that migrants had very positive views about their lives in urban villages. Nearly half of the migrants were satisfied with the location of their homes and nearly 90 per cent of them were either satisfied with the local transport connections or found it acceptable. The satisfaction level about sport and recreation facilities, nurseries and schools were relatively low, but many migrants did not have their children with them in the city and spent most of their time working.

As 'temporary residents', we expect that migrants will move frequently from place to place in the city. Indeed, 65.4 per cent of migrants reported that they had moved home at least once since they had arrived in the city. Of those who moved, 27.7 per cent had moved on one occasion, 20.1 per cent

*Table 9.8* Attitude about housing and neighbourhood facilities among migrants

	Satisfactory (% of respondents)	Acceptable (% of respondents)	Satisfactory and Acceptable (%)
Local public transport	62.3	27.0	89.3
Location of the house	45.6	41.0	86.6
Vegetable and food markets	58.3	27.3	85.6
Housing floor space	35.9	47.8	83.8
Internal housing structure	30.6	51.4	82.0
Provision of internal facilities	25.7	53.2	78.8
Area safety and security	37.4	36.5	73.9
Area cleanliness/ sanitation condition	30.7	41.2	71.9
Restaurant and other food/drink outlet	38.0	33.9	71.8
Social services in the neighbourhood	25.1	35.3	60.4
Neighbourhood relation	33.5	22.3	55.8
Doctor and health clinic/centre	25.7	25.7	51.4
Sport and recreation centres	16.4	15.7	32.1 (55.6)
Nursery schools	19.1	9.2	28.3 (69.1)
Schools	15.2	8.6	23.8 (74.4)

*Notes:* The figures in brackets are the % of respondents answered 'Don't Know'.

twice, and 26.6 per cent on three occasions. Just over one-quarter – 25.6 per cent – had changed address more than three times. On average, the migrants had moved home three times since they had arrived in the city. However, migrant residence also seems to show a degree of stability – almost 35 per cent of them had stayed in their original location in the city. Of those who moved residence, the average time they stayed in one place was 38 months (the median was 24 months). The average length that migrants had stayed in their current place was 18 months (the median was 11 months). The differences between the average and the median indicate large variations; some migrants stayed in one place for a very long time, while others moved on a more frequent basis. The reasons for moving varied

Table 9.9 Reasons for moving of residence among migrants

	No. of households	%
<b>The main reason for last move</b>		
Near to work	212	40.2
To improve condition	133	25.2
To save rent	51	9.7
Near to friends	18	3.4
Problem with landlord	3	.6
Problem with local officials	1	.2
Other reasons	110	20.8
Total	528	100.0
<b>Comparing with previous house, your current house condition is</b>		
Better	278	52.7
Similar	115	21.8
Not as good as last one	126	23.9
Don't know	9	1.7
Total	528	100.0
<b>Comparing with previous house, your current (X2) rent is</b>		
Higher	238	45.4
Similar	116	22.1
Lower	125	23.9
Don't Know	45	8.6
Total	524	100.0
<b>Is your current rent level</b>		
Too high	101	14.0
Slightly high	180	25.0
Acceptable	403	56.0
Quite cheap	36	5.0
Total	720	100.0

from family to family, but most of these moves were made to either near to work or to improve living conditions (Table 9.9).

Our interviews include an open-ended question at the end, asking the interviewees to tell us about one of their favourite aspects of life in Shenzhen. A wide range of things were mentioned. We categorized them and then merged similar ones into a series of broader classifications (Table 9.10). The findings are very interesting. Only 16 per cent of them reported that they had either nothing or nothing in particular to enjoy (an indication that they were not very happy with their life in the city). The others gave a rather more positive picture about migrant life in the urban villages. More than one-third of them enjoyed the family and social relations; 21 per cent like the living environment; 7.5 per cent enjoyed being independent and able to learn new

Table 9.10 Things that migrants enjoyed most in Shenzhen

	No of respondents	%
<b>Money and jobs</b>	<b>178</b>	<b>22.0</b>
Earning money/Being paid	100	12.4
Found a job	48	5.9
More opportunities	17	2.1
Doing business	8	1.0
Being successful and rich	4	.5
Sending money home	1	.1
<b>Family and social relations</b>	<b>271</b>	<b>33.5</b>
Being with family	83	10.3
Being with friends/colleagues	79	9.7
Playing/playing with friends	42	5.2
Meeting new friends	28	3.5
Being with boy/girl friend	19	2.4
Having a baby/good child(ren)	12	1.4
Found/married wife/husband	5	.6
Family outing	3	.4
<b>Living environment</b>	<b>170</b>	<b>21.0</b>
Good living environment	80	9.9
Good quality of life	29	3.6
Weekend/Evening life	14	1.7
Being safe/healthy	13	1.6
Shopping/Window shopping	12	1.5
More fun places	10	1.2
Watching TV/Internet	6	.7
Going to public parks	3	.4
Drinking	3	.4
<b>Being independent and learning things</b>	<b>61</b>	<b>7.5</b>
Freedom	29	3.6
Learning new skills and knowledge	22	2.7
Being independent	9	1.1
Worship	1	.1
<b>Nothing in particular</b>	<b>127</b>	<b>15.8</b>
Nothing	107	13.3
Don't know	17	2.1
Going home for festivals	3	.4
<b>Total</b>	<b>807</b>	<b>100.0</b>

skills. Only 22 per cent of them mentioned something related to money and jobs. Among the whole sample, only one respondent thought about sending money to their original home. This finding is in contradiction to the official beliefs that migrants are only interested in earning money in the cities and then sending it home.

## Conclusion

We started by raising the question of whether urban villages and the houses provided in them are a problem or a solution. The above discussion and analysis have provided some answers to this question. If we look at this issue from the official planners' point of view, we will see the urban villages and the poor quality of housing as a problem. Urban villages are not properly planned; the developments undertaken there are not well designed and their infrastructures are either non-existent or in poor quality; the house buildings are crowded, which lack the necessary fire safety and health facilities; the use of land in urban villages are inefficient; the images they presented are a shame for the urban authority and a turn-off for international investors. For planners (and also real estate developers), urban villages and the poor housing are definitely a problem, which need to be dealt with. Urban villages must be redeveloped and modernized.

If we consider the situation from the point of view of the village 'landlords', the villages and the rental housing provide them with a new way of living. After losing their agricultural land, villagers have to adapt to the urban system. Housing development and property renting provide them with new sources of income and works that the government failed to provide – or could not afford to provide. Rental income from family homes has replaced farming products and income and has become the main source of family earnings for original villagers. One may argue that some of the villagers have become too rich over a short period through exploiting the migrants, and many of them have lost any interest in other work and have become an idle social and economic group who sit round playing *majiang* most of the time. However, allowing the local villagers to become richer through their own efforts is better than making them poor and letting them rely on the government providing financial assistance.

If we look from the migrant workers' point of view, urban villages provide them with cheap and affordable housing in a less intimidating environment. The local village residents and migrant workers shared a similar rural background. They also share a number of other similarities: neither had received a college education; and both found it difficult to integrate with the new urban society. This common cultural and educational backgrounds combined with an economic co-dependency brought the two groups together to share the urban villages. For migrant workers, urban villages and cheap housing are definitely the only solution which made it possible for them to survive or to be successful in the cities.

If we look at the urban village phenomenon from the development point of view, we may find many positive contributions they have made during the process of rapid industrialization and urbanization. Industrial and urban development requires a continuous supply of labour. Rapid economic growth also requires a cheaply paid labour force. Rural to urban migration

provided cheap labourers in cities. Cheap labour requires somewhere to live. Local villagers built and provided the cheap rental housing. This process made rapid economic development possible without the government spending any money on the provision of social welfare to the lowly paid migrant workers. In this sense, the urban villages have played an important role in the entire process of urban development. Without the urban villages, there would be no affordable accommodation for migrants; without migrants, there would be no abundant labour force for further industrial and urban development. Migrants and urban villages are the two key pillars of the Chinese urban development system.

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# 10

## Chinese Urban Villages as Marginalized Neighbourhoods under Rapid Urbanization

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### Introduction

Within the rapid process of urbanization, urban villages have appeared in many Chinese cities, particularly in those regions experiencing an acceleration of economic growth. The Chinese name for the urban village is *chengzhongcun*, literally 'village in the city'. The rapid expansion of Chinese cities has been encroaching into surrounding villages since the 1990s. In many cases, although villagers lose their farmland due to land requisition by the city government, they maintain property rights over their own houses and their housing plots (*zhai ji di*) within the village settlement. However, by law their rights to land and housing are not alienable, which means they cannot capitalize their assets through land or housing sale; so they redevelop their housing at high densities. Village housing, typically low quality and high density with many closely packed apartment blocks of between two and eight floors, is rented out to migrant workers and also some urban residents. Without planning and development control, and stimulated by rental income, every villager tries to build a house as high and big as possible. Construction has already lost the aesthetic significance of individual differences, and the harmonious habitat of the traditional Chinese village no longer exists. Urban villages become concrete forests up to 20 metres in height, with a radius of several kilometres. They are not produced by developers or the village collective, but are built by individual villager households. The urban village is characterized overall by narrow roads, face-to-face buildings, a thin strip of sky, and inner streets packed with shops, grocery stores and service outlets. Despite its well-known unruliness and disorder, to some extent China's urban village shares some similarities with the western urban design concept of urban village, such as pedestrianization, accessibility, self-containment, mixed land use, neighbourhood interaction, and so on.

Due to their crowded and chaotic built environment, unhealthy living environment, and the resulting security and social problems, urban villages in Chinese cities are widely condemned by the media, the government and

even the academia. They are usually associated with unsuitable land use, poor housing construction, severe infrastructure deficiencies, intensified social disorder and deteriorated urban environment (Zhang et al., 2003). From the perspective of migrant settlements, existing studies have provided a basic understanding of urban villages (Zhang, 2001; Wu, 2002, 2004; Liu and Wu 2006a; Wang, 2000, 2006). For instance, Zhang (2001) examined the social networks in migrant settlement based on migrants' place of origin. To summarize the typology of poverty concentration in China, Liu and Wu (2006a) viewed urban villages as one of three types of urban poverty neighbourhoods. To study the housing problem for migrants under market transition, Wu (2002, 2004) and Wang (2000, 2006; also in this book) examined the housing and settlement patterns of migrant households.

In fact, the urban village also plays a positive role in China's rapid urban development. A few studies have started to pay attention to the positive effects of the urban village. For instance, Yan and Wei (2004) point out that as a shelter for low-income floating population the urban village should be allowed to exist for a long time. Based on the case study of Guangzhou and Dongguan, Zhang et al. (2003) and Chan et al. (2003) signify the important role that the urban village has played in housing the migrant population. Zhang (2001) further argues that the urban village not only provides cheap accommodation for low-income migrants to live in the city, but also puts less pressure on the government to develop a costly programme to house migrant labourers during rural-to-urban transformation. Although these studies have addressed some important issues relevant to the urban village, they fail to examine the status of the urban village as a marginalized neighbourhood.

Through exploring the functions and the status of the urban village, this study focuses on assessing its positive effects. The urban village is a special phenomenon and social form produced in the Chinese context, and is a marginalized neighbourhood in Chinese cities. With a number of physical and social problems, the urban village also eases the pressure of socio-economic development and helps to ameliorate urban poverty. The urban village accommodates both local landless farmers and migrants (most of them are rural migrants), which are two groups with a high incidence of urban poverty (He et al., 2009; Liu and Wu, 2006b; Li and Sato, 2006). The existence of urban villages in the city on the one hand substantially increases the income of local landless farmers, thus saving them from the hardship of land deprivation and unemployment. On the other, the urban village provides low-cost rental housing and low-cost living for rural migrants and also for some low-income urban residents. The existence of urban village to some extent alleviates urban poverty. In this chapter, we consider the urban village as a community of interest for urbanized villagers, a migrant settlement with low-rent housing, and an urban self-organized grassroots unit. Furthermore, there is an examination of some physical and social problems

Table 10.1 Urban villages in six large cities in China

	Number of urban villages	Land area (km <sup>2</sup> )	Proportion in city Built-up areas (%)	Local villagers (thousands)
Guangzhou	138	89	25.7	380
Kunming	288	28	15.6	220
Nanjing	71	67	28.6	100
Wuhan	147	55	25.0	360
Xi'an	72	15	7.9	90
Harbin	43	–	–	80

Source: Household survey in six large Chinese cities, 2007.

in urban villages. From the aspects of development and construction, management, and inhabitants of the urban village, the causes of physical and social problems are boiled down to the marginalized status of the urban village in the city. In this sense, the urban village is both a valued asset and a marginalized neighbourhood.

This study is based on a large-scale household survey in 11 urban villages in six large Chinese cities, conducted between December 2006 and June 2007. The six cities are distributed in the coastal, central and northwest, northeast, and southwest regions respectively, including Guangzhou, Nanjing, Wuhan, Xi'an, Harbin and Kunming. As provincial capitals, all of these six cities are undergoing processes of rapid urbanization and urban expansion, and have attracted a large number of rural migrants. Against this backdrop, many urban villages have emerged in these cities (see Table 10.1). The survey covers 11 urban villages in both inner city and peri-urban areas, and includes three groups: local villagers, rural migrants and some urban residents. This is a survey of a purposive sample of urban villages in six representative cities. In each urban village, the local cadre was interviewed to obtain basic information about the village. Households were selected based on their address, with a fixed interval. Questionnaires were distributed to the heads of households. Questions include socioeconomic information pertaining to household heads and their household. On average, 75 questionnaires were distributed in each village, yielding 796 cases in total.

## Overview of China's urban village

The urban villages are special urbanized settlements that have developed against the background of China's political and economic system and its transition. They are quite different from the village style of neighbourhoods in western cities (Taylor, 1973; Aldous, 1992; Shostak, 1997; Murray, 2004; Landman, 2004) and squatter settlements in some developing countries (Smart, 1985). They may also be distinguished from large rural migrant settlements in the metropolitan region (Ma and Xiang, 1998; Gu and Liu, 2002), such as 'Zhejiang Village',

a large-scale migrant settlement in suburban Beijing, with prominent characteristics of a folk-based and handicraft economy (Chan, et al., 2003; Fan and Taubmann, 2002).

While some urban villages still retain a small amount of agricultural land, the majority of the land in urban villages is non-agricultural and is used principally for residence. There are also some storage sites and enterprise spaces in the early stages; but with the industrial restructuring, most of them were changed into the valued property such as offices, restaurants and commercial houses. While villagers lose their farmland, they maintain property rights over their own houses, and also retain ownership of their plots within the collective land tenure system. For realizing the value of their assets, they redevelop at high densities. Lack of planning and design, with the stimulation from the land and rent benefit, each residential house was built or renovated to make it higher and larger, causing the high building density, narrow building distance, poor ventilation and light. Housing quality and structure varies according to local villagers' economic ability and also the location of villages. The ground floors of those buildings in urban villages in better locations are used mostly for commerce. The construction area and the building height are mostly considered as illegal by the government.

According to our survey, Table 10.2 shows the overall characteristics of urban villages. First, the areas of the urban villages range from 0.5 to 3.6 kilometres. The area of an urban village does not depend on its location but on the built-up area of the original village. Second, building heights in urban villages range between two and eight floors. There is little difference across the six cities, but building heights are very different between inner city villages and peri-urban villages. Generally, the highest building in inner city villages could be up to eight floors high, while the highest is only four floors in peri-urban villages. The primary reason for this difference is the higher demand for low-rent housing in the inner city. Third, there is a higher percentage of rural migrants in inner city urban villages. In most cases, the number of rural migrants in inner city villages is between three and six times that of local residents, while the number in peri-urban villages is only two to three times that of local residents. Accordingly, population density is different in the two groups. In inner city villages, population density is more than 6,000 persons per square kilometre; in contrast, the population density in peri-urban villages is mostly below 5,000 persons per square kilometre.

In urban villages, the innermost streets are packed with shops, grocery stores and service outlets. With the exception of a few elderly clubs and ancestral temples, there is almost no public space. Pipelines and drainage systems are poorly constructed. Waste water flows over the ground, and garbage can be seen scattered around. All of these have resulted in an unhealthy living environment. Meanwhile, inhabitants in urban villages are diverse. Lacking efficient management, urban villages become hotbeds of

Table 10.2 Overall characteristics of urban villages in six cities

Villages	Location	Area (kilometres)	Building height (levels)	Local residents (thousands)	Rural migrants (thousands)	Population density (thousand persons/ square kilometres)	
Guangzhou	Sanyuanli	Inner city	3.6	3–7	9.0	40.0	13.6
	Beiting	Peri-urban area	0.6	2–4	4.1	1.7	9.7
Kunming	Yuchilu	Inner city	3.0	4–6	2.9	16.5	6.5
	Gangtou	Peri-urban area	1.5	2–4	3.4	5.0	5.6
Nanjing	Tengzi	Inner city	1.5	2–6	2.0	7.5	6.3
	Suojie	Peri-urban area	2.5	2–4	3.6	8.0	4.6
Wuhan	Tuanjie	Inner city	2.5	4–8	5.0	11.0	6.4
	Tanghu	Peri-urban area	3.0	2–4	3.6	10.0	4.5
Xi'an	Renyi	Inner city	0.5	2–6	0.8	3.0	7.6
	Nanhe	Peri-urban area	0.8	2–4	1.2	2.2	4.3
Harbin	Hadatun	Peri-urban area	2.0	1–3	4.0	6.0	5.0

Source: Household survey in six large Chinese cities, 2007.

some social problems. Because of these negative impacts, the urban village is often condemned as being a problematic area by the government, media and even some scholars.

Behind its negative image, the positive effects of the urban village should be recognized. The formation of the urban village is exactly the process of changing from an original rural village to urban community. Within this transformation, the urban village is gradually becoming an urban settlement for migrants, as a result of the large demand for inexpensive migrant housing and the rent-seeking behaviour of landless villagers. However, its socio-economic structure is dominated mainly by local villagers and the village collective. The village-based organization is the main regulating body of the newly formed urban community.

## **Valued assets: identifying China's urban village**

### **The interest community of urbanized villagers**

China has seen three waves of urban expansion during the 1980s, around 1992 and 2003, which are called the three Chinese 'enclosure' movements. As urban sprawl encroached on the surrounding farmland, farmers were deprived of the most important resource on which their families had lived for generations. According to statistical data, urban sprawl has resulted in more than 40 million farmers losing their farmland – a number that is increasing rate by approximately two million a year (Gao, 2004). After losing their farmland, these people have not been offered either reasonable compensation or employment opportunities to maintain their lives in the city. The lack of entitlement to social security also becomes a great threat for the future lives of these farmers, particularly those elderly farmers. The constraint of the employment for these farmers comes from their low education levels and skills, as well as the lack of information and networks. In sum, the dramatic urban expansion movement has pushed millions of farmers into fierce market competition for which they are unprepared, while reasonable compensation and necessary support are not provided, and a social security system for them has not yet been developed.

As a result of the lack of government intervention and regulation, there is a quasi-free market spontaneously formed in urban villages. While the farmland was requisitioned by the city construction, a certain amount of land was left in collective ownership, and the villagers also have the use right of their plots. As a result of the tremendous housing demand from the large number of migrants and also of some urban residents, the potential rent value of their plots increased substantially; so, coupled with the low additional cost of independent housing construction, most villagers launched a vigorous campaign of housebuilding. The livelihood of villagers has changed from 'growing grain' to 'growing house' – that is, there has been a transformation from the household contract responsibility system to the mode of housing

rental. Meanwhile, the collective economy has also changed from agricultural production or township and village enterprises (TVEs) to a land and housing rental economy. Mainly using compensation funds from land requisition, these collective properties are built on the retained ground (*liu yong di*) and rented to individuals or enterprises.

Generally, the main source of landless villagers' household income can be divided into three parts: housing rent, stock dividends from the collective economy, and a small amount of working salary (Table 10.3). Most villagers affected by land requisition received a lump sum cash compensation ranging from 8,000 to 35,000 Yuan per person in the 11 surveyed urban villages. Meanwhile, villagers can receive an annual dividend based on their stock shares and the scale of the collective economy, ranging from 2,100 Yuan to 38,900 Yuan per person in different villages. In addition, considering the different housing rentals and the number of rooms for rent, the annual rental income also varies significantly in different villages, ranging from 2,000 to 30,000 Yuan per capita. For the vast majority of families in urban villages, housing rent contributes a large proportion of their family income.

After being deprived of their farmland, villagers have to seek survival and development opportunities. Considering their own limited human capital and skills, they are inevitably marginalized in the urban labour market. Struggling to cope with laid-off and unemployment problems of urban residents, city governments have failed to make additional efforts to solve with the employment problem of landless villagers. Villagers' retained property rights together with the housing demand from migrants provided landless villagers with survival and development opportunities. Household livelihoods and the collective economy in the urban village are centred on property leasing businesses. Although the marginal position of landless villagers in the urban labour market has not changed, their economic status is not marginal. They earn much more money than many urban residents.

### **The migrant settlement with low-rent housing**

In many Chinese cities, urban villages have become migrants' settlements. In Guangzhou, the majority of three million migrants are actually accommodated in urban villages with low-rent housing (Xie, 2005). The relaxation of the *hukou* system together with the reform of the urban welfare system and the employment system has further loosened the restriction on labour mobility among regions and sectors (Solinger, 1999). With the attraction of more development chances and better living conditions, a huge number of rural labourers migrated into urban areas to seek employment. According to the Fifth Population Census, by the end of 2000 88.4 million people had migrated from rural to urban areas (NBSC, 2002; Fan, 2004). A large number of migrants flow into the cities, producing a huge demand for housing, especially for low-rent housing, which imposes a great pressure on the urban housing market.

Table 10.3 Local households' income in urban villages

Villages		A lump sum cash compensation per capita	A dividend per capita from village collective (Yuan)	Private housing rent per capita (Yuan)	Average rent (Yuan/m <sup>2</sup> )
Guangzhou	Sanyuanli	–	38,900	8,900	16
	Beiting	20,000	–	2,000	10
Kunming	Yuchilu	8,000	2,100	6,000	15
	Gangtou	35,000	–	3,000	8
Nanjing	Tengzi	15,000	6,000	25,000	12
	Suojie	30,000	–	10,000	10
Wuhan	Tuanjie	–	15,000	30,000	15
	Tanghu	20,000	–	12,000	12
Xi'an	Renyi	25,000	–	10,000	12
	Nanhe	10,000	9,600	4,000	8
Harbin	Hadatun	30,000	–	2,000	8

Source: Household survey in six large Chinese cities, 2007.

Since housing construction had been limited under the centrally planned economy, a huge demand for housing remains, although large-scale real estate development has been carried out under housing marketization reform. Moreover, since low-rent urban housing can only produce little margin, it is less attractive to real estate developers and relies heavily on government subsidies. At present, however, the city governments in China still pay considerable attention to economic growth. While the marketization and commodification of housing has transformed the primary housing provider from the government to the market (developer), the city government makes little effort to provide low-rent housing. Although the policy of affordable housing was implemented several years ago, the city government lacks enthusiasm to proceed with the construction of low-cost housing. Furthermore, none of the social housing policies are focused on the housing demands from migrants (Sato, 2006; Solinger, 1999). Because of the shortage of low-rent housing, there is an imbalance between the supply and demand of temporary housing. Against this background, the urban village has played a positive role in providing a large number of low-rent houses for migrants and some urban residents.

Entitled to the rights to unlimited use of their housing plots under the collective land ownership framework, local villagers constantly undertake housing reconstruction and renovation to meet the great housing demand from migrants. With the exception of a few self-occupied houses, the majority of houses are constructed to meet the low-cost demands. In urban villages, this has seen the formation of a low-cost housing market. The average rent of urban village housing is usually much cheaper (around 16 RMB Yuan per square metre monthly in Guangzhou according to our survey) than that of the city as a whole (around 32 RMB Yuan per square metre monthly in Guangzhou in 2007) (Zheng, 2009). In turn, the widespread availability of cheap housing attracts a large number of migrants to rent rooms in urban villages. Meanwhile, the residential concentration of migrants creates demands for services, thus stimulating the formation of low-end business services that target the migrants themselves and other people on low incomes. According to our survey, a large number of migrants, far greater than the number of local residents, lives in urban villages. The extremely high population density results in a shortage of public facilities and the congestion of public space. Many better-off local villagers have moved out these villages. In some cases, the village collective builds 'villagers' apartments' with better-quality housing for the exclusive use of local villagers. Over time, it is not unusual for an entire urban village to become a migrant enclave.

As a semi-urbanized community, the urban village acts as the springboard for migrants to be integrated gradually into the full urban society. In fact, urban villages share the city government's responsibility for providing migrants with housing, and make it possible for the city to take advantage of cheap and flexible labour without bearing the extra costs associated with

labour relocation and without risking social instability. As a result, the process of urbanization occurring in the reform period has been relatively cheap and painless for the government (Zhang, 2004). In this sense, the urban village serves positive functions not only in terms of accommodating the large number of rural migrants, but also through reducing the potential for social instability.

### **The urban self-organized grassroots unit**

Few of China's urban communities are governed and managed by their own organizations. Most of them lack social cohesion and a sense of belonging. However, the urban village not only remains a strong collective economy, but also inherits the village style of self-organization and social and cultural traditions. Urban villages' economic, social and cultural independence makes them self-organized grassroots units without the intervention and regulation of the state. One might assume that, along with the process of urbanization, the units of organization in the urban village, such as party organization, villagers' committees, and economic organization (mainly in the form of the joint-stock company – in the surveyed 11 urban villages, most of them have established their own joint-stock companies), which are respectively responsible for the political, social and economic affairs of villages, should have experienced radical changes. But in fact, the urban village retains its 'village-unit' organization and management model. Remaining a collective organization, and highly dependent on collective land and other resources, in most urban villages the joint-stock company acts as the management body. The joint-stock company controls almost all resources and power in the urban villages, taking responsibility for everything, such as land and housing management, shareholders' dividends, regulating private housing construction, electricity and water supply, public utilities, villagers' social welfare and employment, and also social order and public health.

The joint-stock company of the urban village is not simply an enterprise. In addition to its corporate management structure and functions (mainly real estate development and property rental), it also sets up some non-profit institutions to provide social services. In some urban villages, joint-stock companies are also responsible for the construction of village schools, clubs for the elderly, and some other public facilities. Overall, due to the inherent common interest and the relationship of mutual trust between joint-stock companies and villagers, the former become self-organized grass-roots units that effectively implement community management. In comparison, party organizations and villagers' committees tend to be subordinate or supportive management organizations.

The urban village, as a transitional community from rural village to urban community, has a more transitional management mode. Generally, the management of urban villages includes the regulation of land use and building

construction, health care, public security, environmental restoration, housing rental, small business, social services, and so on. Joint-stock companies and villagers' committees, as well as sub-district offices and some district government departments, together are in charge of all of these management affairs. In general, urban village-based organizations undertake most of the management responsibilities. Cooperation and conflicts arise between urban villages and urban government departments. If those arrangements assigned/enforced by the government are beneficial to the village collective and villagers, the villages will often cooperate enthusiastically; while for those arrangements unrelated to their interests, the villages will also cooperate, but with less enthusiasm. However, when the vested interests of the urban villages, e.g. control over housing construction, are affected, conflicts occur.

The major economic source of the urban village is from family and collective property rental. Meanwhile, stable rental income also provides reliable social security for villagers. During the urbanization process, social welfare provision in urban villages relies primarily on the collective economy, which includes basic living security, health care insurance, security of life for the elderly, and other forms of social welfare. The social security services provided by the village collective are timely and necessarily alleviate the burden of pressure on the city government to take care of landless farmers.

## **Problems: the plight of China's urban village**

### **Crowded and chaotic physical landscape**

*Wretched physical environment.* Due to the lack of planning, every family in the urban villages constructs their own houses according to their own needs, resulting in an extremely high building density in the urban village, generally over 60 per cent, many are higher than 70 per cent, and some even over 90 per cent. There is hardly any space between the houses, only very narrow alleyways. They are described as 'houses extending their hands to each other' or 'houses in the act of kissing' (Figure 10.1). Lighting and ventilation are inadequate, low-quality houses abound everywhere, and both green spaces and public open spaces are in short supply. The crowded and chaotic physical landscapes of urban villages are in sharply contrast to the clean and modern streets of modern cities.

*Disorganized land use.* In urban villages, residential land, industrial sites and commercial sites are highly mixed. There is no functional zoning in most urban villages. Residential land accounts for the vast majority. Most commercial sites are simply food stands or small convenience stores, often occupying the ground floors of village houses along the main streets. In some cases, houses, factory workshops and warehouses (storage spaces) are mixing together in one block or even in the same building. This phenomenon is particularly prominent in those cities experiencing rapid urbanization, such



Figure 10.1 Physical landscape in urban villages, Guangzhou  
 Source: authors' photograph.

as Guangzhou, Wuhan, and Nanjing. These mixed-use buildings are constructed by villagers and in some cases by the village collective and are then rented out to different users. The highly concentrated mixed-use buildings in urban villages result in a disordered land use pattern and a chaotic built environment.

*Source of insecurity.* There is no buffer zone between industrial land, warehouses and the residential land use in urban villages to provide necessary protection. Cluttered electricity wires and overloaded electricity utilization in each unit may easily cause short circuits and fires. The village's main streets and alleyways are extremely narrow and winding. In most of the urban villages there is no access route for the passage of fire engines, ambulances or other emergency vehicles. Furthermore, dense construction, together with scarce open space, leads to a lack of evacuation space in the case of fire or other disasters. All of these defects result in great risks of insecurity.

### **Unhealthy living environment**

*Severe infrastructure deficiency.* In urban villages, there is a serious shortage of public services. In many cases facilities for water and electricity supply, garbage collection, and the drainage system are severely underdeveloped and inadequate. Although some urban villages have been incorporated in the energy supply network of the whole city, a lot of them still suffer from high-cost and low-quality infrastructure provision. The layout of the village's



Figure 10.2 Living environment in urban villages, Wuhan (left) and Guangzhou (right)  
 Source: authors' photograph.

electricity and telecommunication wires, as well as water and gas pipelines, are totally unplanned and therefore chaotic. The sewers are frequently blocked and unmaintained. Due to the lack of garbage collection and disposition service and drainage system, garbage and wastewater discharge can be seen everywhere (see Figure 10.2). Mosquitoes and flies are all over the place, creating great risks of infectious diseases spreading.

*Poor living environment.* In many urban villages, the internal spaces of most buildings are overcrowded, with poor ventilation and lighting conditions. There is also a lack of public space, green space and sports facilities. Waste water and garbage everywhere results in air pollution, especially in the summer. People living in such environment are vulnerable to disease and negative emotions. There are, therefore, hidden dangers threatening inhabitants' physical and mental health, which will even induce some social problems.

### Security and social problems

*Complex demographic composition and sources of social insecurity.* Urban villages have become mixed communities accommodating indigenous villagers, rural migrants and some low-income urban residents. With a large number of rural migrants swarming into urban villages, different cultures and lifestyles begin to mingle. There are therefore inevitable conflicts between different interest groups. Due to inefficient management, the problem of social security in urban villages is not uncommon. In 2007, there were more than three million rural migrants living in urban villages in Guangzhou. Migrants have a high mobility, which results in the lack of a sense of belonging to their communities. The institutional discrimination towards migrants results in their lack of a sense of responsibility to the community. To some extent, urban villages are therefore turned into places of social exclusion and concealment, lacking strict regulation, and becoming 'hotbeds' of criminals. According

to the Guangzhou Public Security Bureau, in recent years about 75 per cent of criminal cases were reported from urban villages, and about 80 per cent of criminal suspects were captured there (interview with officers of the Guangzhou Public Security Bureau on 16 April 2007). In many cases, local criminal organizations absorb migrants to engage in producing counterfeit and inferior goods, prostitution, drug dealing and smuggling, etc.

*Potential social instability.* Although many villagers have officially become urban citizens after gaining urban *hukou*, they still cannot enjoy the same social welfare provision offered by the local government as do urban residents. The village committees are therefore still responsible for providing social security to local villagers. For farmers, their land is the only source of security. After the expropriation of the land, villagers lost their most valuable asset and they therefore have an increased sense of insecurity. Due to their low skills and low educational attainments, local villagers cannot adapt easily to the modern urban economy. Building houses on their housing plots and renting them out become the easiest and most sensible choice for the villagers to make a living. In the event of a second round of land expropriation happening to take away the land from local villagers, social unrest among them would be very likely to occur, if their social security were not taken care of.

*Negative role model.* Due to the rural–urban dichotomy, villagers are normally poorly educated and low-skilled. This creates the biggest hurdle to them finding a place in the modern urban economy. Nevertheless, many local villagers rely on land compensation, housing rent, and collective dividend, and therefore lead an easy life and no longer actively look for jobs. Enjoying high rental income and an affluent life, a rentier class formed. Many villagers hang around street corners or spend much of their time playing Mahjong (a Chinese gambling game). Their lifestyle presents a negative model for urban residents, and sets a particularly bad example for teenagers. Villagers are therefore criticized for becoming social parasites. Lacking a healthy and positive lifestyle, urban villagers are therefore prone to illegal activities, such as drug abuse, gambling and prostitution. These illegal activities turn the traditional village into a chaotic, undesirable, and insecure part of the city.

### **Causes: China's urban villages as marginalized neighbourhoods**

The long-existing urban–rural dual land system and household registration system (*hukou*) have prevented urban villages from being incorporated into the urban society. Urban villages are therefore excluded from urban development and planning schemes, and also from urban management and public services. To a great extent, they are marginalized, and even ignored. In fact, the marginalization of urban villages is the main cause of the problems mentioned above.

### **Marginalized development mode**

Although most urban villages are surrounded by planned urban areas, they are not currently integrated into the urban planning framework. As a result, infrastructure construction inside urban villages is usually excluded from the municipal utility system and lags behind. This leads to the presence of a highly underdeveloped infrastructure and unhealthy living environment inside urban villages.

For a long time, China's institutional arrangement on public investment has been highly urban-centred. Under the centrally planned economy, public facilities, infrastructure, production facilities and living facilities in cities were fully burdened by the state to promote the priority of heavy industrial development. On the contrary, the investment and construction of small and medium-sized infrastructure projects in rural areas rely mainly on the village committees themselves. After the economic reform, the policy of 'urban-centred' development has not been fundamentally reversed, although the state has increased its investment in rural areas. The urban-rural dual system of public investment has not essentially changed. Because urban villages were originally located in rural areas, the city government did not integrate them into urban planning and construction and therefore invested very little money in infrastructure and other public facilities. The dual system of public investment is the primary reason why urban villages remain highly underdeveloped while surrounding areas have been urbanized.

At the beginning of the formation of urban villages, the city government expropriated its agricultural land only, and overlooked the land used for housing in order to save compensation costs. The development of this leftover village land is ignored by the city governments. With rural migrants thronging into the city and the resulting emergence of land and housing rental market, there was a substantial increase in the population and building density in the urban villages. Meanwhile, the problems of infrastructure deficiencies, the disordered physical environment, the unhealthy living environment and many other issues began to emerge and then intensified in urban villages. These problems are attributed principally to the lack of effective governance and insufficient levels of public investment. When these problems become prevalent, urban villages are considered as creating an urban pathology by the city government. However, considering their positive functions and the extremely high costs of redevelopment, urban villages could not be demolished by the city government over a short period of time. The city government usually tolerates the existence of urban villages and postpones their redevelopment. Urban villages therefore have a marginal status in urban management – that is, the city government is reluctant either to improve or to redevelop them. In these circumstances, small-scale renovation could offer a feasible way of improving urban villages. Nevertheless, the lack of investment and effective management, disorderly

housing construction and environmental degradation in urban villages are likely to continue for a considerable period.

### **Marginalized management pattern**

The urban–rural dual administration system is a unique governance model based on the urban–rural dual *hukou* system. Its basic characteristic is that the city government takes the responsibility to provide and manage public services for residents with urban *hukou*, while the village collectives are responsible for that of villagers with rural *hukou*. In the last half-century, China adopted the urban–rural dual social management system. As a result, the management system of urban villages is completely different from the rest of the city.

Since the very beginning of the formation of the urban village, its management system has been excluded from that of the urban society, although physically the village is already located in the urban built-up area. The urban village therefore retains its rural administrative system. The village committee, as the basic unit of rural organizations and social management, is not simply an administration organization; it is also an economic entity. It is in charge of all matters relevant to the village society and takes on a wide range of responsibilities. Most importantly, the village collective has to take care of infrastructure construction and social management. Specifically, the village committee acts as the organization unit of the collective economy and takes care of all sorts of public affairs and social welfare, including public security, public sanitation, market management, birth control, pensions, health care, education, and facility construction.

In recent years, many urban governments encouraged urban villages to change its management from the village committee' to 'residential committees'. But very few of them take the initiative to cover the costs of municipal infrastructure construction and maintenance within urban villages. Since 2000, the city governments of Guangzhou, Shenzhen and other cities have required all urban villages to 'separate gradually the responsibilities of governmental administration from those of [village] enterprises' (*zhengqi fenkai*) and to be converted into 'urban communities'. In other words, the joint-stock companies established in the village are expected to manage only the collective economy, while the newly established residents' committees or the so-called 'urban communities' are supposed to be responsible for the governance of the villages. However, the management model within urban villages does not change substantially (Li, 2004). The joint-stock company still acts as the major administration unit of urban villages. The villagers have formed a strong attachment to the collective economy, which makes the village management pattern difficult to be changed in the short term. In addition, since many city governments lack funds for managing public affairs, urban villagers have to pay for their own public management by the village collective economy. Therefore, urban villages remain their distinctive management pattern within the urban society.

The other reason why the new management mode does not work lies in the reluctance of the city government to provide public services for urban villages. There is a lack of culture and leisure facilities and public service in these places. The living environment is also extremely poor. The city government should be responsible for providing public services and also for the management of urban villages after they are converted into urban administrative units. However, the fuzzy property rights acquiesced by the city government enable villagers and the village collective to make a fortune through the housing rental market; On the other hand, the fuzzy property rights become an excuse for the city government to avoid its responsibility for providing public services. In other words, the city government has lost a portion of their profits (the income from land transfer and the revenue from the rental market, and so on) by tolerating the fuzzy property rights, while saves the expenses on public affairs management within urban villages. Self-organized units, mainly in the form of village committees or joint-stock companies, are therefore established to manage public affairs in urban villages and to protect the interests of villagers. However, due to the lack of the involvement of the public sector and insufficient investment, the management in urban villages is often unsatisfactory, which is also the underlying reason for various social problems.

### **Marginalized inhabitants**

As mentioned above, due to the urban–rural dichotomy, urban *hukou* holders can enjoy a comprehensive social security, while residents in rural areas depend in the main on family support, supplemented with social relief schemes that are provided by the state and village collective. There is a huge gap in social welfare provision, e.g. housing, employment, income, health care, pension, for urban residents and for farmers. Therefore, the land is not only the basis for agricultural production, but also a safeguard for farmers' livelihood and welfare. Since the market-oriented reforms, a social security system has been gradually established in cities, including health care insurance, labour protection, unemployment insurance, pension insurance, and so on. But the majority of farmers still rely on the traditional forms of family support and land security. The dual system of social security has severely hindered the progress of urbanization in China. Rural migrants and local landless farmers in urban villages cannot enjoy social security schemes in the same way as urban residents because of their rural *hukou*. In this sense, they have not been urbanized in full. Nowadays, many landless farmers are offered a very basic health care and pension insurance package by the village collective. Nevertheless, the level of social security offered to villagers is still low, compared to urban residents. For rural migrants, the social insurance they purchased at home is still not convertible to the city in which they are working, and they therefore remain unprotected in the city.

Apart from the social security schemes, rural migrants and landless farmers in urban villages still do not enjoy the same opportunities as urban residents.

For instance, they cannot enjoy the same education and training opportunities and cannot receive same employment guidance. Furthermore, their low level of educational attainment and skills also put them in a disadvantageous position in terms of competing for urban employment. According to our survey, residents in the urban village are largely characterized by their low level of education. The mean years of schooling of all cases are only about nine years (below senior high school), while the average years of schooling of rural migrants and local villagers are only 8.26 and 8.10 respectively (see Table 10.4). It is obvious that most residents in urban villages have a comparatively low occupation profile. As Table 10.4 shows, urban villagers are concentrated mainly in the areas of self-employment or small businesses, manual worker or social service worker, and informal work, which respectively take up 29.15 per cent, 24.62 per cent and 23.74 per cent. Lower educational level is directly related to their lower occupational profile. Both landless farmers and rural migrants have lost the security provided by their farmland, either permanently or temporarily, and have difficulty in finding a new place in the modern urban economy. They, therefore, urgently need the protection from social security, which they are lacking. Although they have become part of the urban society, they are very much a marginalized group within the city.

In terms of housing provision, rural migrants are even more marginalized. As Table 10.5 shows, rural migrants live in the smallest housing space. Living space per capita for rural migrant households is only 14.56 square metres, and the number of rooms per capita is only 0.62. Housing conditions for rural migrant households are also worse off. Measured by housing facility index, the average level is only 1.98. Successful experiences from western developed countries, as well as Singapore and Hong Kong suggest, one of the most important public policies is that the government should provide a large amount of public housing and low-cost housing during the period of rapid urbanization. Within China's rapid urbanization, housing demands from a large number of migrants should be considered by the city government. However, China's current urban housing policy fails to provide low-cost housing for rural migrants, and therefore cannot integrate them into urban society. The majority of rural migrants have to be concentrated in informal and inexpensive residential spaces such as urban villages. By the end of 2005, the report from the Ministry of Construction pointed out that most cities have not established a low-cost housing system. Although the system was established in some cities, only a very small amount of low-cost housing is offered to low-income households with local urban *hukou*. In Guangzhou, there have been 0.22 million low-income households in urgent need of improving housing conditions over the past five years, but only about 500 low-cost apartments are provided annually by the city government. In addition, rural migrants are completely excluded from this limited housing supply (Lan, 2007).

Table 10.4 Socioeconomic characteristics of urban villages' inhabitants by hukou status

	Total		Local villagers		Rural migrants		Urban residents	
	Mean	% (N)	Mean	% (N)	Mean	% (N)	Mean	% (N)
<b>Household head's characteristics</b>								
Age	40.20		45.71		37.26		42.39	
Educational years	8.86		8.10		8.26		10.07	
Occupation								
Manager/director		5.90 (47)		1.79 (2)		5.34 (22)		8.46 (23)
Professional/civil servant		8.67 (69)		7.14 (8)		8.01 (33)		10.29 (28)
Skilled worker/technician		7.91 (63)		2.68 (3)		7.52 (31)		10.66 (29)
Self-employer/small business owner		29.15 (232)		17.86 (20)		38.59 (159)		19.49 (53)
Manual worker/social service worker		24.62 (196)		17.86 (20)		29.61 (122)		19.85 (54)
Informal job and others		23.74 (189)		52.68 (59)		10.92 (45)		31.25 (85)
Monthly income (Yuan)	1682.34		1352.85		1649.59		1867.51	
<b>Household's characteristics</b>								
Household size	2.88		3.82		2.58		2.94	
Monthly income per capita	976.31		545.38		999.15		1119.15	
Monthly basic expenditure per capita	580.73		404.18		580.04		655.00	
Monthly food expenditure per capita	236.70		190.83		228.64		267.79	
<b>Valid No of cases</b>		796		112		412		272

Source: Household survey in six large Chinese cities, 2007.

*Table 10.5* Housing conditions in urban villages by location and *hukou* status

	Total	Local villagers	Migrants	Urban residents
Length staying in current house (year)	10.08	25.00	3.67	13.93
Living space per capita (m <sup>2</sup> )	22.61	43.58	14.56	26.27
Rooms per capita	.77	1.20	.62	.84
Housing facilities index*	2.58	3.60	1.98	3.07
<b>Valid No of cases</b>	796	112	412	272

*Note:*\* Housing facilities index is a constructed index scaled from 0 to 8 based on the possession of private bathroom, private kitchen, private shower bath, bottled gas, piped-in gas, air conditioner, heating and internet.

*Source:* Household survey in six large Chinese cities, 2007.

## Discussion and conclusion

The urban village in Chinese cities should not be blamed for creating an urban pathology. Rather, they should be considered to be a marginalized neighbourhood. From the very beginning of the formation of the urban village, it occupied a marginal position within the process of urban development. First, although urban villages have been surrounded by the urban built-up area or planned areas, they are not integrated into urban spatial plans. As a result, the municipal utility system in urban villages fails to be linked with the rest of the city. Because of the lack of effective government participation and inadequate public investment in infrastructure construction and environment improvement, the urban village is characterized by infrastructure deficiencies, a disordered physical environment and an unhealthy living environment. Second, despite physically located in urban built-up areas, urban villages are excluded from the urban society in terms of governance. Since many city governments are reluctant to invest in facilities, especially in the collectively-owned urban villages, the expenditure of public administration in urban villages are drawn from the village collective. This has resulted in a severe lack of culture and entertainment facilities, and a low-quality living environment. Finally, rural migrants and local villagers living in the villages cannot enjoy the same level of social security as urban residents. While they have become part of the city, they are excluded from the urban social security system because of their rural *hukou* and/or land-ownership. Since most of them are low-skilled and poorly educated, they have become a vulnerable group within the urban labour market. Moreover, informal employment and the high mobility of migrants also turn the urban village into a focus for social and security problems.

Despite associated social problems, the urban village has had a positive effect in terms of reducing social conflicts under rapid urbanization by

providing a survival strategy for local landless farmers and inexpensive shelter for migrant workers. First, the urban village is considered as the community of interest for local villagers. After being deprived of their farmland, landless farmers have become one of the city's most vulnerable groups. To cope with deprivation, landless farmers develop a bottom-up anti-poverty strategy by building and renting houses to migrant workers in the urban village. Landless farmers take advantage of their de facto rights over the collectively owned land to make a living through renting houses. Second, urban villages are considered as the enclaves for rural migrants. As a vulnerable group in the city having difficulties in getting formal and stable jobs (Smith, 2000), rural migrants generally have a comparatively low socioeconomic profile. Meanwhile, migrants' housing demand is totally ignored by the city government. In this context, the urban village has played an important role through the provision of a large number of low-rent houses for migrants. As semi-urban communities, urban villages act as springboards for the gradual integration of migrants into urban society. Third, the urban village remains not only a strong collective economy, but also inherits village-style organization and social cultural traditions. These allow urban villages to become self-organized grassroots units in the absence of state intervention and regulation. The inherent common interests and mutual trusted relationship between the village collective and villagers enable the former to implement effective economic management and community governance.

The property-rental economy in urban villages is one type of quasi-free market economy without state administrative interference. The villagers have the rights to develop their own housing plots within the village collective. In this case, the payments for land transfer, the revenue for real estate development, and even the construction costs of municipal infrastructure are ruled out. From the supply-side viewpoint, the redevelopment of housing plots in urban villages is low-cost and yields substantial profits for the local villagers and the collective; from the demand-side viewpoint, migrants can enjoy the low-rent housing. In this sense, the housing-rental economy in urban villages is the outcome of joint decisions from the supply and demand sides in the quasi-free market economy. The environmental and social problems in urban villages can also be tolerated by both the supply side and the demand side.

Within China's rapid urbanization, the urban village plays a positive role and undertakes some responsibilities that are supposed to be shouldered by the city government. To a great extent, urban villages solve the problems of an imbalanced housing market and the mismatch between housing supply and demand in many Chinese cities. The problems that have occurred in urban villages cannot be solved purely through demolition and reconstruction, and current needs from both the supply side and the demand side of the urban villages' housing-rental economy should be taken into account. First, local villagers' employment and income source are crucial and urgent

issues to be solved. But in the long run, villagers can accumulate substantial money through engaging in housing rental businesses, and they can also adapt gradually to the urban society.

Second, how to meet the demand of low-rent housing and low-cost living for a large number of migrants is another key issue. From an optimistic perspective, with increasing housing supply from developers and the city government, many migrants and urban residents currently living in urban villages can eventually manage to move to better-quality housing in a better environment. With housing in urban villages becoming less attractive, inhabitants may gradually move out, and there may also be a decline in population density. In that situation, the costs of solving the environmental and social problems in urban villages may be reduced substantially. Therefore, in our point of view, at present urban villages exist for good reasons. The problems that have emerged in urban villages should not be exaggerated or the source of undue concern, since in time they will be solved eventually.

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# **Part IV**

## **Deprivation and Segregation**

# 11

## Multiple Deprivations in Urban China: An Analysis of Individual Survey Data

*Yuan Yuan and Fulong Wu*

### Introduction

In the western economies, widening inequalities in income and wealth, cuts in public expenditure, the selective targeting of resources and an emphasis on economic competitiveness have raised considerable concerns about deprivation. Deprivation has emerged as an important research theme in the fields of urban social geography and urban studies. Researchers emphasize the multidimensional aspects of deprivation. The concept of deprivation originated in the UK in the late 1960s, where it emerged as a means of providing a framework for examining a broad array of social and economic disadvantages (Norris, 1979). Townsend (1993, p. 79) defines deprivation as a 'state of observable and demonstrable disadvantage relative to the local community or the wider society to which an individual, family or group belongs'. It refers to specific conditions such as the lack of clothing, housing, household facilities, education and social activities, and is thus distinguished from poverty. Deprivation may present in various aspects of disadvantage, and is thus referred to as 'multiple deprivations'. The index of multiple deprivations (IMD) is used to give an aggregated measurement of the deprivation status of small areas, used to examine the geography of deprivation (Knox and Pinch, 2000).

In most studies, the unit of deprivation analysis is a small geographic area, such as a local government ward. This is useful to identify specific problem areas. Deprivation studies describe the distribution and variation of deprived areas (Pacione, 1995; Broadway, 1989; Broadway and Jesty, 1998; Langlois and Kitchen, 2001; Kitchen, 2001), deprivation indicators and area-based measurement (Bradford et al., 1995; Sloggett and Joshi 1998; Kearns et al., 2000; Harris and Longley, 2002; Noble et al., 2006), the relations between demographic changes, social environment and neighbourhood deprivation (Robson et al., 2008; Bailey and Livingston, 2008; Wen et al., 2007; Stafford et al., 2003), and relations between resource access and exclusion and social deprivation (Longley and Singleton, 2009; Pearce et al., 2008). However,

area deprivation may be subject to ecological fallacy (Lee, 1994; Fieldhouse and Tye, 1996; McCulloch, 2001), because the social homogeneity of geographical units is falsely assumed. Researchers examined certain social groups who suffer from deprivation, such as ethnic groups, the working class and immigrants (Fieldhouse and Tye, 1996; Ley and Smith, 2000). The majority of deprivation research focuses on developed market economies. Relatively fewer studies have been conducted on defining and applying this concept in developing countries and transitional economies.

The transition towards a market-oriented economy in China since the 1990s has given rise to new urban poverty. Existing studies cover the generation, the distribution of the urban poor, the typology of poor neighbourhoods and the housing provision of the urban poor (Wu, 2007, 2004; Wang, 2004; Liu and Wu, 2006; Yuan and Xu, 2008a). Within a decade after reform, social and economic issues have become significant in transitional China. Accompanied by spatial and residential reorganization, some social and economic disadvantages are concentrated in certain areas. Recently, research has begun to pay attention to spatial concentration, spatial differentiation and the mechanism of new urban poverty from the perspective of multiple deprivations (Yuan et al., 2009; Yuan et al., 2008; Yuan and Xu, 2008b). This research identifies specific problem areas as deprived places and discusses the institutional and market factors that influence spatial differentiation. Very few studies have used survey data from individual households.

This chapter aims to measure and identify multiple deprivations with survey data conducted in six Chinese cities to understand the nature, characteristics and geography of multiple deprivations and how this can be related to institutional factors. The hypothesis is that some social groups have a higher propensity to suffer multiple deprivations because of the institutional disadvantages created in the planned economy and the path-dependent effects in the transitional era. Accompanied by spatial and residential reorganization, multiply deprived households are inclined to concentrate in certain areas. To compare poverty and deprivation, we argue that not all the absolute poor are subjected to multiple deprivations and not all multiply deprived households are trapped in absolute poverty. From this perspective, this chapter highlights the existence of multiple dimensions and spatial differentiation of the urban poor and low income population in the transitional era.

## **Data and methods**

### **The survey**

In the Chinese context, data from official statistics provide aggregated rather than disaggregated information for individual households. Furthermore, it is difficult to access census data at micro levels (e.g. neighbourhood levels). Large-scale household surveys, therefore, provide enriched and updated information for individual households, and fill the gaps in official statistics (He et al., 2008).

Although the household survey may suffer from various problems and potential drawbacks, it offers valuable first-hand information. This chapter, therefore, is based on a large-scale household survey conducted in 18 neighbourhoods in six Chinese cities in 2007 for the ESRC-funded project 'Urban Poverty and Property Rights Changes in China'. The questionnaire was designed to collect demographic and socioeconomic information about household heads and entire households. The total number of valid respondents is 1,809 households. The existing literature suggests that there are three main types of poverty neighbourhoods – inner city dilapidated neighbourhoods, workers' villages and rural migrant enclaves (F. Wu, 2004; Wang, 2004; Liu and Wu, 2006). We conducted the survey in these kinds of neighbourhoods: old urban neighbourhoods represent 'inner city dilapidated neighbourhoods', and urban villages are typical kinds of 'rural migrant enclaves'. Three neighbourhoods were selected in each city. The six cities are located in three different parts of China – Guangzhou and Nanjing in the eastern region, Harbin and Wuhan in the north-eastern and central region, and Xian and Kunming in the western and south-western regions. These cities represent typical Chinese cities undergoing market transition and economic restructuring and thus provide ideal cases to study multiple deprivations and new urban poverty in transitional China.

## The indicators

The variables used, therefore, simply measure the lack of basic material items or resources which contribute to putting those individuals at a relative material disadvantage compared with the rest of the population. This may be seen as a less than ideal measure of deprivation but will serve to illustrate the effect of using individual-level rather than area-level information. In order to compare with our previous research on area deprivation in Guangzhou, Table 11.1 lists and defines nine variables which are grouped into four main dimensions: housing, economy, education and health condition.

- Six housing-related variables are included in the housing dimension of deprivation, representing indoor facilities, overcrowding and housing tenure;
- The economy dimension includes one variable representing unemployment;
- The education category includes a direct indicator of deprivation, i.e. household head with less than nine years schooling;
- The variable of health condition represents a household with disability, long illness or injured person.

The following indicators are selected, all of which are converted to dummy variables. A value of 1 is assigned to a household with the characteristics and 0 is assigned to a household without the characteristics.

*Table 11.1* Variables and definition of multiple deprivations on individual level

Dimension	Variables	Definition
Housing	1. No bath	Lacking access to an inside bath or shower
	2. No toilet	Lacking access to an inside toilet
	3. No kitchen	Lacking access to an inside kitchen
	4. No clean fuel	Living in a house or flat without clean fuel
	5. Overcrowding	The average per capita living space of a household is lower than the average standard of the city
Economy	6. No housing tenure	Living in a rented accommodation
	7. Unemployed	Being a family whose head is unemployed
Education	8. Low education	Being a family whose head has less than nine years schooling
Health	9. Poor health condition	Being a family with disability, long illness or injured person

### The methods

A principal component analysis is used to identify the main structure of data. Deprivation, like any complex concept, is difficult to measure and requires the combination of a number of indicators. Because there are many different aspects to deprivation, the sum of scores across a broad range of variables may be problematic. If the variables are highly inter-correlated, then it may be appropriate to measure deprivation on a simple single dimension. In order to uncover the underlying structure, principal component analysis is performed to identify groups of highly inter-correlated variables and create new composite variables or components. Table 11.2 shows that principal component analysis extracts three components of variables, using a conventional cut-off point for the extraction of components of an eigenvalue of 1.0. Component 1 includes six housing-related variables which represent housing condition; component 2 contains two variables of low education and poor health condition; and component 3 reflects the employment situation of surveyed households.

A threshold is set to identify the multiple deprivations of each household. First, it would be possible to allocate a score to each small geographical area according to the scores or weights of different dimensions in area-level deprivation, but the indicators of individual-level deprivation are dichotomous. Therefore, a threshold of multiple deprivations needs to be created, which was proven possible in a previous study on individual-level deprivation (Fieldhouse and Tye, 1996). Second, it was shown in Table 11.2 that the lack of exclusive use of a bath or a shower and the lack of exclusive use of a toilet are highly correlated, or, in other words, are measuring the same thing. If a household is to reach the threshold of deprivation by scoring multiple times on the same dimension it is misleading to consider them

Table 11.2 Three components of variables according to principal component analysis

	Component 1	Component 2	Component 3
Eigenvalue	2.859	1.132	1.059
Variables	No bath No toilet No kitchen No clean fuel No housing tenure Overcrowding	Low education Poor health condition	Unemployed

Table 11.3 Number and percentage of multiply deprived households and poor households

Deprivation	Number	Percentage	Poverty	Number	Percentage
Multiply deprived households	643	35.54	Poor households	208	11.50
Not multiply deprived	1,166	64.46	Not poor	1,601	88.50
Total households	1,809	100.00	Total households	1,809	100.00

as multiply deprived. Thus, in this chapter, a multiply deprived household is defined as being deprived on at least three items on component 1 and at least one item on each of components 2 and 3. A value of 0 is assigned to a multiply deprived household and 1 otherwise. According to the threshold, 643 households in our survey are classified as multiply deprived, which amounts to 35.54 per cent of all 1,809 cases.

In order to compare with deprivation, we need to identify poor households in the survey data. For the practical purposes of providing social relief or assistance to poor urban households, each city sets its own poverty line (or benefit line). The 'Minimum Living Standard Scheme' (MLSS) represents a local poverty line set by the municipal government. Households with an average monthly income per capita lower than the standard of MLSS of each city<sup>1</sup> are considered as absolute poor households. 208 households are defined as extremely poor families, accounting for 11.5 per cent of all 1809 households. The results of multiple deprivations and poverty measures are shown in Table 11.3.

### The nature of multiple deprivations

Because of the complex process and methods for identifying deprivation, it is necessary for us to check which deprivation indicators are most commonly

associated with multiply deprived households. Figure 11.1 shows the percentage of households subject to each single aspect of deprivation. The figure compares the percentage of households classified as multiply deprived who have all the deprived scores, the percentage of non-deprived households, and the percentage of total households with at least one deprived condition. Multiply deprived households are more likely to suffer disadvantages in all nine dimensions than non-deprived households. About 93 per cent of multiply deprived households experience overcrowding; 90 per cent have no bath facility; 76 per cent have no toilet in the house; 66 per cent experience health problems; 60 per cent have no self-contained kitchen; and 55 per cent are in rental housing. Overcrowding is a typical characteristic, and 74 per cent of non-deprived households and 81 per cent of the total sampled households are in overcrowded conditions. The main reason is that the neighbourhoods we chose are poor and low income ones.

Some indicators have dramatic disparities among different households. Whereas the majority of multiply deprived households have no bath facility, only 38 per cent of non-deprived households and 56 per cent of the total sampled households in the poor neighbourhoods have no bath facility. Only 21 per cent of non-deprived households and 40 per cent of all households have no inside toilet compared with 76 per cent of multiply deprived households. This means that housing conditions are different in these poor and low-income neighbourhoods.

Although Figure 11.1 sheds some light on the nature of deprivation on single indicators, it does not show the combination of indicators of different components. The number and percentage of multiply deprived households scoring on the pairs of indicators are calculated. Table 11.4 demonstrates that the most frequent combinations of indicators are the variables in component 1 and component 2. In the survey 60 per cent of all multiply deprived

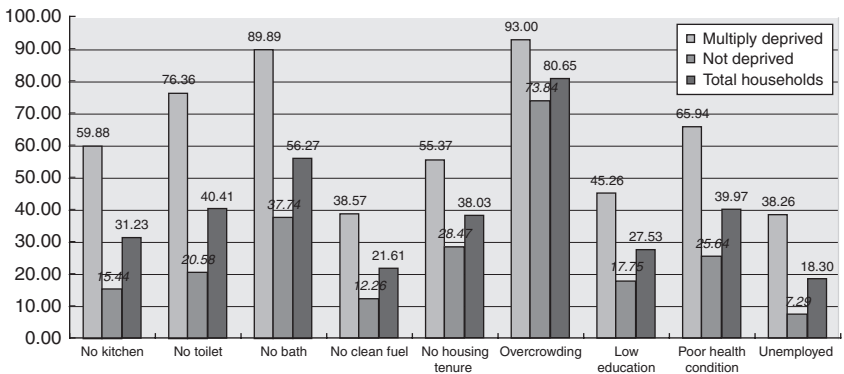


Figure 11.1 Percentage of multiply deprived households, not deprived households and total households with particular aspects of deprivation

Table 11.4 Number and percentage of multiply deprived households scoring on pairs of indicators from different components

		<i>Component 1</i>					<i>Component 2</i>		<i>Component 3</i>	
		No kitchen	No toilet	No bath	No clean fuel	No housing tenure	Overcrowding	Low education	Poor health condition	Unemployed
<i>Component 1</i>	No kitchen							178	246	111
	No toilet							229	307	153
	No bath							264	374	197
	No clean fuel							122	161	86
	No housing tenure							271	388	221
	Overcrowding							173	223	105
<i>Component 2</i>	Low education	27.68	35.61	41.06	18.97	42.15	26.91			32
	Poor health condition	38.26	47.74	58.16	25.04	60.34	34.68			59
<i>Component 3</i>	Unemployed	17.26	23.79	30.64	13.37	34.37	16.33	4.98	9.18	

Note: The total number of multiply deprived households scoring on pairs of indicators is given in the upper right portion of the table, and the percentage of multiply deprived households scoring on pairs of indicators is given in the lower left portion.

households score on pairs of indicators of poor health condition and rental accommodation, and 58 per cent score on poor health condition and no bath. Thus the most common combination is the poor health condition, low education, and rental accommodation without sufficient indoor facilities.

## Multiple deprivations of different social groups

Because deprivation can be identified at the individual level, it is possible to investigate the characteristics of multiply deprived households. To understand the variation of multiple deprivations in different social groups, we grouped the cases by age, marital status and gender, occupation and social class, and the *hukou* status of household head. We calculated the percentage of multiply deprived households (MD percentage) and poor households (P percentage) in all cases, and use a location quotients index to measure the concentration of multiple deprivations (LQMD) and poverty (LQP) in different social groups in comparison with other households.

### Age group

Table 11.5 compares deprivation, poverty and their concentrations in different age groups. The young age group (15–29) is more likely to be multiply deprived, the middle age groups (40–49 and 50–59) are more likely to be multiply deprived and poor, while the elderly age group (60 upwards), on the contrary, is less likely to suffer deprivation and poverty. This is a specific outcome of deepening economic reform and market transition since 1990 in China, which led to the highest concentration of laid-off workers and early retirees in the middle age groups. Unemployed middle-aged people with low education level or in poor health condition have difficulty returning to the job market and are easily trapped in poverty. If in poor housing conditions at the same time, they have a higher propensity to multiple deprivations, which is different from the same age group in western countries (Fieldhouse and Tye, 1996). The young age group has no higher P percentage and LQP

*Table 11.5* Number and percentage and Location Quotients of multiply deprived households and poor households in different groups sorted by household head's age

Age group	0–14	15–29	30–39	40–49	50–59	60 upwards	Total
Total population	5	244	367	510	355	328	1809
Multiply deprived households	1	88	110	205	143	96	643
MD Percentage	20.00	<b>36.07</b>	29.97	<b>40.20</b>	<b>40.28</b>	29.27	35.54
LQMD	0.56	<b>1.01</b>	0.84	<b>1.13</b>	<b>1.13</b>	0.82	1.00
Poor households	0	20	34	73	52	29	208
P Percentage	0.00	8.20	9.26	<b>14.31</b>	<b>14.65</b>	8.84	11.50
LQP	0.00	0.71	0.81	<b>1.24</b>	<b>1.27</b>	0.77	1.00

mainly because of their advantage in age, energy and health in the competition for jobs. Considering the nature of multiple deprivations relating to overcrowding, indoor facilities and housing tenure, the young age group has not been working for a long time, and they are unable to have property rights or live in good housing conditions. This supports the well-documented fact in the Western literature on the interrelationship between young people and low-quality housing and deprivation (Langlois and Kitchen, 2001).

### Marital status and gender

The structure of the family also has an important influence on the propensity to become multiply deprived (Fieldhouse and Tye, 1996). We then compared the concentration of multiply deprived households and poor households in different groups sorted by household head's marital status and gender. Table 11.6 shows that multiple deprivations are widespread among divorced or widowed families (the LQMD score is 1.51) and single persons (1.41). Poverty is only widespread among divorced or widowed families (the LQP score is 1.79). This supports the western research that many lone parents classify themselves as economically inactive and are more likely to be deprived and in poverty.

The percentage of female households who are multiply deprived (38 per cent) is slightly higher than that of male households (34 per cent) and the average level (35 per cent). Furthermore, the LQMD of female single-parent families in multiple deprivations (the score is 1.37), i.e. female divorced or widowed households, is lower than that of male single-parent families (1.61). This reflects the fact that the gender of the household head has no significant influence over multiple deprivations, which is quite different from western research, which regards the female single-parent family as an important variable of deprivation and finds significant interactions between

*Table 11.6* Number and percentage and Location Quotients of multiply deprived households and poor households in different groups sorted by household head's marital status and gender

	Single	Married	Divorced or Widowed	Total	Female	Male	Total
Total households	163	1476	165	1804	591	1218	1809
Multiply deprived households	82	472	89	643	223	420	643
MD Percentage	<b>50.31</b>	31.98	<b>53.94</b>	35.64	<b>37.73</b>	34.48	35.54
LQMD	<b>1.41</b>	0.90	<b>1.51</b>	1.00	<b>1.06</b>	0.97	1.00
Poor households	4	170	34	208	86	122	208
P Percentage	2.45	11.52	<b>20.61</b>	11.53	<b>14.55</b>	10.02	11.50
LQP	0.21	1.00	<b>1.79</b>	1.00	<b>1.27</b>	0.87	1.00

*Note:* 5 respondents are not stated in marital status.

gender and neighbourhood deprivation (Wen et al., 2007; Kitchen, 2001; Langlois and Kitchen, 2001; Harris and Longley, 2002; Ley and Smith, 2000; Pacione, 1995). Apparently, the gender of the head of household is a useful index for poverty incidence. The female-led family suggests a much higher location quotient for poverty (the LQP score is 1.79) than those of male-led ones (1.27) and the average level (1.00).

**Occupation and social class**

It could be expected that social class based on occupation would be an important factor affecting deprivation (Berthoud, 1976). In our previous study, area-based analyses have normally shown associations between the percentage of the population in lower social classes (usually workers in industry and low services) and the level of multiple deprivations (Yuan et al., 2009). In this chapter, because unemployment of household head is one of the indicators for multiple deprivations, we deduct the unemployed households from the total cases. First, based on 17 types of occupation in the survey, farmers, industry workers in construction and transportation, and services in catering, domestic and retailing have higher percentages of multiple deprivations than the average level. Second, according to occupation of household head, we divide all surveyed households into five social classes from 1 to 5. The bigger the number, the higher the social class. In categories 1 to 5, the percentages of multiply deprived households in low services (37 per cent) and unskilled or semi-skilled workers (36 per cent) are slightly higher than the average level of multiply deprived households in total cases (35 per cent). The group of manager and technician and the professional group have much lower percentages (Figure 11.2).

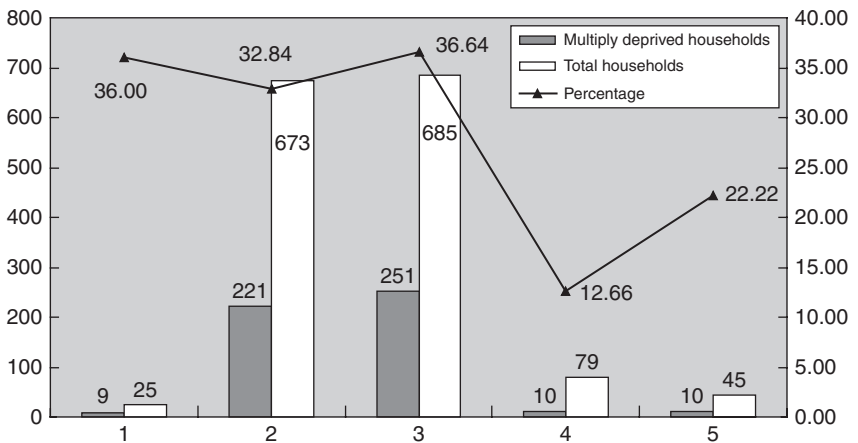


Figure 11.2 Number, percentage of multiply deprived households and total cases in different social class

*Table 11.7* Number and percentage and Location Quotients of multiply deprived households and poor households in different groups sorted by the types of household head's *hukou*

	Total households	Multiply deprived households	MD Percentage	LQ MD	Poor households	P Percentage	LQP
Local urban hukou	1076	359	33.36	0.94	143	13.29	1.16
Local rural hukou	165	36	21.82	0.61	39	23.64	2.05
Non Local urban hukou	141	61	43.26	1.22	2	1.42	0.12
Non Local rural hukou	426	187	43.90	1.23	24	5.63	0.49
<b>Total</b>	1808	643	35.56	1	208	11.50	1
Local	1241	395	31.83	0.89	182	14.67	1.27
Non local	567	248	43.74	1.23	26	4.59	0.4
<b>Total</b>	1808	643	35.56	1	208	11.50	1
Urban	1217	420	34.51	0.97	145	11.91	1.04
Rural	591	223	37.73	1.06	63	10.66	0.93
<b>Total</b>	1808	643	35.56	1	208	11.50	1

*Note:* One respondent is not stated.

Poverty measure and concentration are compared in all cases based on occupation. In general, compared with the average poverty percentage of all cases (11 per cent), those households whose heads are laid off, unemployed or jobless (chronically unemployed or never worked) have the highest poverty percentage (33 per cent). Farmers (28 per cent) rank second among all cases. They have lost their land during rapid urbanization since the 1990s. Based on social class, this result shares common ground with western research findings that the lower the social class, the higher the poverty rate. The poverty percentage of managers and technicians is lowest, and that of professionals is zero, which supports previous research on poverty incidence in China (He et al., 2008).

### **Type of *hukou***

There have been extensive studies on the household registration (*hukou*) system in China and its discriminative effects against migrants (Fan, 2002; Knight and Song, 1999; Wang et al., 2002). The *hukou* system records two pieces of information: place of registration and type of registration (W. Wu, 2004), which divides Chinese society into local and non-local residents, and rural and urban residents. It links individuals' *hukou* status to welfare entitlement and job opportunities, housing and other social benefits and services. Although the reforms in the twenty-first century are likely to reduce the importance of *hukou* status in individuals' lives, some influences are deeply rooted in the living conditions of populations holding different *hukou*. Our survey also reflects some differentiation and especially the separation between poverty and deprivation among different *hukou* holders.

Table 11.7 shows that the location quotient for multiply deprived people of non-local population (the LQMD score is 1.23) is higher than that of local population (0.89). The LQMD of rural residents (1.06) is slightly higher than that of urban residents (0.97). The LQMD between non-local urban *hukou* (1.22) and non-local rural *hukou* (1.23) is almost the same. However, the location quotient for poverty of local households (the LQP score is 1.27) is much higher than that of non-local households (0.4), and that of the urban population (1.04) is a little higher than rural residents (0.93). Compared with residents holding local urban *hukou* (the LQP score is 1.16), the LQP of residents holding local rural *hukou* is highest (2.05). In a word, the rural population is easily trapped in multiple deprivations, compared with urban residents. Non-local population has a higher propensity to multiple deprivations compared with local population, and the discrepancy between urban and rural migrants seems weak. Local households fall into poverty much more easily than non-local households, and local rural *hukou* holders in particular have the highest poverty rate.

Tables 11.5–11.7 and Figures 11.1–11.2 above have shown some clear demographic characteristics of multiply deprived households. In sum, social groups with one of the following characteristics have a higher propensity

to experience multiple deprivations: the middle age (40–9 and 50–9) and young age (15–29) groups; divorced or widowed households and single persons; low services, unskilled or semi-skilled workers; and non-local population. Although in this chapter the poverty measure is only one indicator of average monthly income per capita, it can provide a basic comparison between poverty and deprivation. There are some mismatches between poverty and deprivation in age, marital status and occupation sorted by household head, but the significant separation between them exists among different *hukou* holders. This suggests that *hukou* is still an important factor for living conditions, particularly for predicting the inequality and intensity of multiple deprivations.

### The geography of multiple deprivations

Multiple deprivations are spatially concentrated in certain areas (Pacione, 1995; Kitchen, 2001; Ley and Smith, 2000; Pearce et al., 2008; Longley and Singleton, 2009). In order to illustrate this, we also calculate the number, percentage and location quotients for multiply deprived households and poor households in three kinds of neighbourhoods. Compared with LQ measuring concentration across different social groups in former part, LQ in this part means spatial concentration. In the three kinds of neighbourhoods of our survey, there are 291 multiply deprived households in urban villages, which comprise 45 per cent of all multiply deprived households, while in old urban neighbourhoods the figure is 36 per cent and in workers' villages only 18 per cent. Table 11.8 also shows that the location quotient for multiply deprived households in old urban neighbourhoods is the highest (the LQMD score is 1.32) and that in workers' villages is the lowest (0.64). Considering the nature of multiple deprivations, this confirms that living conditions in workers' villages are still better than the others. When talking about the distribution of poor households, the location quotient for poverty in old urban neighbourhoods is still the highest (the LQP score is 1.42), which shows that old urban neighbourhoods are also the concentrated areas of poor households. Though poverty is concentrated in farmers and local rural *hukou* holders, the spatial concentration for poverty in workers' villages (the LQP score is 0.9) is slightly higher than in urban villages (0.8).

Four types of households are further defined by the comparison between poverty and deprivation. Type one (T1) are poor households whose monthly income per capita is lower than the standard of MLSS of each city and are also classified as the multiply deprived households according to our indicators and methods. Type two (T2) are poor households without multiple deprivations. Type three (T3) are multiply deprived households without poverty. Type four (T4) are not poor and multiply deprived households. T1 and T4 signify overlap between poverty and deprivation, and T2 and T3 represent separation between them. According to LQT, Table 11.9 shows

*Table 11.8* Distribution of multiply deprived households and poor households in three kinds of neighbourhoods

Neighbourhood Type	Total households	Multiply deprived households	MD Percentage	LQ MD	Poor households	P Percentage	LQP
urban village	796	291	45.26	1.03	73	35.10	0.80
old urban neighborhood	502	236	36.70	1.32	82	39.42	1.42
workers' village	511	116	18.04	0.64	53	25.48	0.90
Total	1809	643	100.00	1.00	208	100.00	1.00

*Table 11.9* Location quotients of four types of households in three kinds of neighbourhoods

Neighborhood Type	T Percentage	T1 Percentage	T2 Percentage	T3 Percentage	T4 Percentage	LQT1	LQT2	LQT3	LQT4
urban village	44.00	23.48	49.46	50.00	42.78	0.53	1.12	1.14	0.97
old urban neighborhood	27.75	54.78	20.43	32.77	23.02	1.97	0.74	1.18	0.83
workers' village	28.25	21.74	30.11	17.23	34.20	0.77	1.07	0.61	1.21
Total	100.00	100.00	100.00	100.00	100.00	1.00	1.00	1.00	1.00

that T1 is mainly concentrated in old urban neighbourhoods. T2 is spatially located in urban villages and workers' villages. T3 is in old urban neighbourhoods and urban villages. T4 is in workers' villages. Hence, there exist distinct spatial characteristics of poverty and deprivation. First, in old urban neighbourhoods in inner cities, the new urban poor are in poor living conditions and multiply deprived. Second, in workers' villages in inner suburbs, the new urban poor are in better living conditions and usually have only one aspect of deprivation. Third, in urban villages in inner suburbs or outer areas, rural migrants are a multiply deprived population; some local landless farmers are trapped in poverty. This demonstrates that the separation of poverty and deprivation is not only in different social groups but also in geographical areas.

### **Institutional factors**

The demographic characteristics of multiple deprivations at individual level partly have some common ground with western research, such as young age groups, divorced or widowed households and lower social class. This could be explained by some factors in the context of the market economy. In understanding post-socialist cities, there is a particular need to understand the institutional structure and its influence on social space (Pickvance, 2002). In China, there were some institutional factors that ensured differential access to life chances for subpopulations who were of different social status under state socialism, as well as in the transitional era. Thus, the objective of this chapter is to reveal what kinds of institutional factors can be related to the special demographic characteristics and geography of multiple deprivations. Specifically, the following aspects are examined in detail: differentials in employment market and housing related to the *hukou* system both in socialism and the transition period, and area-based policies, especially urban regeneration policies in the transitional era.

### **Employment**

Since the 1990s, along with the market transition of the economic system and relevant institutional changes, specifically the deepening reform of state-owned and collective enterprises has resulted in larger numbers of unemployed and laid-off workers (Solinger, 2002; Wang, 2004; Liu and Wu, 2006; Chen et al., 2006). With large-scale expansion of built-up areas, landless farmers living on the edges of cities became a sizable poor group (Wang, 2004). Although state-run re-employment programmes have been conducted in different cities, the worrisome trend is that the rate of re-employment has been declining (Wu, 2007). These local urban and rural poor are difficult to return to the urban labour market as they are confronted with competition from hardworking rural migrants and urban migrants with higher education and skill levels.

The new minimum living standard regime for local urban and local rural population contains and maintains the stability of the absolute poor (Wu, 2007), and especially those with lower education and skill levels or in a poor state of health which means that they can only with difficulty escape conditions of absolute poverty. During the process of rapid urbanization, landless farmers receive less re-employment training from local government than the laid-off and unemployed workers from state-owned and collective enterprises. So, the absolute poverty rate of local rural residents is higher than that of local urban people. This is the main reason why households whose heads are laid off, unemployed or jobless, or farmers have the highest poverty percentage in the survey.

Research has revealed a segmented or divided urban labour market between migrants and local residents in occupational segregation and wage differentials (Knight and Song, 2005; Xu et al., 2006; Meng and Zhang, 2001). As a result, jobs such as domestic services, construction and production work, which are unpopular with local residents, are released to migrants, who take low-level jobs and appear to be paid less for the same enterprise than do urban workers (Meng and Zhang, 2001; Roberts, 2001). In our survey, 53 per cent of migrants (rural and urban) worked in low-level services including domestic services, catering and retailing, and 24 per cent of them were construction and production workers. Although discrimination in the labour market still exists, the Chinese labour market has developed from a rigid, centrally administered system to a more market-oriented one (Appleton et al., 2005); especially in some cities shortages of skilled workers are leading to a selective relaxation of the *hukou* system (Fan et al., 2009), and it is expected that individuals will be rewarded on merit in competition with each other (Chen and Hoy, 2008). Migrants' incomes are lower compared with most of their urban counterparts, but they can make a living in urban areas without support from the minimum living scheme of local government. In particular, urban migrants can obtain certain advantages within the urban labour market because of their experience and understanding of urban contexts, their educational attainment and skills differing from those of rural migrants (Chen and Hoy, 2008). Therefore, the majority of migrants are not trapped in absolute poverty in contrast to local landless farmers and unemployed or laid-off workers. However, industrial workers and service workers have higher percentages of multiple deprivations than the average.

## **Housing**

The nature of multiple deprivations at the individual level relates to overcrowding, indoor facilities and housing tenure, which indicates that housing is one of the most important variables in multiple deprivation. The role housing plays in the creation and maintenance of deprivation is important (Lee, 1994; Marsh et al., 2000). Studies on housing inequality in urban

China focus mainly on two dimensions: one relates to the *hukou* system and discrimination against migrants (Chan and Zhang, 1999; Solinger, 1999; Wang and Murie, 2000; World Bank, 1997; W. P. Wu, 2002, 2004), and the other relates to work units and inequality among local populations (Wu, 1996; Wang, 1995; Logan and Bian, 1993; Logan et al., 1999).

Housing was for a long time a form of social welfare to local urban residents until the recent reform, which has actually broadened their housing choices. There is a general disadvantage to all migrants in gaining access to urban housing because of their non-local *hukou* status (W. Wu, 2004). The majority of migrants cannot afford commodity housing, and they are unable to gain ownership of affordable housing in cities without local *hukou*. Not all migrants in private or state industry plants can get dormitory allocation. The best housing choice for migrants is renting low-cost accommodation, which is unevenly distributed, mostly in built-up rural villages located in peri-urban areas. Because of the collectively owned property of land, the construction of rural villages is outside urban development control and without appropriate site plans. Many villages show an intensive use of space and a lack of public amenities and green spaces. High densities of buildings and population are beyond the capacity of the infrastructure (Zhang et al., 2003). In order to save costs, migrants are overcrowded in such areas, share poor facilities, and have a higher propensity to experience deprivation compared with the local urban population. Those local rural residents who live in the same area have better indoor housing conditions and a lower percentage of multiple deprivations. Our survey does not reveal a great disparity in deprivation level between rural and urban migrants. On the one hand, it demonstrates that urban migrants faced the same institutional challenges because they lacked a local *hukou*. On the other hand, the neighbourhoods we chose are poor and low income ones. There are no significant differences among urban and rural migrants.

The literature on housing inequality shows the impact of work-units on the Chinese housing system (Wu, 1996; Wang, 1995; Logan and Bian, 1993; Logan et al., 1999). In other words, where people lived, and what neighbourhood facilities they had, depended on their workplaces rather than their personal attributes (Logan et al. 1999). In the planned economy, big state-owned work-units with high bureaucratic and economic rank had the ability to built workers' villages adjacent to plants according to urban planning principles, allocating housing to their employees and taking charge of the regeneration and maintenance of neighbourhoods. This kind of area was still one of the best residential areas in the city ten to 15 years ago. During the housing reform since the end of the 1990s, apartments with better living conditions in workers' villages were sold to sitting tenants. This conversion from tenants to homeowners is a kind of capitalization of institutional privilege. There was no housing provision for workers in collectively owned

and small enterprises and other peripheral groups, and they were domiciled in housing provided by the municipal housing bureaux in old urban areas. These old urban neighbourhoods were mainly built before the establishment of PRC without strict planning principles, and there were severe shortages of indoor facilities and necessary amenities. Due to the long-term war before 1949 and the lack of housing construction, housing shortage was the basic problem in socialist Chinese cities. Several households had to live in partitioned housing that had previously served for a single family, which resulted in high densities of population and poor living conditions. In the planned economy, the master plans and construction policies of central and local government focused on the inner suburbs for big industrial plants and their residential areas, and the old urban neighbourhoods deteriorated because of the lack of regeneration and maintenance. During the housing reform in the transitional era, these houses in old urban neighbourhoods without indoor facilities could not be sold to tenants. During the deepening reform of state-owned and collective enterprises in the transitional era, these two poor groups have experienced unemployment and poverty, although their living conditions are quite different. Households in old urban neighbourhoods have a higher propensity to experience deprivation, which represents overlap between poverty and deprivation in certain areas, while households with better living conditions and housing tenure in workers' villages do not experience both deprivation and poverty at the same time.

### **Regeneration policies**

Although this chapter focuses on individual-based multiple deprivations, some area-based policies have played leading roles in creating and maintaining the living chances of different social groups. In post-socialist transition, life chances are closely related to pre-existing institutional privileges. Urban regeneration policies, specifically the selected regeneration by market and government in the transitional era, are the main forces. In the transitional era, especially in the 1990s and at the beginning of the twenty-first century, regeneration in inner cities was driven by the market and developers. Some of the old urban neighbourhoods were left out of redevelopment due to the high socioeconomic cost resulting from the high building coverage and high population density. The residual residents left are mainly composed of elderly people and unemployed or laid-off workers with lower skill and education levels and without homeownership. The residents have no ability to regenerate the physical environment of their neighbourhoods. There is some special regeneration funding from local government to help poor and low income neighbourhoods. Municipal governments prefer to allocate regeneration funding to workers' villages rather than old urban neighbourhoods. In addition to the allocation of funding, municipal governments sometimes directly appoint urban planning institutes to make and carry out regeneration plans for workers' villages. Meanwhile, most old

neighbourhoods in poor condition are still on the waiting list to apply for special regeneration funds.

On the one hand, the reason that municipal governments pay more attention to the physical and social regeneration of workers' villages is mainly for social stability; on the other hand, the privileges of work-units with higher bureaucratic and economic rank in the socialist era still have influence, although some work units are bankrupt or have been restructured. When it comes to urban villages, the new structure has sustained the former patterns of benefits, and migrants and their enclaves receive the least (Wang and Murie, 2000). Although the municipal planning bureaux often criticize urban villages for their high density of construction, lack of fire protection, poor indoor facilities and lack of public space, these villages are self-built, self-organized and self-regenerated neighbourhoods. The costs of maintenance and regeneration are kept to a minimum because of the financial capacity of residents and village collectives.

## Conclusions

Using first-hand household survey data, this chapter answers questions relating to the nature, characteristics and geography of multiple deprivations at the individual level and how institutional factors can relate to them. It exhibits some similarity with the socioeconomic characteristics of multiply deprived populations in the West, such as young age groups, divorced or widowed households, and low social classes (Langlois and Kitchen, 2001; Fieldhouse and Tye, 1996). Furthermore, this research also reflects some important differences. Market transition and deepening economic reforms since the 1990s have made the middle-aged group more likely to be multiply deprived. Institutional disadvantages, especially the lack of *hukou*, have resulted in inferior socioeconomic status and higher percentages of multiple deprivation for non-local populations.

Another important finding is that there are some apparent mismatches between poverty and deprivation in different social groups and geographical areas. The new urban poor in workers' villages in inner suburban areas are in better living conditions without multiple deprivations, because they were of higher bureaucratic and economic rank in the socialist era, which has resulted in institutional privileges in housing condition, social welfare provision and area regeneration, in both socialist and transitional eras. In contrast, in old urban neighbourhoods, the new urban poor are multiply deprived because of their lower rank in the socialist period, inferior housing conditions and lack of regeneration opportunities. Migrants in urban villages in inner suburbs or outer areas are a multiply deprived population. Most of them are not trapped in absolute poverty because of their hard work in fields unpopular to local residents and their ability to make a living in urban areas without welfare support from the local government. Although

the partial relaxation of the *hukou* system has brought benefits to migrants, the housing policies related to the *hukou* system and area-based regeneration still have strong path-dependent effects on their worse living conditions compared with those of the local population.

Poverty relates to economic factors, especially income. In socialist transitional cities, income was not a decisive factor for access to important resources (Logan and Bian, 1993; Logan et al., 1999). In terms of the characteristics and geography of multiple deprivations, the mismatches between poverty and deprivation in our survey can be seen as reflecting the implications for a wider understanding of Chinese transitional cities, because of the persistence of institutional effects, which will exist in the long term. Thus, deprivation research will be meaningful. This chapter is an initial research on multiply deprived populations. There are likely to be more complex interrelationships between demographic characteristics and institutional factors which should be studied in the future. Future research should be conducted into changing patterns of multiple deprivations on the individual level in the context of market transition.

This chapter suggests implications for social and economic policies in transitional China. First, institutional barriers should be removed in the future. There is a long way to go to reduce the huge gap between urban-rural and local-non-local populations in social welfare provision. Second, selective targeting of people-focused and area-based policies should be adopted at the same time. People-focused interventions should be designed to alleviate household deprivation directly; examples might include support for employment and training programmes, and the provision of additional education and health services. Because some area-based regeneration policies have played important roles in creating and maintaining deprivation, place-focused interventions should be adopted to try to enhance the quality of housing and the physical environment. Existing residents can benefit. Meanwhile, regeneration also makes these areas more attractive to less deprived households and reduces the concentration of deprivation.

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## Note

1. The standards of MLSS of six cities are as follows (Unit: Yuan per capita per month): Guangzhou (330), Nanjing (280), Xian (200), Harbin (245), Wuhan (248), and Kunming (210).

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# 12

## Post-reform Residential Segregation in Three Chinese Cities: Beijing, Shanghai and Guangzhou

*Zhigang Li and Fulong Wu*

### Introduction

Against the background of a successful market-oriented economy, post-reform urban China features unprecedented rising social disparities. Socio-spatial differentiation has become a major problem of China's post-reform urban development. Is there a new model of the Chinese city in the making? This study examines residential segregation in the three largest Chinese cities – Beijing, Shanghai and Guangzhou – using 2000 population census data. The segregation of rural migrants is identified in these three cities, showing the sustained impact of institutional forces such as household registration (*hukou*) across Chinese cities. The residential patterns, however, are by no means the same. In terms of the segregation of various socioeconomic groups, for example, the highest degree is to be found in Guangzhou, while the levels in Shanghai are the lowest. Beijing is in the middle. These differences are largely attributable to different local factors in these three cities, such as the history of urban development, the housing stock of work-units and the commuting pattern of residents. Specifically, the variation of local development regimes is an important factor. For example, Shanghai is a 'state-oriented model', while Guangzhou adopts a more 'market-oriented' approach.

With an intricate network of globally linked information, transportation and people, the world is disputably claimed to be 'flat' (Friedman, 2007). Our everyday life, however, is driven by a 'fragmented' landscape marked by exacerbated conflicts, fortification and segregation (Marcuse and van Kempen, 2002). Clearly, though there is an unprecedented 'time and space compression' (Harvey, 1996), geography still matters. Newly enclosed social spaces, gated or marginalized, physically or psychologically, for instance, spread out across the globe: gated communities, citadels, enclaves, or ghettos (Marcuse, 1997). Global cities such as New York, Tokyo, and London are found to be socio-spatially polarized (Sassen, 2001), and enlarged disparities have been identified across other globalizing cities (for a review, see Marcuse and van Kempen, 2002).

As neoliberalism has prevailed during recent decades (Lee and Zhu, 2006; Beer et al., 2007; He, 2007; Purcell, 2007; Cook and Ruming, 2008; Nonini, 2008; Pflieger and Matthieussent, 2008; Rosen and Razin, 2008; He and Wu, 2009), when market logic and capital regimes have appeared in almost every corner of the world to construct a market society, almost all cities are involved in a transition featuring enlarged social disparities accompanied by spatial differentiation (Marcuse and van Kempen, 2002; Poulsen et al., 2002; Huang, 2005; Kaplan and Woodhouse, 2005; Huang, 2006; Logan, 2006; Walks and Bourne, 2006; Johnston et al., 2007; Clark, 2008; Iceland and Scopilliti, 2008; Ireland, 2008; Johnston et al., 2008; Li and Wu, 2008; Wang, 2008; Zeng 2008; Johnston et al., 2009; McGarrigle and Kearns, 2009; Velez et al., 2009). Is there a new spatial pattern/morphology/hierarchy in the making (Marcuse and van Kempen, 2000)?

Three forces – market reform, globalization and the migration of millions of migrants from rural areas – have paved the way for the ‘great transformation’ in China towards the development of a new world factory (Logan, 2001). During the past three decades, China’s successful take-off has been largely attributed to an urban-centred accumulation regime that provides an ‘open door’ to investors, mobilizing labour forces, reconstructing inefficient state-owned enterprises (SOEs), commercializing urban land and housing, and thereby transforming China from a totalitarian to a market society (Wu et al., 2007; Wu, 2007). Through neoliberal policies interwoven with state authoritarianism, China is achieving the primitive accumulation of capital (Wu, 2008; Ma, 2009). Its urbanization level rose from just 17.92 per cent in 1978 to 43.9 per cent in 2006 (Gu et al., 2008). Thousands of skyscrapers, airports, highways and infrastructure projects have appeared in prosperous coastal regions such as the Pearl River Delta, the Yangtze River Delta, and the Beijing–Tianjing–Hebei region. In due course, urban China is shifting from being a centre of production to being a centre of consumption (Davis, 2000; Hu and Kaplan, 2001). Large cities such as Beijing, Shanghai and Guangzhou now enjoy products or services of comparable quality and quantity to those in North America or Western Europe.

The spatial implication of this transformation, however, is by no means evident. Is there a new spatial pattern for post-reform Chinese cities? Is urban China changing to become the same as its North American counterparts? Is it changing to be socio-spatially polarized? What are the extent and profile of post-reform residential segregation? On the other hand, though research on residential segregation has become a fully fledged subject of urban studies (Knox and Pinch, 2000), knowledge of cities in developing countries, especially those within transitional economies such as Russia or Eastern Europe, is relatively sparse (Andrusz et al., 1996; Gentile 2003, 2004). One of the major obstacles is data deficiency, as microscopic spatial data are necessary for residential segregation study but are difficult to access (Wu, 2002; Wu and Li, 2005). Therefore, to decode the pattern and

mechanism of residential segregation in post-reform urban China, in-depth empirical studies are needed, and accessible data on microscopic scales such as subdistricts or residential committees are very important.

In the following sections, we will examine the three largest Chinese cities, Beijing, Shanghai and Guangzhou, as empirical cases to analyse residential segregation in Chinese cities. First, the transformation of social space after reform will be examined. Theoretical perspectives regarding residential segregation in transitional Chinese cities will be introduced. Before the empirical study, we will introduce the data and method used in the empirical study. Following discussion of the mechanism of residential segregation, we select the variables of migrant status, educational attainment, and housing status to examine. In particular, we use so-called 'threshold analysis' (Johnston et al., 2008). The empirical part will focus on the comparison of residential segregation in these three cities. Thereafter, discussion and conclusions will be used to understand the results and theoretical implications of this study.

### **Transformation of social spaces in post-reform urban China**

It is common for people with distinctive characteristics live in different neighbourhoods (Knox and Pinch, 2000). Residential segregation refers to the degree to which there is a differential distribution of groups across space (Iceland et al., 2002). The traditional perspectives of segregation studies concentrate on socioeconomic status, ethnicity and lifestyle – the three classic determinants identified by Shevky and Bell (1955). Recently, the state, once largely ignored, is also found play a significant role (Marcuse and van Kempen, 2002). During recent decades, with a social-cultural-institutional turn in human geography (Johnston et al., 2000), researchers have begun to pay more attention to the impact of institutions upon the socio-spatial structure of cities (Marcuse and van Kempen, 2002; Kaplan and Woodhouse, 2004; Kaplan and Woodhouse, 2005; Wong et al., 2007). Among them, transitional cities such as those of urban China can provide a representative case, as the lingering impact of the socialist regime coexists with a burgeoning market regime (Wu et al., 2006), moulding a particular institutional ecology.

Within the cities of the socialist state, housing was among other items subject to collective consumption, which aimed to reduce the cost of urbanization and to ease the bottleneck of industrial development. Work-units (namely SOEs acting as the basic unit of the socialist collectivist regime) worked as the organizers of housing consumption. As such, socialist cities represented a specific type of urbanism featuring hybrid socio-spatial units, homogenized spatial consumption, and a society of totalitarianism.

After 1978, as China began to develop a market society, housing provision shifted away gradually from the established work-unit-based system. The state determined to change the old welfare system of housing through promoting

home ownership. Against the context of the rebirth of 'urbanism', a stratified market of various new tenures such as commodity rental, purchased commodity housing, rented socialist housing, purchased ex-public housing, rented self-built housing, and so on has been constructed. Consequently, the amount of real estate investment in Shanghai increased from just 87 million Yuan in 1987 to 8,160 million Yuan in 1990, to 56,617 million Yuan in 2000, and to as high as 136,687 million Yuan in 2008 (SSB, 2009). With regard to housing investment, single budgetary allocation was replaced by multiple channels, including self-fundraising and foreign direct investment. In Shanghai, the proportion of housing investment within fixed capital investments increased from just 10.4 per cent in 1980, to 18.9 per cent in 1990, to 23.7 per cent in 2000, and to 32.5 per cent in 2006 (SSB, 2009). Real estate developers began to capitalize space through a wide range of houses at value-(re)stratified locations (Huang and Clark, 2002).

Nevertheless, the real estate industry follows a place-based strategy, which selectively redevelops central urban areas according to their potential for profit. Dilapidated areas with a long history and poor infrastructure are deliberately ignored. To guarantee the safety and amenity of the new neighbourhoods, renewed communities are normally gated, with walls, CCTV and full-time guards (Wu and Webber, 2004). Underdeveloped areas such as working staff settlements, however, suffer not only the relative decline of housing quality, infrastructure, and facilities such as schools, hospitals and shops, but also a loss of 'higher status' residents. New layers of neighbourhoods have been built on an old residential structure: selectively gentrified neighbourhoods, under-maintained neighbourhoods of working staff, neighbourhoods of affordable housing, and migrant enclaves.

At the top level is the high-standard detached house (or villa), the price of which is so high that only the new rich can afford it. In Guangzhou's Er'sha Island, for instance, each villa costs about \$2 million. Second, commodity housing built by real estate developers is also placed in the market, the price of which is still also far beyond the reach of households with an average income level. In Huangpu District, the central area of Shanghai, the average price of a commodity house at the market price is around 24,700 Yuan per square metre in 2009; even for Jiading District, the northern suburb of Shanghai, the average price is about 8,700 Yuan per square metre;<sup>1</sup> but the income of general Shanghai residents is just about 41,000 RMB Yuan per year (SSB, 2009). In fact, the ratio of house price to income has doubled from 6.2 in 2000 to 11.2 in 2007, far beyond the ratio of 5 set by the World Bank as an affordable ratio for local residents.<sup>2</sup> As a result, severe discontents have been initiated by general residents, putting housing as one of the three notorious 'new mountains', together with the escalating costs of healthcare and education, upon the shoulders of Chinese people.

Accordingly, urban Chinese have begun to be sifted and sorted into differentiated social spaces, as 'to choose a house means to choose a lifestyle'

(Fleischer, 2007). Thus, China's soaring social inequality is crystallized in space. However, not everyone benefits from the transformation. Poor workers are left in dilapidated public housing quarters, while the rich move out to new gated commodity housing estates (literately in Chinese, *xiaoqu*). The urban fringe is filled by rural migrants (Gu and Shen, 2003). Although mechanisms that originated in different historical and socioeconomic conditions are interwoven (Wu, 2002), the new structure has sustained the old pattern of benefits: leaders, managers and professionals, who already enjoy better housing, benefit most; industrial workers gain less; and migrants get least (Wang and Murie, 2000). After market reform, educational attainment and *hukou* status are two important indicators of socioeconomic status, with the differentiation of social space often being exemplified by these two indicators (Wu and Li, 2005).

First, human capital such as educational attainment is related to income as well as social status (Tang and Parish, 2000). Although educational level is not a direct factor in residential differentiation, it is important for its effect on income and occupation (Bian, 2002). A high level of educational attainment usually guarantees urban *hukou*, which enhances residential status. Residents with university degrees have a much better chance of accessing formal institutions/companies in the labour market than people of lower-level education. Educational attainment is normally associated with the opportunity of employment in the state sector or joint ventures, and this in turn affects incomes. Therefore, it is not educational attainment itself but rather its implication for social status that contributes to the uneven spatial distribution of residents.

Compared to western cities, social stratification is a 'new' phenomenon, and the issue of residential segregation is nascent in terms of Chinese urban studies. A major shortcoming for socio-spatial studies in China is overreliance on published macro data, the only source available, although its quality is poor. For this reason, early Chinese urban studies show an almost entire absence of detailed field-based research. Xu and Hu (1989) and Yeh et al. (1995), for instance, studied Guangzhou's social area in 1984 and 1990. Sit (2000) uses data from 1985 and 1990 to map Beijing's social area, covering 96 subdistricts (*jiedao*). Using data from a 1998 survey, Gu and Shen (2003) examine the urban mosaic of post-reform Beijing. Also for Beijing, Feng and Zhou (2003) and others (Feng et al., 2007, 2008a) compare its socio-spatial structure in 1982 and 2000 and illustrate the underlying mechanisms. However, there is no answer as to what is the extent of residential segregation. In particular, few studies have undertaken comparative analyses of residential segregation across cities. What is the extent of segregation in post-reform Chinese cities? Do they have the same profile of residential segregation? Are the socio-spatial landscapes of Chinese cities changing in the same direction? What is the underlying mechanism? All remain disputable. In this sense, this study will use data on residential committees, the lowest

spatial unit that has been used in studying urban China, to examine residential segregation in three cities in 2000: Beijing, Shanghai and Guangzhou.

## Data and methods

There have been five national censuses for China: 1953, 1964, 1982, 1990 and 2000; the 6th census will be conducted in 2010. For the first time in history, the 2000 census collected not only information about the socioeconomic status of residents, but also housing variables such as housing quality and facilities. In addition, datasets on the residential committee scale began to be accessible. Such conditions paved the way to decipher residential structures in urban China. The residential committee, the lowest administrative unit of urban China, is different from other administrative levels in that it is a 'self-organized mass organization': according to the 'Rules on the Organization of Residential Committees' promulgated in 1954 by the National People's Congress, residential committees should be elected by residents and act under the guidance of base-level government or its agencies, e.g. subdistricts. Residential committees are financed by local governments under the budget for administrative expenditure, and, therefore, become an arm of the local government. For example, they undertake tasks such as the maintenance of public order, basic welfare provision and mobilizing people during government campaigns, all assigned by higher-level governments.

With an average population of around 3,000, the residential committee is the smallest tract that can be identified in the census (Table 12.1), and the data in use cover the central areas of these three cities. The data for Beijing, for instance, include eight districts: Chaoyang, Congwen, Dongcheng, Fengtai, Haidian, Shijingshan, Xicheng and Xuanwu. The data for Shanghai cover 11 districts: Changning, Hongkou, Huangpu, Jing'an, Luwan, Nanshi, Pudong New District, Putuo, Xuhui, Yangpu, Zhabei, among which Nanshi district was incorporated by Huangpu district in late 2000, involving 81 subdistricts underpinned by 1,939 residential committees. Moreover, the data for Guangzhou involve eight districts: Baiyun, Dongshan, Fangcun, Haizhu, Huangpu, Liwan, Tianhe, and Yuexiu. The vast majority of workers in these cities are residents of these areas, and the remaining regions are largely farmland. In this sense, generalization based on this database would not be significantly altered by a widening of the research area.

There is a massive literature on ethnic residential segregation in urban areas across many countries (see recent reviews in Kaplan and Woodhouse, 2004, 2005; Reardon, 2006). Much of it provides estimates of the degree of segregation of individual groups using single-index measures, particularly Index of Dissimilarity (ID). Such indices, however, suffer from a number of disadvantages; for instance, they discard some information from which they are calculated, and they are often difficult to interpret. For these reasons, as well as other technical issues relating to their comparability over time and

space, Johnston et al. (2007) developed an alternative approach to segregation measurement that has proven valuable in a variety of contexts including international comparisons (Johnston et al., 2007). It examines what proportion of a selected group lives in areas where they exceed a predefined threshold percentage of the total population, e.g. 10 per cent, 20 per cent, and 30 per cent. The selection of the thresholds is to some extent arbitrary. However, as the method is merely used to compare the concentration of residents with different variables, as long as a wide range is selected and the threshold is kept consistent, the selection will produce different shapes of derived results, while not impacting the comparison. Specifically, it is a useful tool to compare a series of variables, such as educational levels, migrant status, and so on. In detail, the resultant curve of the group with a high extent of concentration will have three features: first, the starting point of its line will be high on the Y axis (see figures below), which means that there will be a high proportion of these residents living above the lowest threshold; second, the line will be smooth and thus slowly decrease to the X axis: the more slowly the line falls to the X axis, the larger the thresholds the group can reach; third, the higher a line above others, the higher the extent of concentration. With this approach, we can compare the residential segregation of specific social groups in Beijing, Shanghai and Guangzhou.

### **Three cities: Beijing, Shanghai and Guangzhou**

There have been three types of Chinese cities in the twentieth century: the traditional city evolved over three millennia; the city created during the pre-socialist era; and the contemporary city that is emerging under a market economy. Beijing belongs to the former group, while Shanghai and Guangzhou fall into the second type. As the largest cities of China, these three cities are the most intricate, diversified, and representative cases for understanding the development of post-reform Chinese cities. The transformation of these three cities shows certain similarities: suburbanization, gentrification, or internationalization (Wu, 2007). The built-up areas of these cities have expanded dramatically during the past three decades. Guangzhou, for example, increased from just 187 square kilometres in 1990 to 764 square kilometres in 2007 (Guangzhou Municipal Statistics Bureau, 2008). Hundreds of gated communities such as 'Orange County' have been constructed in the suburbs of Beijing (Wu, 2007). New trends of suburbanization have been identified, such as the construction of suburban villas or affordable housing, the rise of private car ownership, the relocation of industrial sectors, and the development of large shopping malls and retail parks (Feng and Zhou, 2003). During the period from 1995 to 2008, about 997,712 households were relocated from central Shanghai for reasons of urban regeneration, and the amount of housing demolished reached

64 million square metres (SSB, 2009). Better-quality housing areas, usually built through commodity housing projects, tend to be distant from inner urban areas where former municipal housing was concentrated. Accordingly, social spaces are now differentiated by housing conditions (Li and Wu, 2008). This tremendous spatial transformation, however, is further strengthened by recent mega projects such as the Beijing Olympics 2008, Shanghai Expo 2010 and the Asia Games of Guangzhou 2010. The rank of these three cities on the global city network is ready to rise.

Nevertheless, Beijing, Shanghai and Guangzhou are three cities with contrasting features of work-unit system and degree of market development. Being the national capital, Beijing is the home of a vast number of government ministries and party organizations, and the headquarters of many large SOEs. In the same vein, Shanghai was the powerhouse of China and therefore the traditional work-unit system prevailed, and its government held tight control over its economy and society. In contrast, Guangzhou has been the frontier of China's market reform. Its proximity to Hong Kong together with a historical tradition of entrepreneurialism has ensured Guangzhou's thriving private sector, FDI, and the penetration of the market mechanism into its entire economy. As shown in Figure 12.1, about 10 per cent of workers in Beijing are in the occupation of 'Government agency, political parties, enterprises, or business executives', while that of Guangzhou is the lowest among the three cities (4 per cent). None of the occupational structures of these three cities, however, is found to be as polarized as seen in the thesis of the global city (Sassen, 2001). The majority of occupations in these cities are still 'manufacturing' or 'retail and social service' workers (Figure 12.1), and the middle class, including 'technical professionals' and 'office administrative clerks', accounts for just one-third of the total.

To examine the extent of the segregation of different social groups within these cities, this study will concentrate on selected variables, such as *hukou* status, educational attainment, and housing tenure. The results, however, show no signs of severe residential segregation (Table 12.1). The ID results of non-local *hukou* holders, i.e. migrants, are 0.35 for Beijing, 0.26 for Shanghai, and 0.43 for Guangzhou. Relatively, Guangzhou's ID for migrants is higher, but still far below the ID of African-American segregation in the USA, about 0.7.

Figure 12.2 maps the concentrations of migrants in Beijing, Shanghai and Guangzhou. All of these three cities hold a high concentration ( $LQ > 1$ ) of migrants in the inner suburbs, such as the north Haidian District and south Fengtai District of Beijing, east Changning District plus part of Pudong District of Shanghai, as well as Baiyun District and east Huangpu District in Guangzhou. Given convenient transportation together with the cheap housing/rental cost of inner suburbs, neighbourhoods of migrants compose a circle around the inner city, an identical pattern for all three cities.

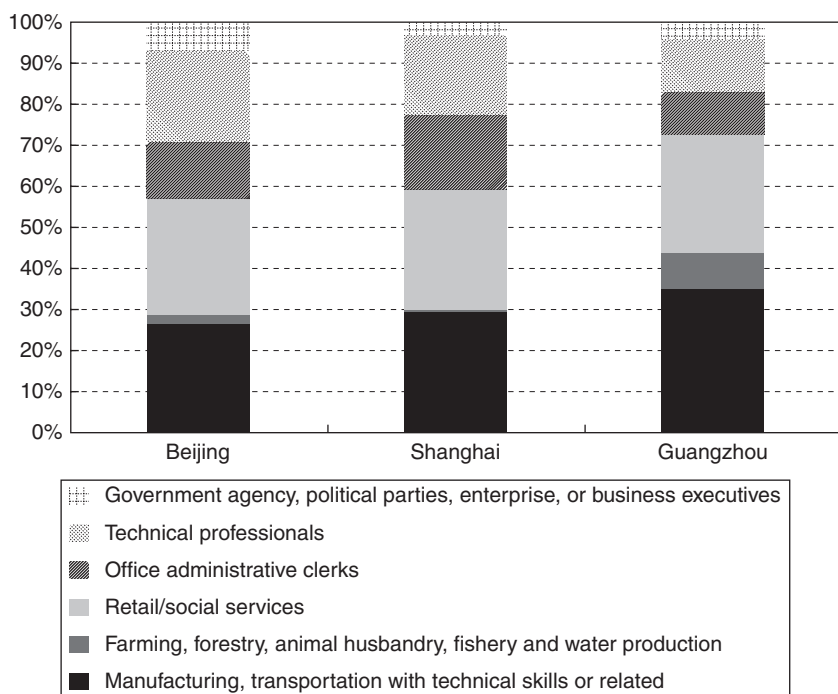


Figure 12.1 Occupational structures of the three cities

Table 12.1 Profiles of the three cities in this study

	Beijing	Shanghai	Guangzhou
Number of districts in the study	8	11	8
Number of residential committees	3,936	2,245	1,632
Population covered by the study	8,122,941	7,950,019	5,846,903
Average population of RC	2,063	3,541	3,582
Local <i>hukou</i> holders	4,719,878	5,529,357	2,995,077

Nevertheless, Guangzhou also shows a high concentration of migrants in its inner city areas such as Xin Fenghuang in Haizhu District and Liede in Tianhe District, both of which are villages with collectively owned lands, i.e. urban villages (*chengzhongcun*). This will be further discussed later.

Second, in terms of educational attainment, the majority are residents of junior and senior high school levels. At the two edges of the social strata, however, neither residents of 'primary school and below' or 'college and

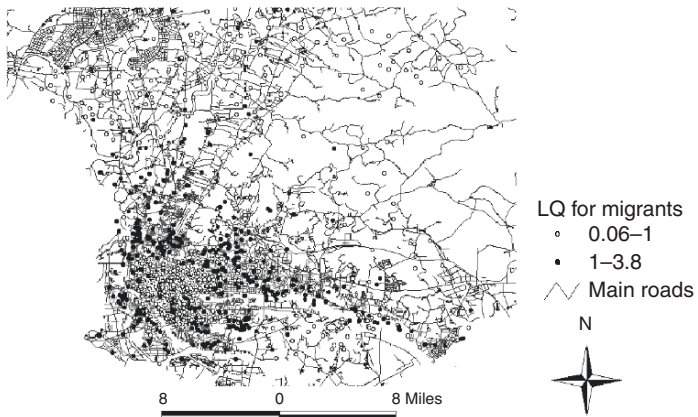
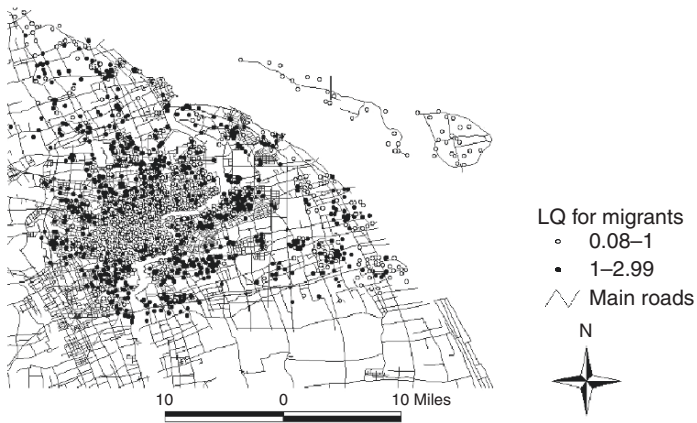
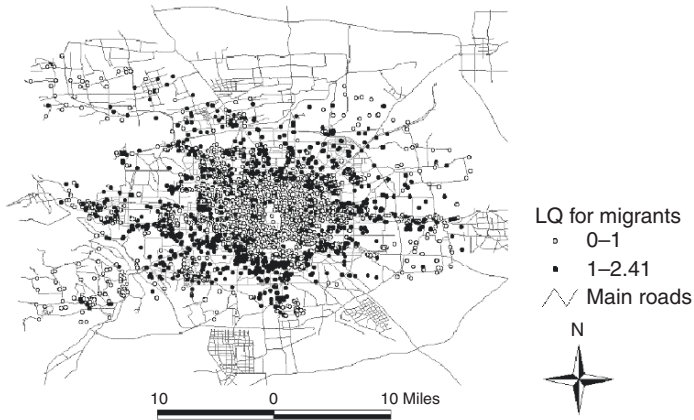


Figure 12.2 Location quotients of migrants in Beijing, Shanghai and Guangzhou, 2000

higher' are highly segregated (Table 12.2). In this sense, residents with low educational levels, often marginalized, are not highly concentrated. The ID of residents with an educational attainment of 'primary school and below' is just 0.14 for Beijing, 0.10 for Shanghai and 0.15 for Guangzhou. Instead, ID for residents with an educational attainment of 'college and higher' is relatively higher, 0.38 for Beijing, 0.27 for Shanghai and 0.42 for Guangzhou. Therefore, the concentration of Guangzhou's intellectuals, or professionals, is relatively remarkable.

With the 'threshold approach', we can further compare the concentrations of different residents or housing. Figure 12.3 shows the comparison

Table 12.2 Index of dissimilarities for selected socioeconomic variables

	Beijing	Shanghai	Guangzhou
Migrant status			
Non-local <i>hukou</i> holders	0.35	0.26	0.43
Educational attainment			
Primary school and below	0.14	0.10	0.15
College and higher	0.38	0.27	0.42

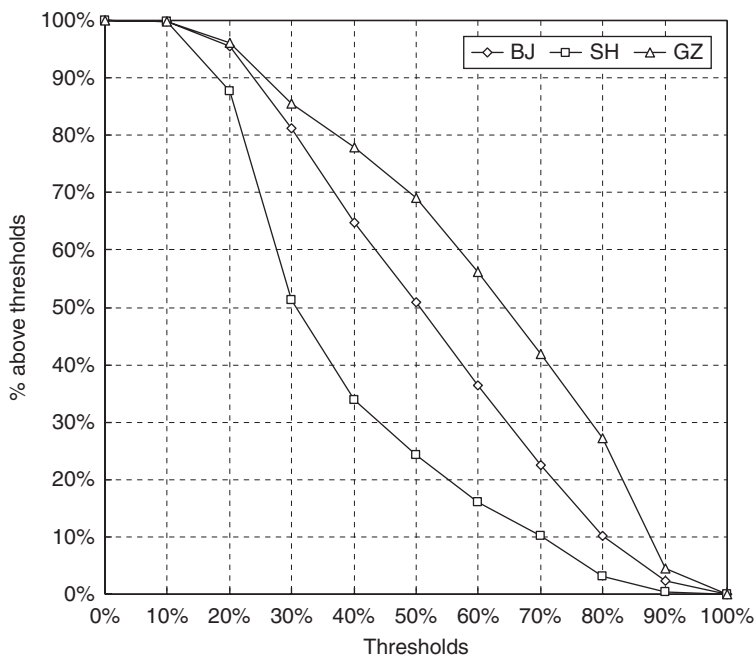


Figure 12.3 Residential concentrations of migrants in Beijing, Shanghai and Guangzhou, 2000

of migrant concentration. At each threshold, the extent of migrant concentration in Guangzhou is higher than that of the other two cities. For instance, more than 70 per cent of Guangzhou's migrants live in residential committees where their proportion to the total population of the block is about 50 per cent, while only 50 per cent of Beijing's migrants live in communities where they compose half of the population, and the proportion for Shanghai is just 25 per cent. This suggests that migrants are more widely dispersed in Shanghai than in Guangzhou. Moreover, about 30 per cent of Guangzhou's migrants live in communities where they compose about 80 per cent of the residents, while the proportions of migrants living in such an environment are just 10 per cent for Beijing and 4 per cent for Shanghai. These results confirm the findings in the last section that Guangzhou has the highest level of residential segregation and that Shanghai has the lowest, while Beijing lies in the middle.

Using such an approach, we can further examine the concentration of marginalized social groups. Figure 12.4 shows the concentration of residents with low educational attainments in the three cities. Although the curve does not show a high degree of concentration, as all are below the diagonal line, we can figure out that the concentration of such groups still follows

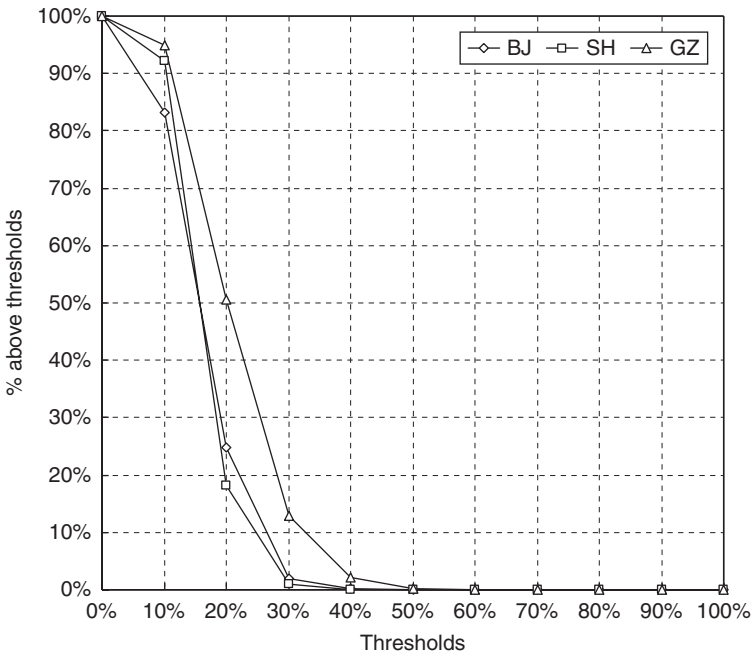


Figure 12.4 Residential concentrations of residents with low educational attainments in Beijing, Shanghai and Guangzhou, 2000

the sequence in which Guangzhou is higher than Beijing or Shanghai. Specifically, more than 10 per cent of low-educated Guangzhou residents live in communities where their proportion to the whole population of the community is 30 per cent, while almost no such residents can be found in Beijing or Shanghai (Figure 12.4).

The map of residents with low educational attainment is shown in Figure 12.5. Though a majority of high LQ zones appear in the far suburbs, such communities also proliferate in the inner areas of all three cities. In Beijing, for instance, highly accumulated low-education residents can be found in inner Haidian District and Chaoyang District. In Shanghai and Guangzhou, a number of dilapidated communities in the central area hold larger LQs, such as former Nanshi District in Shanghai and Yuexiu District in Guangzhou. The remarkable concentration of these neighbourhoods has resulted from selective urban renewal, as not all inner city neighbourhoods were upgraded. This is further confirmed by Figure 12.6, which shows the concentration of workers in the inner areas. Most such concentrated areas are historically work-unit communities, confirming that high-density work-unit compounds were largely untouched or marginalized during urban reconstruction.

Figure 12.7 shows the comparison for the concentration of workers. Relatively, Guangzhou's workers<sup>3</sup> show a high degree of concentration, while the concentrations in Beijing and Shanghai are much lower. For instance, about 90 per cent of Guangzhou workers live in communities where they compose half of the total population, but in both Beijing and Shanghai the proportion is about just 10 per cent. In this regard, about 8 per cent of Guangzhou's workers live in communities where their proportion is over 80 per cent, while neither Shanghai nor Beijing has such residents. In addition, the concentration of workers in Beijing is relatively higher than in Shanghai, as the curve of the former is often higher than the curve of the latter.

Moreover, Figure 12.8 shows the concentration of commodity housing in the cities. It is also identifiable that the outcome follows this sequence: Guangzhou > Beijing > Shanghai. For instance, over 40 per cent of Guangzhou's commodity housing is located in communities where they take up half of the total housing, and the proportion for neither Beijing nor Shanghai is over 30 per cent. Interestingly, at the high threshold of 80 per cent, the sequence of the comparison changes: Shanghai > Guangzhou > Beijing. That is, about 8 per cent of Shanghai's commodity housing is located in communities where nearly all of the housing is commodity housing, but little such commodity housing can be found in Guangzhou or Beijing. This suggests that commodity housing is highly concentrated in Shanghai. In particular, commodity housing is highly concentrated in the inner suburbs, for example, the south Changning District and the riverside Pudong District (Figure 12.9). Relatively, highly concentrated commodity housing in Guangzhou appears in both inner suburbs such as

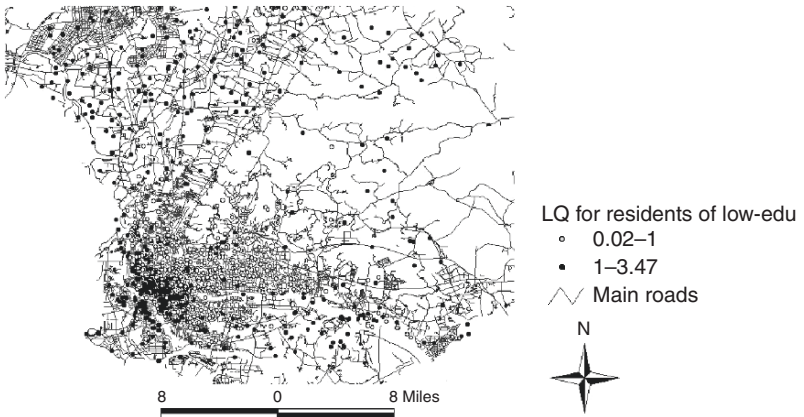
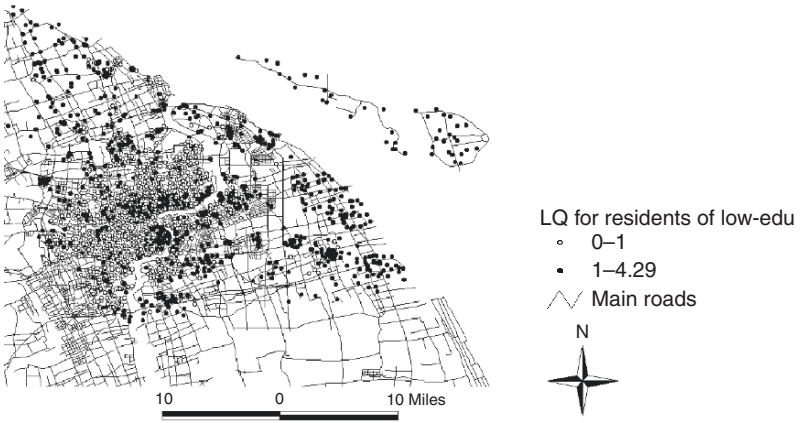
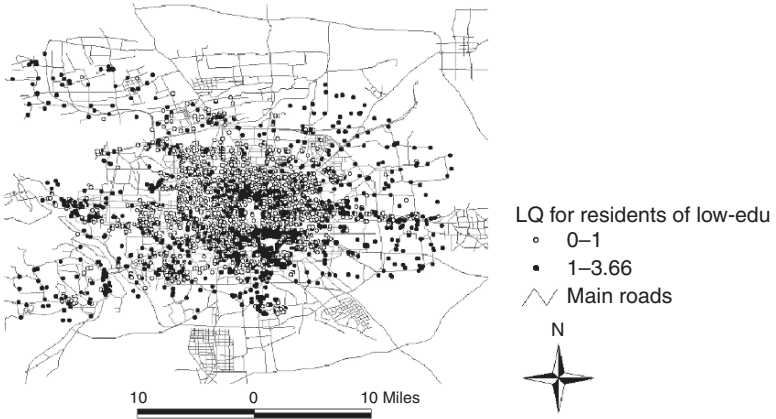


Figure 12.5 Location quotients of low-education residents in Beijing, Shanghai and Guangzhou, 2000

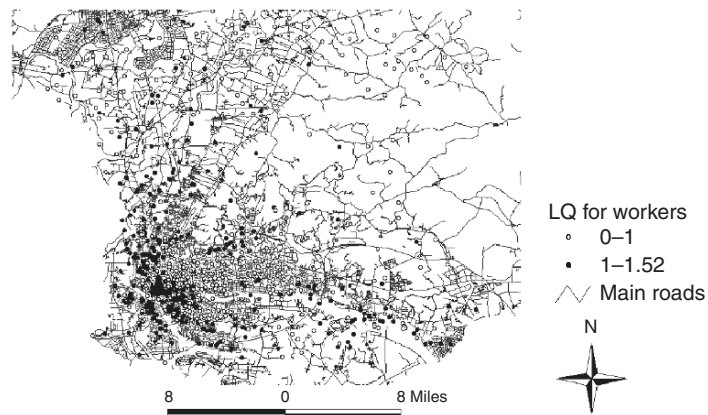
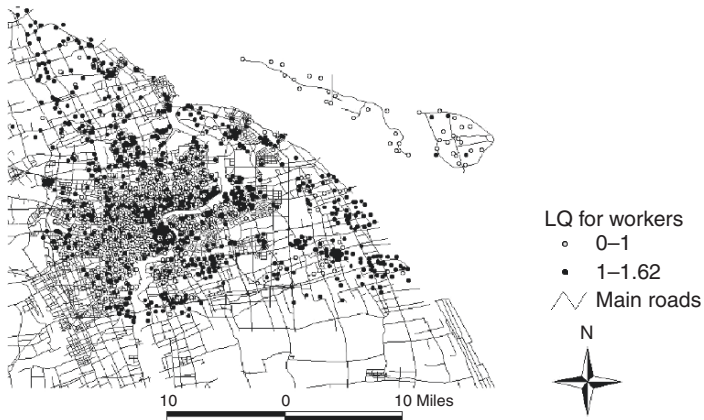
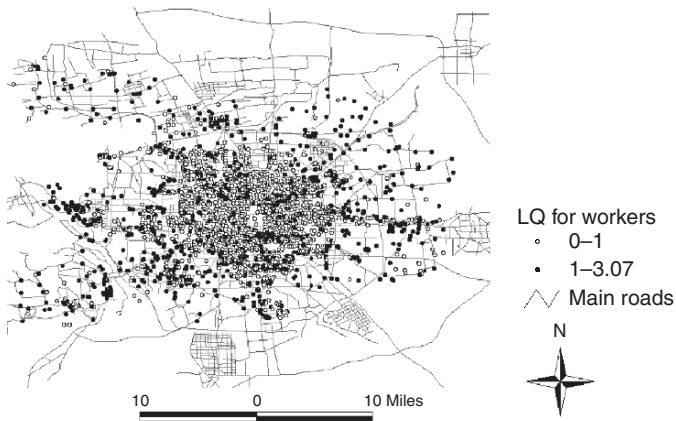


Figure 12.6 Location quotients of workers in Beijing, Shanghai and Guangzhou, 2000

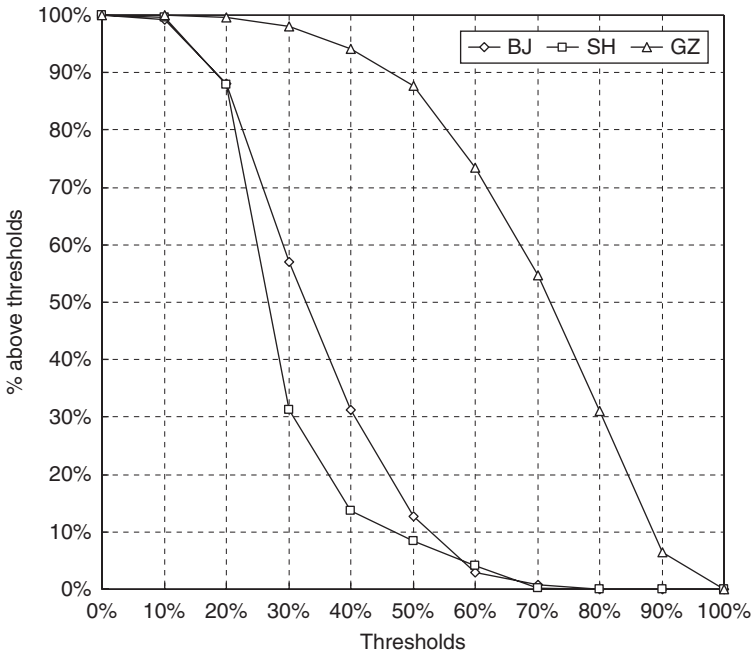


Figure 12.7 Residential concentrations of workers in Beijing, Shanghai and Guangzhou, 2000

north Baiyun District and the inner city such as central Yuexiu District. In contrast, Beijing's commodity housing sprawls across the suburbs without an evident spatial pattern (Figure 12.9).

## Discussion

Two findings stand out from the empirical study. First, the extent of residential segregation in these three cities is by no means high. In terms of socioeconomic variables such as educational attainment and migrant status, the ID is about 0.1–0.4, not comparable to the extent of residential segregation of ethnic minorities in the UK or the USA. Second, as shown in this comparative study, Guangzhou has a higher extent of residential concentration, and therefore segregation, than the other two cities, and the extent of segregation in Shanghai is the lowest. In addition, spatial patterns of certain similarities can be found across all three cities; migrants, for instance, compose a circular pattern around the inner suburbs, and low-educational attainment residents and workers are mainly located in former work-unit communities within the inner city.

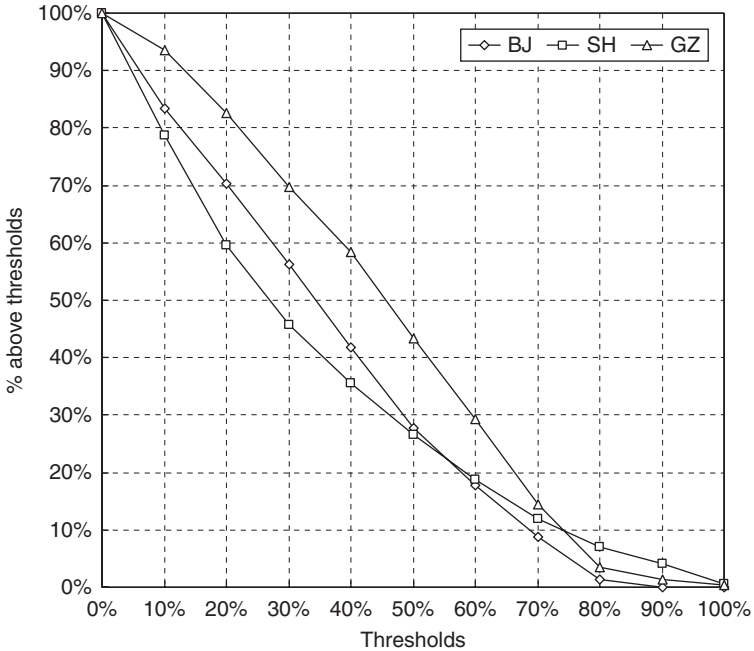


Figure 12.8 Residential concentration of commodity housing in Beijing, Shanghai and Guangzhou, 2000

With an urban-centred developmental strategy under neoliberal urbanism (He and Wu, 2009), urban China is becoming increasingly diversified, fortified and fragmented. It is not a surprise, however, to see that residential segregation was not high in 2000. Urban development in China follows a piecemeal strategy through combining the expansion of new space for capital accumulation with the lingering impact of old institutions such as *hukou*, work-units and dual land ownership. Accordingly, although urban China is remaking almost all its components, there is a mismatch between the relocation of residents and the transformation of urban spaces. The social areas of Chinese cities are now differentiated by housing conditions, especially housing tenure rather than residents *per se* (Li and Wu, 2008).

Against the backdrop of property-led redevelopment strategies, only some inner city areas could be gentrified. Selected housing areas, especially large compounds built by work-units or governments before 1978, have been left behind in urban renewal, because of their high population density together with the high cost of compensation and relocation. Fanguolong, a historical area built in the 1960s in Shanghai, and now known as the biggest shanty area of pre-1949 Shanghai, is a good example. The Shanghai government invested millions to build the area into a compound of 4.5 hectares for about

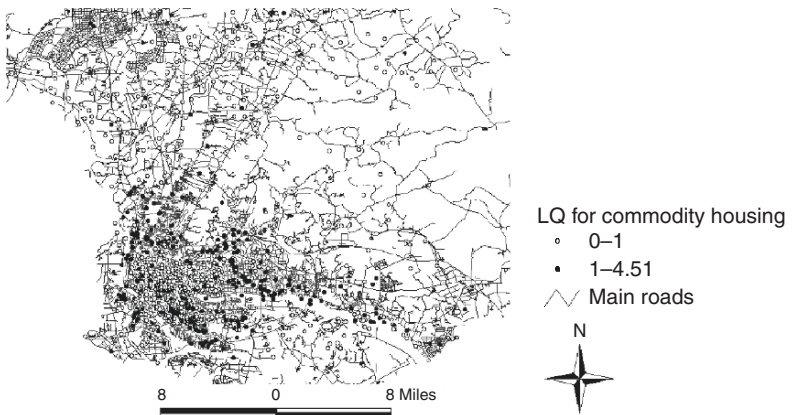
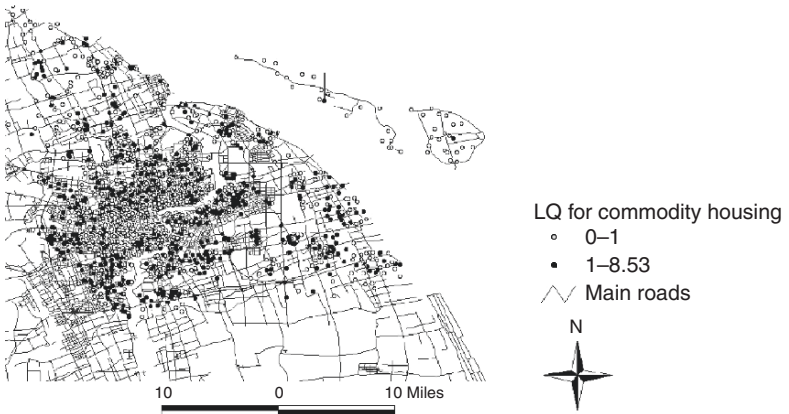
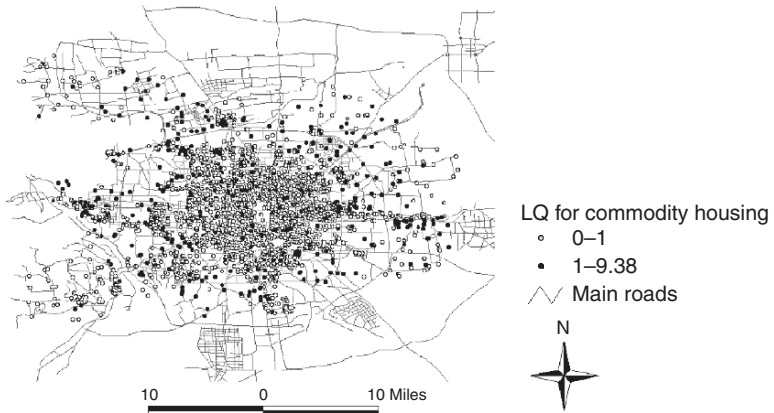


Figure 12.9 Location quotients of commodity housing in Beijing, Shanghai and Guangzhou, 2000

10,000 local residents, as a model 'workers' village'. This community is located in the central city, just a very short distance from Shanghai Railway Station; however, no further investment has been made through the market, and its newcomers are mainly migrants or low-status residents. Accordingly, the notorious reputation of Fanguolong's 'lower end' in the pre-socialist era is by no means vanishing.

On the other hand, although the traditional work and living patterns of Chinese cities are undergoing a transition, the pace of which has been piecemeal. The historical work-unit system provides a full range of welfare facilities, and work-units built their own compounds. Historically, households had very short commuting distances. Market reform, however, diluted the influence of the work-unit system and the change of the job-housing balance increased the demand for transport (Wang and Chai, 2009). Nevertheless, Rome was not built in a day. It is impossible for people to change their behaviour overnight. Although work-units no longer provide housing for their employees, residents still prefer to choose housing a short distance from their jobs. A recent study in Beijing by Wang and Chai (2009), for instance, confirms that work-unit housing commuters have shorter commuting trips and higher usage of non-motorized transport modes than those who live in commodity housing. The pattern is the same for lower-status residents such as service workers. Shipai Village, for instance, is an urban village just adjacent to the CBD of Tianhe District in Guangzhou. It has accumulated 40,000 service workers in a community of about 28 hectares (CURS, 2004). As an indirect result of socialist policy, the path dependency is still obvious. Chinese cities still have fully fledged thriving urban centres. Suburbanization driven by rising car ownership has just begun. The majority of jobs are still concentrated in the central city which attracts millions of migrants.

Beyond these similarities, marked differences have been identified for Beijing, Shanghai and Guangzhou. It is not coincidental to find such a repetitive sequence: Guangzhou > Beijing > Shanghai, which suggests a difference between the more market-oriented Guangzhou and the more state-regulated Shanghai, while Beijing is always in between. This finding further highlights the significance of institutional impact upon residential segregation, as they represent three different institutional patterns of urban development in China. First, the 'Shanghai model' refers to a state-centred, land-oriented development pattern through which local government controls urban restructuring through the city government's investment arms, such as the Shanghai Jiushi Corporation (set up in 1987) and the Shanghai Chengtong Corporation (set up in 1992; literally, 'Shanghai Urban Investment Corporation'). These corporations were set up to undertake infrastructure construction and, more importantly, to raise funds for large projects or industrial developments. However, the land has been put to

land auction. Representing the state, the corporations control the process of urban development in Shanghai, and influence the processes of socio-spatial restructuring of the city. The development of Pudong New District is a typical case. As a state project, the development of the farmland began in the early 1990s when the entire land of Pudong, a total of 400 square kilometres, was rapidly divided into five zones and transferred cheaply into the hands of state-level development companies such as Lujiazui Finance & Trade Zone Development Co. Ltd. and Waigaoqiao Bonded Exhibition & Trade Centre Co. Ltd. Pudong has been transformed into a highly urbanized area, with numerous skyscrapers, high-rise commodity housing buildings, and foreign-invested factories. Landless farmers or migrants have been relocated to the far suburbs (Chen, 2007). Nevertheless, aggressive development paved the way for the inflation of house prices in Shanghai after 2000, when local governments were heavily involved in land speculation. In this sense, the 'Shanghai model' is marked by an excessive and intensive marginalization of low-status residents with a strong control over land. As a result, little living space was left for low-status residents in the central city.

The developmental model in Guangzhou is different, however. Guangzhou's urban development is largely market-oriented. Real estate companies have become the major actors in implementing land requisition and residential relocation. When urban land requisition reaches the borders of suburban villages, more than often, only the village farmlands will be converted into the state ownership, while the settlements of the villages will be left untouched. As the process of urban expansion continues, these village settlements are gradually surrounded by urban built-up areas over time, creating distinctive urban villages, known as *chengzhongcun* (He et al., 2009). In Guangzhou, there is a total of 138 urban villages. Each accommodates thousands of migrant workers, making Guangzhou's social space much more segregated and fragmented.

Therefore, the logic underlying this comparative study contains two aspects: the highly segregated communities in Guangzhou originate from its market-oriented regime together with the path dependency of land management, while the state-regulated regime in Shanghai produces marginalization of migrants and lower-status residents. Nevertheless, Guangzhou produces new social spaces, such as *chengzhongcun*, for lower-status social groups, which are not prevalent in Shanghai. Relatively lax in land management, Beijing has various migrant enclaves such as Zhejiangcun, Xinjiangcun, and Henancun (Ma and Xiang, 1998). A recent study by Feng et al. (2008b) argues that suburbanization in Beijing has gone beyond the government-initiated relocation of households or relocation of industries. There is a trend towards a market-oriented mechanism, such as the construction of suburban villas and affordable housing, rising private car ownership, and the development of large suburban shopping malls and retail parks.

## Conclusions

Is there a new model for the post-reform Chinese city? Within a milieu of neoliberal policies mixed with state authoritarianism, urban China is going through a divergent path of urban change, bearing similarities to other globalizing cities. This study examines residential segregation in the three largest Chinese cities – Beijing, Shanghai and Guangzhou – using 2000 population census data. In all three cities, rural migrants are segregated, showing the sustained impact of institutional forces such as *hukou* across post-reform Chinese cities. The residential patterns of the three cities, however, are by no means the same. In terms of the segregation of various socioeconomic groups, for example, Guangzhou has the highest degree of segregation, whereas that of Shanghai is the lowest, while Beijing lies in the middle. These differences are largely attributable to the different localities, particularly the local development regime. For example, Shanghai has a state-regulated regime, but Guangzhou has a more market-oriented regime. It is important to note that different models of local development regime produce varied spaces to accommodate lower-status residents. Shanghai is becoming homogeneous, while Guangzhou seems to be more heterogeneous, and the degree of mixture in Beijing lies in between Guangzhou and Shanghai.

This study uses the scale of the residential committee to explore residential segregation in major Chinese cities. One of the major shortcomings of this study, however, is the limitation of the database, as it is not possible to make a longitudinal analysis to study change across time. It is unknown whether the trend is identical in other cities. As such, the 2010 census, with more developed census technologies and improved data accessibility, will provide a new opportunity for studying socio-spatial segregation in urban China.

## Notes

1. <http://sh.fangjia.com>.
2. <http://english.cri.cn/2946/2006/12/22/1042@176818.htm>.
3. The category of 'workers' in Figure 12.3 is calculated though the sum of two types of recordings in the census data, i.e. 'Retail/Social services' and 'Manufacturing, transportation with technical skills or related', both of which are the major occupations of migrants or low-status urban hukou holders (Solinger, 1999).

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# **Part V**

## **State Action**

# 13

## The Urban *Dibao*: Guarantee for Minimum Livelihood or for Minimal Turmoil?

*Dorothy J. Solinger*

### Introduction

In China, we allow some people to become rich first through their own efforts, but an excessive income gap will destabilize social order, and is something that needs government attention...The side effects of this huge gap are mainly seen in the following... aspects. First, as earnings increase, living standards have been generally raised, but low-income groups are slow to reap the rewards of this prosperity for a number of reasons. In the long term, this will trigger emotional dissatisfaction and affect social stability... (D. Wang, 2007)

These words concede that the regime's switch to market incentives and competition-based compensation has yielded increasing income differentials. It is no secret that the incidence of urban indigence shot upward once state and collective enterprises were enjoined to cut back drastically on their workforces in and after the mid-1990s; at the same time, with the total overhaul of the socialist economy and its institutions the traditional welfare entitlements were also taken away (Zhongguo chengshi, 2006; Y. Wang, pp. 71-97), leaving losers at a total loss.

In the 1990s, as the Chinese leadership became cognizant of and deeply concerned over these negative social externalities of marketization, its members agonized over the potential political impact of these deprivations on its hallowed objectives of social stability, inter-group harmony and a successful project of state enterprise reform. For securing all of these aims was deemed essential to the grander goal that has undergirded every undertaking of the post-Mao state: this was the modernity of the nation, particularly of its metropolises. Accordingly, the political elite initiated a novel welfare approach to handle the people most severely affected by economic restructuring.

After a half dozen years of grassroots experimentation, in the place of the old urban work-unit-grounded, relatively universal, automatic security

entitlements granted by the enterprises in the municipalities of the socialist era, the state inaugurated a discretionary, means-tested cash transfer programme (Cook, 2008), the Minimum Livelihood Guarantee [*zuidi shenghuo baozhang*], popularly referenced as the *dibao*. If not in intent at least in fallout it is much akin to what Tony Judt has written of ‘modern welfare reform’ in western settings, in that both introduce ‘conditionality’ into ‘social citizenship’ by forcing the beneficiaries to ‘pass certain tests and demonstrate appropriate behavior’ (Judt, 2007, p. 24). Perhaps it is most surprising to find this practice in a state that for its urban residents was once considerably egalitarian and rather munificent.

The charge of the *dibao* was to provide for urban residents whose household income failed to reach a locally-determined minimal threshold; the method was to supplement that income to the extent necessary to bring the family’s monthly wherewithal up to the level deemed requisite for basic survival in that region (Hussain et al., 2002). The project was proudly labeled by its publicists a ‘standardized, legalized, social guarantee system’ (L. Ding, 1999, p. 7), a characterization more aspirational than actual, especially at the time of the plan’s national promulgation in September 1999 (Chengshi jumin, 1999, pp. 16–17). Much like ‘reformed’ Western welfare programmes, it reeks of distrust of its objects; unlike similar schemes in democracies, however, its administrators are ably assisted by the recipients’ co-residents in their community courtyards.

The idea behind the policy amounted to supplying impoverished individuals with funds that were ‘just enough to keep body and soul together’, in the words of its leading scholar within China, Tang Jun (Tang, 2002b, p. 4). Its upshot – intended or not – was to render the recipients, the *dibao duixiang* or the *dibaohu* [minimum livelihood guarantee targets or minimum livelihood households] politically pacified, socially marginalized and excluded, silent and discarded, the effectual detritus of the country’s modern, metropolitan development. Thus a people whose plunge in plight was manufactured by a state-sponsored market incursion was set to be further manipulated by the powers-that-be.

And since the provisions of the programme in many ways confine the payees and their progeny to a long-term life of penury, operatively ensuring that they all be denied any opportunity for upward mobility, it seems fair to see it as a ticket to membership in a permanent underclass. Indeed, in a number of cities that have announced their policies (and perhaps everywhere) *dibao* households are specifically enjoined against arranging a good education for their children, owning electronic products, using too much electricity, eating decently, earning money or bearing excess offspring, in short against thriving, propagating, or living more than a bare-bones existence. One irony is that even as a drive for modernity brought this grouping into being, these now-paupers – too old, too ignorant, too unskilled, too unwell<sup>1</sup> – are themselves set to remain as dregs of the past, debris of the old, ousted

order, unable to enter the gates to the future, placed thusly, presumably, in the interest of not threatening the nation's onward progress (Bakken, 2000, pp. 59–74, 433–4 has a similar logic on the linkages between stability and modernization).

Below, I examine the expressed aims of the policy; review its history; address the difficulties of estimating the numbers of the very poor and their relation to the numbers served; try to quantify the amounts of funds laid out over time; and outline the procedures for establishing eligibility and for disbursing the allocations as well as document attendant mishaps, misunderstandings, and misappropriations that attend the implementation of the programme.

My research entailed interviews with 53 *dibao* recipient households in Wuhan in the summer of 2007 (people in communities to which I got connected through *guanxi*, or connections, and who were willing to speak with me and my assistants). In addition to those interviews, I also talked to bureaucrats in charge of the programme in Wuhan and Lanzhou in August 2007, and to community [*shequ*] cadres at several Wuhan community offices. My documentary data come primarily from these sources: for 1996 through 2002, the pieces on the *dibao* in the Ministry of Civil Affairs journal, *Zhongguo minzheng* [China Civil Affairs] then. For 2003 through 2006, I consulted statistical yearbooks and annual social development 'blue books' published by the Chinese Academy of Social Sciences (CASS); and for 2006 and 2007, I used official government work reports, 50 official articles found on the Internet,<sup>2</sup> and sundry documents collected in Wuhan and Lanzhou in August and September 2007 and elsewhere. My objective is to use my data to explore the contours of the programme's effective – not necessarily deliberate – underlying agenda: to dispose of those discarded by the relentless unfolding of the market's rhythms, to purge from sight and sound the anti-modern mass produced by the Party's reforms, and to uncover how the process has begotten a new urban underclass.

## Goals and history

### Goals

The rhetoric of the rules for the programme – especially its language of rights and self-reliance – belie its actual outcomes. The empowering 1999 Regulations proclaim that those households whose members, living together, have an average per capita income that is below that needed for a minimal livelihood in their place of residence “have the right to obtain material assistance with their basic livelihood.” The statute also alleges that the policy is meant to “encourage self-support through labour” (Chengshi jumin, 1999, p. 16). Yet little, in fact, is heard either of rights or of spurs to economic autonomy in the speeches of top leaders; nor are these ideas present in the great majority of other pertinent government documents. Most critically, the

programme is administered such that there is no space for such possibilities, as the material just below evinces. And, as Tang Jun reported in 2002, 'The idea of *dibao* as a basic right hasn't penetrated to the recipients or to society at large yet' (Tang, 2002b, p. 35).

In 1997, during the programme's trial period, the Vice Minister of the Ministry of Civil Affairs (the office in charge of the programme), termed its significance to lie in "completing our social security system and promoting the modern enterprise system's establishment (Mao, 1997, p. 4). Soon after then-Premier Zhu Rongji had signed the order authorizing the project, a specialist from the Ministry of Civil Affairs referenced the then-recent Party 15th Congress as having authorized the project in order to 'perfect the traditional social relief system, to establish a wholesome modern social welfare system, and to guarantee that the economic system reform, especially the state enterprises' reform, could progress without incident '[shunli jinbul]' (Z. Wang, 1999, p. 18).

Once the programme was underway, the Ministry held that the measure 'relates to whether or not the state's reform and opening can penetrate and whether or not the socialist market economic system can develop in a healthy manner'; it also made a point of advising the localities to 'spend a little money to buy stability' (Jianli zuidi, 1996, p. 14). Premier Zhu Rongji, reportedly an exponent of the project, visited the poorest of China's provinces on the eve of a massive injection of finances into it, and proclaimed that: 'The *dibao*'s support of social stability and guarantee of the reform of the state firms has important significance; we should strengthen it, should fund it. The center and various local levels must all gradually increase its funds each year, and central finance should give necessary subsidies to places in financial difficulty' (Tang, 2003, p. 243). Thus, the paired objectives of securing stability and facilitating the firms' reform lay at the core of the programme's promulgation.

Urban governments, reviewing the workings of the project in their own areas, repeated these same themes. In Shijiazhuang, for one, three aims were to be achieved: 'to give these people a basic stable life, to mitigate the fear of disturbances, and to get rid of long-term hidden danger' (by 'tightening the relations between the masses and the Party, stabilizing the social order and eliminating unstable elements' through "soothing peoples' hearts"). The author went on to warn of the 'approximately 13 million-person new mass of the urban poor who form a potential threat to the cities' economic development and social stability' (K. Xu, 1996, p. 12).

During the years of experimentation, Chongqing leaders promoted the programme for its 'three benefits: for reform and development, for economic development, and for social stability'. Reference to the system's mission in maintaining the low-income masses' right of basic livelihood was explicitly paired with promoting social stability (Yuan, 1997, pp. 22, 23). In Guangdong, too, while articulating the "people's right of basic livelihood," an

author paired this with 'guarantee[ing] social stability and the uninterrupted progress of the reform of the economic system (D. Xu, 1998, pp. 9, 10). One writer went so far as to refer to the *dibao* as a 'tranquilizer', one that would permit the state enterprises in Shenyang's Tiexi district (a site of massive layoffs) to go forward without obstruction, for without it, this essayist unabashedly penned, 'these people must become a burden that the enterprises would find it hard to throw off...even to possibly arousing even larger social contradictions' (Ding, 1999, p. 7).

Once the new administration of Premier Wen Jiabao had gotten underway, concern for the poor became linked to the new catchword, 'harmony', which, in essence, is just a rehashed label for stability. Thus, at the twelfth national civil affairs convention in late 2006, the Premier's number one priority was to show special care for the low-income masses, ensuring their basic livelihood through the mechanism of the *dibao*. This, he held, would play a very important role in 'constructing a socialist harmonious society' (Di shi'erci, 2006). In that same year a web-based article cited 'the government' as demanding 'that every place guarantee whomever should be guaranteed, to solve the livelihood problems of the urban poor *to realize social stability*' (my italics) (Zhongguo chengshi, 2006).

Concern for the poor for their own sake is sadly missing from these pronouncements, but not altogether absent. For one example, an article in 1996 from Qingdao characterized the *dibao* and its associated grants as 'being loaded to capacity with the party and government's consideration for the urban and rural poor masses, like a spring rain [or] rain after a drought, it spills into the bottom of people's hearts... some poor people call [the *dibao* certificate] a "warmth card," a "life-saving card"'. The author's instrumental conclusion, however, is rather transparent, as he asserts that this care and support 'wins the broad masses' trust of the party and government and their praise for the superiority for socialism' (Yuan and Lin, 1998, p. 11).

Only the director of the Ministry's Relief Office, Wang Zhenyao, put the 'issue of appropriately solving urban poor residents' livelihood difficulties as an important task in the country's present economic and social development' and set ensuring the people's right to basic livelihood [*jiben shenghuo quanyi*] as, in itself, 'an important component part of the government's role' (Wang and Wang, 1998, p. 18). For almost all commentators, then, to become effectively 'reformed' and thus sufficiently modern, China would need to keep disciplined the new underdogs to which its marketization had given birth. This it has achieved not by satisfying but by subduing them.

## History

In early 1997, speaking with a journalist, the Vice Minister of Civil Affairs, Fan Baojun, reviewed the early history of the programme, noting that Shanghai had successfully pioneered the *dibao* in 1993 (Mao, 1997, pp. 4–6; Tang, 2002b, p. 20),<sup>3</sup> after which the 1994 10th meeting of the civil affairs sector

called for its popularization. Trial points were set up, and in 1995 the Ministry turned this effort into a ministerial work key point. By the end of that year, 14 cities – including Qingdao, Fuzhou, Xiamen, Dalian, Guangzhou, Wuxi and Haikou, all wealthy municipalities along the coast – were implementing the system as trial sites. In the next year, at the Fourth Session of the Eighth National People's Congress, the Government Work Report called for gradually establishing the *dibao* system nationwide during the period of the Ninth Five Year Plan (from 1996 to 2000). By the end of 1996, 101 cities had it underway.

The next step – probably not just coincidentally – was taken in September 1997, around the time of the Fifteenth Party Congress (where then-Party General Secretary Jiang Zemin emphasized the programme twice); this was the meeting, after all, that accelerated the initiative to speed up layoffs and bankruptcies in money-losing firms (Jiang, 1997; Wang Y, 2004, p. 132 and Hussain et al., 2002, pp. 52–3 draw an explicit connection between these reforms and the acceleration of the *dibao*).<sup>4</sup> At that point the State Council issued a notice entitled 'On establishing the urban residents' minimum livelihood system in the whole country' and demanded the process be completed by the end of 1999 (Tang, 2002b, pp. 15–16). And, indeed, as of late 1999, 2,306 cities and towns had installed the programme, with over two million poor people seeing their bare sustenance underwritten, 79 per cent of whom were individuals who had newly become poor (*ibid.*, p. 17).

Then came the publication, under the signature of Premier Zhu Rongji, of the State Council's October 1999 relevant regulations, Number 271. Following that, the trajectory of the project appeared to be one of progressive generosity. In the first ten months of 1999, 1.5 billion Yuan was extended to the target population. Later in the year, perhaps in anticipation of the upcoming fiftieth anniversary of the birth of the People's Republic, plus the likely impending entry of China into the World Trade Organization (WTO) – with the shock it was expected to deliver to urban employment<sup>5</sup> – the Ministry of Finance arranged an extra 400 million Yuan to be used as supplementary funds during the second half of 1999, and recipients suddenly received an increase of 30 per cent in their allocations, 80 per cent of it coming from the central government (Mao, 1997, pp. 4–6; Ding, 1999, p. 7; 'Chengshi dibao', 2000, pp. 22–7; Tang, 2002b, p. 17; and Tang, 2002a).

By the third quarter of 2000, the numbers enrolled in the programme had increased to 3.237 million (Tang, 2002b, p. 18). This history has been characterized as comprising four developmental phases: an experimental one (mid-1993 to mid-1995); a phase of extending the system, until the middle of 1997; a universalization stage (August 1997 to July 1999); and a stage of consolidation, ending in 2000 (Hussain, 2002, p. 53). Up to that point and for another year or two thereafter, the plan's steady expansion ran precisely in parallel with the intensification of China's market reform and globalization. Thus it is possible to read its escalation in funding and scope

as markers of decision makers' heightening unease with the protests that profit-chasing was promoting. The final upgrade of the programme came in early 2002 – jacking the numbers of participants up to 22 million – just after China had finally joined the WTO. The Tenth Plan (from 2001 to 2005) projected the system's development 'from being a random and temporary sort of relief toward becoming a systematic guarantee' (Zhongguo jianli, 2006).

Truth be told, however, the outlays remained marginal. Even after the big increase in the number of recipients in 2002 (a surge up to 19.3 million early in the year from just about 4.57 million people a year before), the people served still accounted for just 5.8 per cent of the nonagricultural population. Yet, as I explain below, the truly indigent urban population may well be more in the range of 13 per cent. In the years that followed, cities tended to raise the subsidies they gave each household at least once every two years and sometimes even more often, as the overall urban standard of living within the general population improved; at certain junctures the central government ordered an increase nationwide, as in the midst of a bout of inflation in August 2007 (Urban minimum, 2007). Yet the total covered never went much above the 22 million of 2002, suggesting a fundamental stinginess in the system.

## The urban poor: definitions and numbers

### Poverty defined; the poverty line

Poverty can be defined either 'absolutely' (in terms of the cost of a specified basket of food and non-food items characterized as the minimum necessary to fill basic needs), according to Athar Hussain, while 'relatively' it connotes a condition understood with reference to an average expenditure or income in a reference locality. The concept also can be measured in relation either to actual expenditure or to the income necessary for fulfilling basic needs (Hussain, 2002, pp. 8–20). The cut-off line for the *dibao*, set separately for each urban unit (municipalities also set the line for their own suburban areas), amounts to a combination of these considerations, in that it aims to subsidize households whose average per capita income falls below the amount necessary for purchasing basic necessities at the prices prevailing locally.

The Regulations formalizing the system called for setting the outlays locally in accord with the costs of the amount of food, clothing, and housing needed for minimal subsistence in a particular area. Designers of the programme put the local authorities in charge of the determination of the line since prices, the pattern of consumption and the average income per capita vary by area, and also because it was the city that was to fund a sizable portion of the outlay (ibid., pp. 64–76; H. Wang, 1996b, p. 34).

Originally, under a policy entitled 'whoever's child it is should pay' [*shei jia haizi shei jia bao*] enterprises were to care for employees whose families

had become indigent (H. Wang, 1996a, p. 25). Yet this practice soon became unfeasible, as it was precisely those enterprises in financial distress whose staff was being dismissed, underpaid or not paid at all. By the time of the announcement of the final regulations, local financial departments, not firms, were to share responsibility for underwriting the programme with the central government (Z. Wang, 1999, p. 19).

Then the bureaus of civil affairs, labour, finance, auditing, personnel, statistics and prices, along with the local branches of the trade union, were charged with jointly stipulating and, when deemed necessary (as in times of inflation, when a city's financial receipts have a good turn or when the standard of living among the general population of a city has risen),<sup>6</sup> hiking up the local cut-off line (Lu, 1998, p.20; Z. Wang, 1999, pp. 18, 19).<sup>7</sup> Other departments had other, related functions, e.g., the education bureau had to make sure that the targets' children's miscellaneous school fees were cut or cancelled; medical departments were to do the same for medical fees (D. Xu, 1998, p. 10; Interview, Lanzhou, 5 September 2007).<sup>8</sup> Most places also created a special leadership small group, located within the bureau of civil affairs, to take overall control (Mao, 1997, p. 5).

The line had to be set below the minimum wage and also lower than the benefits for unemployment insurance, supposedly to encourage employment. But even a recipient's acquisition of a tiny increment in income through occasional labour could result in drastic reduction in his/her household's *dibao* disbursement, so some (in my sample, though, just one of 53 admitted to this) did feel disinclined to seek employment. As summed up in an article in the civil affairs journal, 'the scientific determination of the norm' mainly depended on four factors: residents' basic livelihood needs; a place's price level; the degree of development in the region; and that locality's financial ability to contribute to the programme.

Thus, the financial situation of the city has a determining impact upon where the poverty line is set; poorer urban jurisdictions prefer to set the standard lower to minimize the numbers for which they would be responsible, whereas in cities with more revenue and where, often, the numbers of the poverty-stricken are fewer, the line is pegged at a higher level. Larger cities also tend to have higher living standards and prices as well as bigger budgets. While initially it was projected that the costs would be shared relatively equally between the central government and the localities, in practice the portion born by localities has varied significantly, from sites where the city pays out the bulk or even all of the allowances to places where essential, sizable assistance from the central government means that a locale came to bear almost none of the expenses, the variance a function of a municipality's economic strength (Wang and Wang, 1998, pp.18, 19; Hussain, 2002, p. 70; Tang, 2002a).<sup>9</sup>

Among cities, variable ratios between the municipality and its districts are also locally defined (Jianli zuidi, 1996). To give one example, as of

1998, Wuhan divided up responsibilities such that each district got half its funds from the city government and had to supply the other half itself; in neighboring Hubei municipalities, such as Xiangfan, Shiyan and Huangshi, the ratios of city-level to district-level contributions were 6:4, 7:3, and 3:2, respectively (Meng and Tan, 1996, p.19; Zhang, 1998, p. 24).<sup>10</sup>

The authorizing regulations divide the recipients into two types: those who fit the conditions of the old 'three withouts',<sup>11</sup> and those with some minimal income.<sup>12</sup> Sometimes more specific categories were created. One author, for instance draws these distinctions: the traditional 'three withouts'; households in which there is a person (or persons) at work but the income is still below the standard set locally, whether because of the household's high dependency ratio or their unit's poor economic results; households in which there are one or more persons who have received unemployment insurance, but for whom the period for receiving it has terminated and no work has been found; and a category simply labeled 'others' (Mao, 1997, p. 5; Jianli zuidi, 1996). The three-without population was to receive the full amount of funds, up to the city's poverty line, while households in other circumstances would be given the difference between the average per capita income in the household and the local poverty line times the number of members of the household who are living together (Y. Wang, 2004, p. 133). But how many really qualify for the *dibao* resources, nationwide? To answer that question, we must grapple with the indeterminacy of the numbers of the poor.

### Numbers of the poor

The numbers of the urban poor vary with the definition employed. Tang Jun noted that in 1995 the State Statistical Bureau had estimated that about 24.28 million people could be considered indigent, or 8.6 per cent of all urban residents, at a time when the urban population was counted at about 282.3 million. He calculated that of those, about 4.4 per cent of urban residents (or 12.42 million people) – figures that he labelled the 'most authoritative statistics released by the government to date' (Tang, 2004b, p. 26)<sup>13</sup> – were in the category of the 'absolute poor'. Since layoffs shot into the tens of millions soon thereafter, a much higher count must soon have been realized.

Tang went on to elaborate that other tallies had been put forth, such as one of about 14 million by the Ministry of Civil Affairs, as of August 2000,<sup>14</sup> and one by Zhu Qingfang of the Sociology Institute of the Chinese Academy of Social Sciences of over 31 million, or about eight percent of the total urban population (Tang, 2004b, pp.26–8).<sup>15</sup> As Athar Hussain explains, the national headcount of the poor would have ballooned from 14.7 million to 37.1 million had they been identified in terms of their expenditure instead of their income per head (Hussain, 2002, p. 34).

Alternatively, the 2003 Tenth National People's Congress reported that '20 million urban residents had become poor as a result of industrial

reorganization' (Y. Wang, 2004, p. 52). Reaching an even higher total, a Party Organization Department report from 2001 disclosed that an investigation done by the National Statistical Bureau, the State Council Research office and other units, discovered that, nationwide, 20 to 30 million staff and workers had fallen into poverty in recent years. With their family members, the paper judged, altogether these people amounted to 40 to 50 million (Zhonggong zhongyang zuzhibu 2001, pp. 170–1) or almost 13 per cent of what was considered the urban population as of that time.

Given that the maximum number served by the programme was slightly over 22 million in the years since its expansion in 2002, this seems to mean that less than half the truly poor in the country have been served. Indeed, a study using data from a 2004 Urban Employment and Social Protection Survey carried out by the Institute of Population and Labour Economics in CASS showed that just 39 per cent of all poor households were getting the aid of the *dibao* programme (M. Wang, 2007, p. 86). Much more extreme than this, research done in 2005 in 56 of Nanjing's neighborhoods in 11 urban districts, using a multi-stage stratified sample, with 1,370 of 1,400 questionnaires returned, reports the poverty rate to be as high as 23.4 per cent there (counting households with an average monthly income below 240 Yuan per capita as poor, US\$1 per day at the time), of whom just 4.2 per cent were receiving the *dibao*, or only about 18 per cent of those deserving it (He et al, 2008). And how much funding has been committed to assisting those beneficiaries?

## **Funding: amounts, sources and subsidies**

### **Amounts of funds and their sources**

As the numbers of recipients rose over the years the amount of money committed to the programme mounted as well. According to a piece by Tang Jun, in 1999, the year of the State Council's Regulations (also the year during which the central government mandated an increase by 30 per cent in the amount of subsidy for each recipient), the central government allocated more than 405 million Yuan, about 27 per cent of the year's total *dibao* expenditure of 1.5 billion Yuan, the remaining portion being doled out by cities. In the next year, the total outlay doubled to three billion, of which the central financial contribution remained at the same percentage. But in 2001, when the programme's funds reached 4.2 billion, the center paid out more than half (55 per cent), or 2.3 billion Yuan (Tang, 2008).<sup>16</sup>

The year 2002 saw a major jump in the quantity of funds handed out, totaling 10.53 billion Yuan, of which the center paid almost 44 per cent (Xinhuanet, 2002).<sup>17</sup> But even after extra funding was allocated in 2001 and 2002, an official report admitted that as of early 2002, the national average poverty line across all participating urban areas was a mere 152 Yuan per person per month, equal only to 29 per cent of the 2001 national average

urban per capita income (Zhongguo chengshi, 2006). In 2003, as much as 15 billion Yuan was budgeted, of which the center dispensed 9.2 billion, with a notable shift in the proportions paid out by the different administrative levels: over 60 per cent came from the central treasury that year.

But despite what seems to have been a new generosity, in that year the actual average per person subsidy (the supplement really allocated to each person) was just 56 Yuan per month (Tang, 2004, pp. 117–18; Zhongguo jianli, 2006).<sup>18</sup> By 2005, the average monthly per capita handout had risen to 70 Yuan, with a probable annual total expenditure in the range of 19.5 billion (Tang, 2006, pp. 165, 167). Even as disbursements multiplied in Yuan, however, the average amount of the per capita supplement nationwide amounted to a piddling 9.2 per cent of average urban per capita income (*ibid.*, p. 168).

As of the end of 2007, when 22.709 million people (300,000 people more than had been served at the same point a year earlier) (China's subsistence allowance), living in 10,656,000 households, were enjoying the protection of the programme, the average monthly poverty line around the country had gone up to 182.3 Yuan per person, a rise of 12.8 Yuan per person over the previous year. At the same time, the average subsidy nationwide had increased to 102 Yuan per person per month, or 23 per cent over 2006. But the funds allocated to the *dibao* nationwide each year rose from a miniscule 0.113 per cent of government expenditures in 1999 to a high of 0.61 per cent in 2003, even dropping down to just 0.50 per cent, in 2006 (see Table 13.1).<sup>19</sup> Given the large increases in government revenue over these years, it is notable that the percentage of funding going to the *dibaohu* did not exhibit a greater rise over time, and that the numbers served remained more or less fixed after 2002 (Table 13.2).

In 2007, the average supplement remained only a bare 8.8 percent of the average monthly urban income nationwide (1,148.83 Yuan), at a time when the norm (or, the poverty line) of 182.3 Yuan per person amounted to just under 16 percent of the average urban income, in the Premier's reckoning (Wen, 2008).<sup>20</sup> This average, of course, is pulled down by the millions of urbanites residing in smaller and poorer cities across the nation. It is hard to imagine that the households so aided could survive with any degree of satisfaction. It is also striking that the nourishment, educational, and health standards among the individual *dibaohu* remained remarkably unchanged and essentially abysmal over a span of ten years, as interviewers in 2007 and 2008 found conditions identical to those described in Tang Jun's fieldwork a decade earlier.

### Other subsidies

In addition to the handout of cash, the *dibao* programme provides special privileges for recipients, all of which involve discounts and exemptions for the poverty-stricken. Wuhan, to give one example, offers as many as 12 separate

Table 13.1 The *dibao* as a percent of government expenditures, 1999–2007

Year	<i>Dibao</i> expenditures (billion Yuan)	Government expenditures (billion Yuan)	<i>Dibao</i> as percent of expenditures	GDP (billion Yuan)	<i>Dibao</i> as percent of GDP
1999	1.5	1318.77	0.113	8967.7	0.016
2000	3	1588.65	0.188	99214.6	0.03
2001	4.2	1890.258	0.22	10965.5	0.038
2002	10.53	2205.315	0.477	12033.3	0.0875
2003	15	2464.995	0.608	13582.3	0.11
2004	N/A	2848.689	N/A	15987.8	N/A
2005	19.5	3393.028	0.57	18386.8	0.106
2006	20.33	4042.273	0.503	21180.8	0.096
2007	27.796	4956.54	0.561	24660	0.1127

Sources: For the *dibao*, the figures are either taken from or estimated from the following sources: Tang 2008; Xinhuanet (Beijing), (access date: 19 July 2002); Tang 2004a; Tang 2006. For government expenditures (1999–2006), Zhonghua renmin 2007: 9. For GDP, *ibid.*: 57. For 2007, Wen 2008; and Ministry of Finance 2008.

Table 13.2 Number of *dibao* recipients nationwide, 1999–2007

Year	Recipients (million)
1999 (late)	2.8
2000 (3 <sup>rd</sup> qtr.)	3.237
2001 (end)	11.7
2002 (July)	19.307
2002 (end)	20.647
2003 (end)	22.468
2004 (end)	22.05
2005 (end)	22.342
2006 (end)	22.401
2007 (end)	22.709

Sources: For 1999: Tang 2002b, pp. 15–16; for 2000, *ibid.*, 18; for 2001 and 2002 (July), Hong (2002, pp. 19–10); for 2007, 'National urban and rural residents, the minimum livelihood guarantee system for equal coverage', [http://64.233.179.104/translate\\_c?hl=en&sl=zh-CN&u=http://jys.ndrc.gov.cn/xinxi/t20080...](http://64.233.179.104/translate_c?hl=en&sl=zh-CN&u=http://jys.ndrc.gov.cn/xinxi/t20080...), accessed March 18, 2008. For 2002, 2003, 2004, 2005, 2006 (end of year figures), Zhonghua renmin (2007, p. 899).

*youhui zhengce* [preferential policies], including reductions in rent, and in the charges for water, food, electricity, fuel, and legal services, as well as exemption from medical registration and miscellaneous school fees, in addition to various subsidies (Interview, 28 August 2007).<sup>21</sup> Not all informants received these benefits, however; indeed, some had never even heard of them.

In 2007, a number of extra appropriations were made, some locally and some centrally mandated, such as a one-time bonus for coping with sudden

hikes in the prices of pork and other food products and a programme to aid students in vocational middle schools (Youyu roujia, 2007; Xiangshou chengshi diabao, 2007). Some municipalities set aside funds for the children of *dibao* families who were attending college (Dibao jiating, 2007). One of the districts of Guangzhou city distributed certificates for purchasing 20 Yuan worth of goods (Guangzhoushi Liwanqu, 2007), while Wuhan allowed poor university students to apply for loans for their schooling (Wuhan huji pinkun, 2007). And during the summer of that year, the State Council authorized a low-income housing programme, aimed at families in financial hardship (Shouquan fabu, 2007). Beyond the rules and periodic dispensations, how does the programme operate on the ground?

## Procedures and their pitfalls

### Procedures

As the Chongqing Bureau of Civil Affairs Vice-Director wrote about the city's 1996 initiation of the project, 'thought work' had to precede everything else. His explanation was that, 'The urban *dibao* system is a wholly new [kind of] work, [people's] hidden income is hard to estimate, the situation is complex; if the work isn't done properly, it will provoke some new unstable elements and give birth to new social contradictions' (Yuan, 1997, p. 23). In other words, the programme was considered likely to result in resentments, anger and jealousies if control were not exercised over people's comprehension of the plan. Regardless of cautionary measures, however, there have certainly been wrinkles in its running, whether because of dissatisfied recipients, dishonest disbursers, or any other people who have determined how to finesse the system.

Once the publicity campaign had been waged, further preparatory work in a given locale might entail several in-depth, large-scale surveys, involving checking on and verifying family incomes (including figuring out ways to do this), employment situations and consumption patterns, as well as training personnel, undertaking multiple censuses, pooling and analyzing statistics and composing reports. In Chongqing, as many as 600,000 households were scrutinized during the process (*ibid.*)<sup>22</sup> Execution of the system – as is the usual practice for any new policy in China – was generally done first in one of the larger cities in each province, to serve as an 'experimental point' for the region, and other cities under the same provincial administration would later follow its example (Zhang, 1998).<sup>23</sup> Concrete management of the programme splits decision making among four urban levels: the city, the district, the street, and the residents' community (replaced by the "community" [*shequ*] in the early 2000s, a unit that usually involved the merger of a couple of residents' communities). All these jurisdictions were to share in reporting, registering, investigating, approving, issuing forms, making modifications, and filing cases (Meng and Tan, 1996).

Applicants' journey toward becoming recipients begins with a written entreaty accompanied by documentary proof of their penury, to be submitted to their community office. After the filing of the request, community officials have a certain amount of time (set locally, from five to 10 days) to assess the candidate's needs and to attempt to verify the paperwork presented. Procedures begin with a thorough physical search of the household, along with close inquiry of its members. What follows is a particularly intrusive, sometimes even insidious, procedure, involving interviewing neighbors and visits to the candidate's place of work, if any, to make sure that the applicant has spoken truthfully.

Most embarrassing of all, the results of all the scrutiny are to be posted upon a public board [the *gongshilan*], in order to solicit the views not just of immediate neighbors but of everyone in the community acquainted with the applicant family's true state of eligibility and of everyone in a position to see the targeted family members' daily comings and goings (Interview, 30 August 2007).<sup>24</sup> This notice board is to proclaim the number of members living in every payee household; how much money each one is receiving, including any special subsidies; and how much voluntary work (such as neighborhood sanitation, public security, guarding, or gardening) its relevant members performed in a given week, such activity being a necessary condition of enjoying the allowance (Interviews, 29 August 2007).<sup>25</sup>

Once the community officers have made their tentative appraisal of a case, the file goes up to the street level, where another week or so is spent reviewing the materials, with street officials' deliberations also posted on the community's board. After the same length of time has passed, the records are delivered to the district level, where managers do a reexamination. The judgments about those who so far seem to meet the necessary conditions must once again be subjected to public view. Only if there are no objections, finally the City Civil Affairs Bureau gives its stamp of approval and the candidate then becomes a full-fledged *dibaohu*.

Families admitted into the programme are then extended a *baozhangjin lingquzheng* [certificate for collecting the funds], which their head is to carry, along with his/her household registration booklet and identification card to claim the allowance, either monthly or by quarter, depending upon the method adopted in the community. Subsequent, regular inspections (sometimes as frequently as every three months, in other cases just every six), to discover whether or not the recipients have found work (Interview, 5 September 2007<sup>26</sup>) are meant to certify that the family remains qualified to enjoy the subsidy. When its situation or income changes (because of a retirement, a death in the family, a new odd job, or alterations in health), the household head is to notify the *dibao* office in its community to arrange for stopping, reducing or increasing the outlays (Z. Wang, 1999, p.19; Interview, 27 August 2007).<sup>27</sup>

There are conspicuous variations in the approaches taken by different municipalities in administering the *dibao*. In his 1998–99 investigation, Tang Jun and his research group found that, perhaps because of the weak economic base of Lanzhou, that city adopted a more mobilizational approach to its indigent than did other cities. Officials there ‘emphasized arousing the *dibao* targets’ activism for production, encouraging and organizing them to develop self-reliance’ (Tang, 2002b, p. 25). Whether for this reason or simply as a matter of a disparate style of urban management, Lanzhou was more lenient toward sidewalk business than, for instance, Wuhan. In the latter city, a talented but hard-up woman complained that the fees for advertising her artwork on the streets had escalated substantially over time, so that she was forced to abandon any effort to try to make sales (Interview, 26 August 2007). And, unlike in the past, after 2000 nowhere in the city could shoe repair specialists be found outside, apparently banned by the authorities.

But in Lanzhou, all manner of curbside business went on unobstructed in summer 2007, including stalls for fixing footwear as well as that of young men hawking political picture posters (Observations, 3 September 2007). Reflecting this permissiveness, the section chief of the *dibao* office in the Gansu provincial civil affairs department admitted that ‘if the *chengguan* [the police in charge of maintaining order in public spaces]’ – the very same body that has often chased poor and unemployed persons off the avenues of Wuhan – ‘is too strict, the *dibaohu* cannot earn money. And letting them earn money is a way of cutting down their numbers. If their skill level is low, their only means of livelihood can be the street-side stalls they set up themselves’ (Interview, 5 September 2005).

### **Pitfalls and disentanglement: exclusions and embezzlements**

The stated good intentions of the *dibao* programme conceal two sorts of perverse outcomes. The first sort often means denying funding to truly needy people. It entails regulations dictating the exclusion of persons who, however poverty-stricken, are trying to (or in the past did) upgrade a totally minimal existence, thereby turning them and their offspring into a perpetual underclass. Similar in effect are practices treating poor people ‘as if’ they had payments coming to them that ought to have come but which have not, again disqualifying appropriately indigent citizens from receiving the allowance. These prohibitions amount to marginalization via state – even if just local state or local officials’ – design.

The other sort of unintended outcome evidently occurs sufficiently frequently as to be inveighed against in both official documents and conversation with programme managers. This is the result of loopholes allowing for embezzlement, deception and defrauding, usually on the part of the officials in charge but also sometimes on the part of the programme’s recipients. All these behaviors obstruct the achievement of the project’s announced objectives,

achieving marginalization by subversion of state design. Whether by dictates or by their debasement, both categories of activity produce disenfranchisement.

### **Exclusions: marginalization via state design**

In August 2007, the city of Jinan ruled that anyone who had purchased a computer or who often uses a cell phone could not enjoy the *dibao* (Jinan guiding, 2007). Beijing's regulations preclude persons from getting the *dibao* who had bought cell phones, arranged for their children to attend schools of their own choice or private schools, or who kept domestic pets. In Liaoning, using a household phone more than 15 per cent more than the local *dibao* norm or even having received gifts whose value was above the poverty line disqualified potential partakers. In Hainan, having births outside the plan can bar from benefits an otherwise needy household (Hainan guiding 2006). Elsewhere, some places banned people from becoming recipients if they had a family business, regardless of its profits or losses – firms losing money and incapable of supporting the family's livelihood could be known to spark quarrels between civil affairs departments and an applicant (Zhongguo chengshi, 2006).

In Wuhan, among the circumstances that could deprive the destitute of succour were having a motorized vehicle (unless it was required because of disability); doing odd jobs for which the wages are hard to verify; using any hand-held communication device (even if having obtained it as a gift or a loan) or going on the Web (Interview, 27 August 2007).<sup>28</sup> Several interviewees in Wuhan found their families' *dibao* funds cut back or cut off when a member did take on some wage-earning work. In one case a wife's street-sweeping led to deductions that left four people to survive on some 500-plus Yuan per month (Interview).

Also forbidden was enrolling a child in special classes or studying with a foreigner. Grantees took that guideline seriously, as did a mother of a 16-year-old boy: 'This year his grades could qualify him to transfer to the Number 3 Senior High School, a provincial-level key institution. But I don't have the money and secondly, if it's discovered that there's a child in the family who has transferred to a key high school, our *dibao* qualification would be eliminated. We can't take this risk. He really wants to study in that school, but he knows the family's conditions, so he doesn't demand it of me; I feel I have really let my son down', she fretted (Interview).

A set of 'as if' exclusions serve the same purpose of reducing a locality's financial responsibility, if by other means. Here the justification is: 'Since household income is very difficult to determine, hidden employment is pervasive, and hidden income and assets [are known to exist], flexible standards are adopted everywhere' (Zhongguo chengshi, 2006). This refers to the practice whereby families are rejected in which a member has the ability to work but has not found employment, by considering the person as having received the wages he/she would have earned had the person been on a job.

In other words, such reckoning ‘regards as income’ salary or benefits that ought to have been – but were not – paid to a person, using the person’s city’s minimum wage or unemployment insurance subsidy to assess the amount of the supposedly received income or benefit and then considering it as if it were the person’s actual income (Chengshi *dibao*, 2000, pp. 24–5). A variant is to count the funds that a person’s legal supporter ought to be giving him or her as part of that person’s income, even if s/he never really gets it (Zhongguo *chengshi*, 2006).

### **Embezzlements and other violations: marginalization via subversion of state design**

Unlike the practices detailed above, which are rationalized through local regulations (though criticized in central-level documents and articles) are outright violations of the policy, committed by parties on both sides of the deal. First of all, administrators may or may not receive the funds they should, probably because some of the money disappears along the way down the hierarchy to their offices. As one analyst expressed it, ‘there’s a black box’ containing the intermediary links set up to allocate the capital (Tang, 2003, p. 247). Where there are real financial shortages provincial treasuries have appropriated some of the funds for other purposes (Tang, 2002a). In the poorest and most backward places preferential policies are often ignored; even where the funds are sufficient, departments that should make the discounts do not find it in their interest to comply (Zhongguo *chengshi*, 2006). Dereliction of duty can take other forms, such as playing favorites or falling into arrears (Chengshi *jumin*, 1999, p. 17). One study found that on average families obtain 36.5 Yuan less than local authorities reported to upper levels (Gong, 2000, p. 34).

There are also instances of dishonesty among the targets. Some *dibaohu* falsely report their income, forge documentary evidence, or otherwise conceal their earnings or assets. There also are instances of what civil affairs essayists depict as ‘mistaken thinking’ among the beneficiaries, such as those said to ‘take the responsibility they themselves should bear and push it off to society and to the government’, demanding, for example, that the state give their old parent a supplement, even when there are five or six siblings who could shoulder the burden. Others of strong body ‘refuse to use their two hands to work but instead play cards all day, out of love of ease and hatred for work’, or so officials claim. Then there are those who, lacking the proper qualifications, ‘view the *dibao* as a basic right, and want it just because others have it, stretching out their hands under the supposition that everyone should get a share’. Yet others believe they deserve the allowance simply because they have been laid off – whether or not they have a job, and even if they have an adequate source of income.<sup>29</sup>

One Wuhan community leader explained that without a systematic, societal-wide credit system there is no way to check on whether *dibao* targets

are also getting a monthly pension. She alluded to misinterpretation of the programme as the root of some inappropriate appeals. In particular, there are residents in ill health whose necessary outlays go beyond their means, but who fail to comprehend that the *dibao* is based on income not on expenditures, and thus is not geared to help people meet all their costs. Asked whether there were troublemakers, she was quick to affirm it: 'There are some residents who create unusual difficulties', she reported, such as those who 'clearly don't fit the criteria for getting the *dibao* but still press for it, who often run about shouting verbal threats'. She judged that more detailed regulations are needed to prevent some people from taking advantage of the policy's loopholes and thereby wasting the state's funds.<sup>30</sup>

## Conclusion

The *dibao* programme was admittedly put into place to do nothing more than to meet the most minimal requirements of the targeted needy. Above all, they were not to disturb the forward march of the nation onward toward progress, whether by commotion on the pavement or by dragging down the productivity of their former factories. Perhaps without actively or truly meaning to mold their situation in this way, the state has dealt with the *dibaohu* in a manner that maintains them and their children either sickly and therefore off the streets or else insufficiently schooled to advance in society, out of work and eating too little to grow strong enough to challenge the state. And those able to improve their prospects by providing extra education for their children or by using computers, or to brighten their existence by communicating on cell phones or by seeking entertainment become for these reasons ineligible. No leader of the country would be likely to acknowledge the playing out of this subtext. But this paper has demonstrated that both the regulations that shape this programme and the regimens used in enforcing it – whether by design or by subterfuge – marginalize the most indigent among the urbanites. To date, we have heard little about a new underclass in the cities. This chapter aims to beam a light upon some of its members.

## Notes

1. According to an investigation reported in 'Zhongguo chengshi', among adult targets, those with primary education and below represented 24.1 per cent and 46.5 per cent had been to junior high school, together amounting to 70.6 per cent without any senior high school training. A mere 27.6 per cent of these people boasted of having some sort of professional or handicraft skill, while just 2.9 per cent claimed to have some work. As for their health, the Ministry of Civil Affairs announced that in a national study of 10,000 *dibao* households,

- 33.7 per cent had disabled people, and 64.9 per cent had one or more members with a chronic illness or serious illness.
2. My thanks to Kam Wing Chan for introducing me to a portal on the Web containing a wealth of official articles.
  3. According to Tang (2002b, p. 20), Shanghai's motives for creating the system revolved around the transformation of the enterprises' operational mechanism and the restructuring of the labour employment system, which, combined, had produced a large amount of unemployment and 'laying off'. The city government found that the relief system aimed at the original three welfare targets or the 'three withouts' (those unable to work, those without means of livelihood and those without family support) was inadequate and therefore came up with this plan.
  4. There, Jiang put forward two critical chores at the 1997 Congress: to adjust and improve the ownership structure, and to accelerate the reform of state-owned enterprises.
  5. That fall, the United States signed its bilateral agreement with China, a necessary and significant prelude to China's entry. In the intervening two years before the formal entry took place, Chinese labour economists prepared for the worst. See, for instance, Mo (2000, pp. 18–21).
  6. Some cities routinely raise the line every year or, in the case of Wuhan and some other places, every two years. Interview, head of the *dibao* section at the Wuhan Civil Affairs Bureau, 28 August 2007.
  7. Lu (1998, p. 20) notes that the 1999 Regulations stipulated that the line could only rise, not fall.
  8. The civil affairs departments provide these other offices with a namelist of the *dibaohu* in their jurisdiction, and it is then up to the offices to provide the relief. Other departments with similar charges are those who take care of housing, legal aid, coal, water, and electricity. The interview was with the head of the *dibao* office under the Gansu Provincial Civil Affairs Department.
  9. Hussain, writing in 2002, said that only 21 of the 31 provincial-level units contributed toward the cost of the *dibao*. But an article by Tang Jun, also published in 2002, states that, 'With the exception of Beijing, Shanghai, Shandong, Jiangsu, Zhejiang, Fujian, and Guangdong, all the other provinces got the central government's financial subsidies'.
  10. The Wuhan ratio was set in 1996 when the programme began in that city. Figures for the other cities are in Zhang 1998. Zhang was then Director of the Hubei provincial Department of Civil Affairs.
  11. See note 3 above.
  12. This is the eighth point in the Regulations. For the Regulations, see Chengshijumin (1999, p. 16).
  13. Tang's source is 'Wo guo', 1997.
  14. Tang (2002a) reports that the State Statistical Bureau's urban survey group, employing a calorimetric and then a food shopping method, set the poverty lines in different provinces and then estimated that the indigent population was 14.8 million at that time.
  15. Tang (2004, p. 27), quoted. Yang Yiyong of the State Planning Commission's Development Research Institute as noting that, since workers in firms that have cut back on production or become bankrupt may not have been counted, it is possible that even Zhu's estimate could be conservative. In Zhu (2004, p. 88), Zhu calculates that while he estimates that about 6.5 per cent of the urban population could be

counted as poor, the Asian Development Bank – using expenditure as a standard – found 37 million to qualify as poor, or more like eight percent of the urban population.

16. Hussain (2002, p. 70) has different figures: he states that the total expenditure in 1999 was just 1.97 billion Yuan, and 2.2 billion in 2000, of which the central government contributed 20.3 per cent and 24.1 per cent, respectively. Since I must make a choice, I intend to base my analysis on Tang's figures, since he is in Beijing permanently and works closely with official figures on an ongoing basis.
17. 4.6 billion Yuan came from the central treasury and 5.93 billion from local governments, according to Xinhuanet (2002). Thanks to Jane Duckett for this citation.
18. Zhongguo jianli (2006) states that the average norm in 2003 nationwide was 149 per capita per month, which had increased to 162, on average, by the third quarter of 2006, with the supplement rising from 58 to 80 Yuan per capita per month, on average, over those three years.
19. These calculations are based upon the figures for governmental expenditure in Zhonghua renmin gongheguo (2007, p. 279). Hussain (2002, p. 71) states that in 1999 the expenditure on the *dibao* amounted to 0.15 per cent of total government expenditure.
20. According to Premier Wen Jiabao's annual government work report, delivered on March 5, 2008, the average annual per capita income for urbanites in 2007 was 13,786 Yuan, one twelfth of which (or the monthly average) is 1,148.33 Yuan.
21. The interview was at the Wuhan Municipal *dibao* office of the City Civil Affairs Bureau.
22. In Chongqing's case, 600,000 households were inspected. The Director of Hubei's Department of Civil Affairs set down a similar set of procedures that were used in that province in Zhang (1998). Qinghai combined random sample surveys and household interviews to determine the minimum consumption expenditures common in various places, and, by late 1998 was utilizing software, automatic calculators, automatically tabulated printing, and microcomputer management (Qinghaisheng, 1999, p. 24).
23. Zhang mentions Wuhan as having played that role in Hubei.
24. The interview was with officers at community W, an area with about 1,600 residents, of whom only about one per cent are *dibaohu*.
25. The interviews were at community Y containing over 4,000 people, and community Z.
26. The interview was with the director of the *dibao* office at the Guansu provincial Civil Affairs Department.
27. The interview was with *dibao* workers at community X, where there are 1,099 households, of which 7.9 per cent are *dibaohu*.
28. The interview was at Community X.
29. Gong (2002).
30. Interview, Community V.

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# 14

## State-funded Re-employment Training and Participation in Informal Employment in Tianjin

*Bingqin Li and Huamin Peng*

One of the main policies adopted by the state to help people to return to the labour market is training. The idea behind the state-funded training programmes is, according to Chengping Tian (2006), the Minister of Labour and Social Security, to help the urban laid-off workers to gain the necessary skills so that they are able to work in different jobs in different sectors of the economy. Re-employment training was introduced in China in the late 1990s. The reform has undergone several stages. The first stage was from 1998 to 2000. The target for the stage was to train 6 million laid-off workers and offer them entrepreneurial support. The targeted industries included textiles, railway, military and coal industries. These industries suffered the most during the reform of state enterprises (Ministry of Labour, 1998). The second stage was between 2001 and 2005. In this period, the state renewed the earlier training programme and planned to train 30 million people in three years (Ministry of Labour and Social Security PRC, 2002). In the third stage, beginning in 2005, the state announced that it would use skills training to reduce the level of unemployment (State Council PRC, 2005). As part of this strategy, the Ministry of Labour and Social Security published 'The plan for using skills to help reemployment in cities and towns'. The target was to offer skills training to 20 million laid-off workers and make sure the re-employment rate could reach 60 per cent from 2006 to 2010. At the same time, the government wanted to set up a skills verification system in 300 cities so that trainees' skills can be recognized by employers (Ministry of Labour and Social Security PRC, 2005).

It is difficult to tell how well the policies have achieved their targets. According to Wan and Zhang (2008), based on a population survey carried out in Jilin Province in 2005, the labour participation rate was improved by the state-run re-employment programmes. They argue that training has enhanced unemployed people's competitiveness in the labour market. The results of Zhao's (2003) analyses based on data collected in Wuhan led to a similar conclusion. However, the participation rate of re-employment

training programmes was low. In Wuhan, the participation rate was 5 per cent in 2000 and 14 per cent in 2003 (Hou and Zhao, 1997). What is more, user surveys suggested that unemployed workers tended to report that training programmes were not very effective in terms of helping them to find jobs (Qiu 2007). In addition, the result could be different for different cities. Bidani et al (2004) found that training dampened re-employment prospects in Shenyang but improved them in Wuhan.

So far, most studies on the state-funded training in China treated the unemployed people as a whole group and examined how well training had helped them to find jobs. There are several problems with this approach. First, some unemployed people find jobs that are temporarily available. They might become unemployed again very soon. Therefore, the re-employment rate of a training programme recorded as soon as someone finds a job can be misleading. Second, unless it is a pilot programme, most training schemes have already been implemented across the country. It is difficult to find a counterfactual, i.e. training is not available at all. Without this counterfactual, we cannot really establish a causal relationship between training and re-employment simply based on surveys carried out after training programmes.

One important characteristic of the Chinese labour market is the lack of respect for informal employment. The era of the centrally planned economy saw the establishment of an employment hierarchy, in which people working outside the state and collective sectors were not entitled to state welfare. Although the economic reforms since 1979 have helped to establish the status of the private sector as formal employers and more recent reforms required private employers to offer equal social protection to the employees, informal employment, such as temporary jobs without formal contract and street vendors, was not recognised as proper sources of employment. This was also reflected in the state employment statistics and the setting of policy targets (Qiu, 2006). Although more attention was paid to the role of informal employment in helping urban unemployed workers to return to their work, the training policies rarely pay special attention to informal employment.

Although the state-funded training programmes were not designed to help people to become informally employed, it might have played some unexpected roles in helping people to start work. If more information can be obtained regarding the role of training in informal employment, further policies that are tailored to take advantage of informal employment can be more targeted. Therefore, in this chapter, we want to examine to what extent the people who became informally employed also benefited from the state funded training programmes and what are the shortcomings of the current system.

It is not possible for us to provide a counterfactual in this research either, so our research shows the correlations. We do not want to overstretch the

results to establish causal relations in this chapter. (We hope future research based on subjective data in the survey and in-depth interviews may be able to offer more insight regarding the user assessment of the training programmes.) In the following sections of this chapter, we will first review the relevant literature and discuss the frameworks to be used for the analyses, followed by the research findings in Tianjin. We use a survey dataset with 724 officially registered long-term unemployed workers in Tianjin in 2006.

In this chapter, we will study registered only long-term unemployed people. These people have registered with the state for being unemployed for more than six months. To avoid confusion, we exclude those people who have successfully returned to formal employment and had not yet bothered to remove their names from the unemployment record. There are several considerations in selecting this group for our study. First, not all unemployed people are registered in China. The reasons for people not being registered can range from completely giving up, a lack of information, or an inclination to rely on self-help. However, the people who actually registered for unemployment share a common feature. They are willing to find jobs and obtain official support at the beginning of the period of unemployment. Second, since they are registered with the local authorities, their entitlement to state-funded training is confirmed. Third, the relatively longer period of unemployment means that it is difficult for these people to find formal jobs in the labour market. Because they remain unemployed, the 'success' of the state re-employment programmes to help people getting back to formal employment is not applicable for this particular group. Finally, the local authorities find it difficult to help this group of people to return to employment (Tian, 2006). Therefore, examining the barriers for these people to return to work and the roles existing policies become very important.

## **Re-employment training and informal employment**

### **Training and informal employment**

Apart from providing occupational skills, the mechanisms that training can help people to return to work have several dimensions. The first is information dissemination which improves the awareness of new employment or business opportunities (Ogbonna and Noon, 1999). The second is to provide job searching techniques, such as the training of interviewing skills, resume writing and networking (Davy et al., 1995). The third is the psychological impact. The psychological well-being of the trainees can be improved either through resilience and social skills training (Mitchell and Trickett, 1980; Steensma et al., 2006) or through social participation via taking training courses (Stolte, 2004). The last is the possibility of training to increase people's earning ability. Whether training can improve the trainees' earning ability is not always clear (Finn and Simmonds, 2003). However, if we take

into consideration the possibility of the unemployed returning to employment after training, it can be practically treated as an augmentation of their earning ability (Lund, 2002; Maree and Mokhuane, 2007).

Given the characteristics of informal employment, some elements of training can be particularly useful. For example, people who had been working in the formal sector might not be aware that informal employment can be an alternative. Another example is that informal employment opportunities are often presented to the potential workers through informal networks. Therefore, bringing the unemployed people out of their home and helping them to build up social networks can be potentially important. In addition, informal employment often requires a different set of skills such as entrepreneurship, or knowledge of specific types of markets that may not necessarily be required as employees in the formal sector. In this sense, training can be useful in facilitating informal employment.

The relationship between training and informal employment is mostly discussed in the literature about developing countries. Earlier studies suggest that re-employment training has generated a greater dynamics in the labour market and increased the ability of the unemployed to adjust to the labour market conditions and to help them to lift themselves out of poverty (Calderón-Madrid and Trejo; The Research Group from the Dept. of Training and Employment in the Ministry of Labour and Social Security PRC, 2002; Zeng, 2005). However, these previous studies often focus on the direct relationship between training and the employment results.

Many evaluations of re-employment training programmes focus on the training of vocational skills and the re-employment outcomes. However, it is quite difficult to pin down a direct relationship between a specific training programme and the re-employment result, especially if the employment outcome is in the informal sector. To gain a better understanding of how well a training system works for informal employment, it is necessary to examine how the training system performs regarding the different dimensions of employment, i.e. awareness of employment opportunities, improving job searching techniques, improving psychological well being and improving the earning ability.

In the following section of this chapter, we will examine the role of the re-employment training system in Tianjin in helping the long-term unemployed people to work in the informal sector. The analyses will use the multidimensional approach.

## **The research of Tianjin**

In this section of the chapter, we are going to use official documents published by the related authorities in the Tianjin government and a survey of Tianjin to examine how well the training programmes have performed in the different dimensions of training with a specific focus on informal employment.

*Table 14.1* Unemployment rate and number of long-term unemployed in urban Tianjin

	2001	2002	2003	2004	2005	2006
Urban unemployment rate (%)	3.6	3.9	3.8	3.8	3.7	3.6
No. of long-term unemployed (thousands)	102.6	109.1	48.1	52.0	–	–

*Source:* Tianjin Statistical Yearbook (various years).

Tianjin is one of the four municipalities directly under the control of the central government. The total registered population is 11 million. The city is a main industrial and business centre and acted as the largest seaport in North China during the era of the centrally planned economy. During the economic reforms, it suffered from massive unemployment. Some unemployed people found it difficult to return to the labour market and became long-term unemployed. As the local economy improved, the local authorities targeted re-employment and the number of registered long-term unemployed people reduced over time, but it became increasingly difficult to reduce that number any further (see Table 14.1).

## Sampling

We focus on the people who are officially registered as being unemployed. At the time of registration, the applicant had to: (1) be unemployed and willing to work; (2) have non-agricultural *hukou* (household registration); (3) be men aged 16–60 or women aged 16–55; and (4) be registered with the local re-employment centre for more than six months.

The survey was carried out between May and June 2006. The interviewees came from six inner city areas: Heping, Nankai, Hedong, Hexi, Hebei and Hongqiao districts. There are several neighbourhoods in each district. We selected two neighbourhoods each that had the largest numbers of registered unemployed people in the six districts. The committees of each neighbourhood held a registration list of the unemployed. We used these lists to carry out sampling. We selected 83 to 85 people who had been unemployed for more than six months from the twelve neighbourhoods. In total, 1,000 people (500 women and 500 men) were selected, and 831 were interviewed.

The survey took place at the interviewees' homes. They were presented with a questionnaire to fill out in the interviewer's presence. The interviewer would give clarifying answers to the interviewees' inquiries. The questionnaire had seven parts: personal and family details, before unemployment, during unemployment and job searching, current living and earnings, social security coverage, social support and assistance received for reemployment.

For the purposes of this particular research, we do not include the following respondents: (1) people who were working formally but did not report to the local authorities; (2) people who participated in private training. The total number of respondents is 724.

### **Background of the respondents**

As shown in Table 14.2, the interviewees were on average 43.5 years old – the youngest was 23 and the oldest 60. There were 363 men and 361 women. Most of the respondents were married or had partners. Only 7.7 per cent did not have a partner. They were single, divorced or widowed. Most respondents had high school education or less. About one-third completed secondary school or less. 55.5 per cent graduated from high school. About one in eight had higher education. 71 per cent of the respondents did not have officially recognized skills. 81.2 per cent considered themselves to be healthy. Among 18 per cent who had health problems, 36 people suffered from disabilities.

In the sample, about 26.2 per cent of interviewees lived together with their elderly parents. 35.6 per cent of households had one or more children in education, 12.4 per cent had working children and 9.9 per cent had children who were also unemployed at the time of the interviews. About one-quarter of the respondents' partners were also seeking employment. The average income of the respondents per month is less than 250 Yuan per month. Their family members' average income was more than 580 Yuan per month. The income of other family members is divided into four groups (zero, under 500 Yuan, between 500 to 1,000 Yuan and over 1,000 Yuan), the distribution is shown in Table 14.1.

Before the respondents lost their job, the mean income was 602 Yuan per month. The interviewees came from many different sectors of the economy. However, a large proportion (57.9 per cent) had been employed in the public sector before they lost their jobs. Also 69.3 per cent had been in permanent employment before they lost their jobs.

The respondents had, on average, left their previous job 14.7 months ago. About 65 per cent of the respondents had participated in state-run re-employment training programmes. As expected, most respondents had tried to look for jobs in the past year. As time moves on, fewer people continued to search. This could be because that they found a job, because they had started their own business, or because they had simply given up. About 20 per cent of the respondents relied on the state or their previous work-units to find new jobs. The rest would not follow these organized channels.

### **The unemployment training system in Tianjin**

In the city of Tianjin, a series of training policies have been adopted to respond to the national training guidelines. According to the 'Regulations on Offering Subsidies to Free Re-employment Training Programs in Tianjin'

Table 14.2 Descriptive statistics

	No. of cases	Mean	S.D.				
<i>Age</i>	724	43.6	6.8	<i>Age by group</i>			
	<b>No. of cases</b>	<b>%</b>		Age≤40	206	28.5	28.5
<i>Age&gt;50</i>				40<Age≤44	184	25.4	53.9
No	588	81.2		44<Age≤48	152	21.0	74.9
Yes	136	18.8		Age>48	182	25.1	100.0
<i>Sex</i>				<i>Marriage status</i>			
Male	363	50.1		married or cohabit	668	92.3	92.3
Female	361	49.9		Single, divorced or widowed	56	7.7	100.0
<i>Educational level</i>				<i>Skills level</i>			
Secondary school+	230	31.8	31.8	Medium+	114	15.8	15.8
High/vocational school	402	55.5	87.3	Primary	97	13.4	28.2
Higher education	92	12.7	100.0	No skill	513	70.9	100.0
<i>Health</i>				<i>Disability</i>			
No health problems	587	81.2	81.2	No disability	688	95.0	95.0
In poor health	136	18.8	100.0	Has disability	36	5.0	100.0
<i>Parents living together</i>				<i>Children in education</i>			
Yes	190	26.2	26.2	No	258	35.6	35.6
No	534	73.8	100.0	Yes	466	64.4	100.0
<i>Have working children</i>				<i>Have unemployed children</i>			
No	634	87.6	87.6	No	652	90.1	90.1
Yes	90	12.4	100.0	Yes	72	9.9	100.0
<i>Partner in employment</i>				<i>Owe money to others</i>			
No	472	65.2	65.2	No	476	65.8	65.8
Yes	252	34.8	100.0	Yes	248	34.3	100.0

<b>Sector</b>				<b>Previous salary <math>\geq 1000</math> Yuan</b>			
Public sector	419	57.9	100.0	No	463	64.0	64.0
Other sectors	305	42.1	42.1	Yes	261	36.1	100.0
<b>Large company (<math>&gt;1000</math> employees)</b>				<b>Quit or fired</b>			
No	589	81.4	81.4	Fired	680	93.9	93.9
Yes	135	18.7	100.0	Quit	44	6.1	100.0
<b>Unemployment compensation</b>				<b>Family member's income (Yuan/month)</b>			
No	221	30.5		X=0	184	25.4	25.4
Yes	503	69.5		0<X $\leq$ 500	192	26.5	51.9
<b>Contract type</b>				500<X $\leq$ 1000	280	38.7	90.6
Formal (permanent)	502	69.3		X>1000	68	9.4	100.0
Termed contract/ temporary	222	30.7					
	<b>No. of cases</b>	<b>Mean</b>	<b>S. D.</b>		<b>No of cases</b>	<b>Mean</b>	<b>S. D.</b>
<b>Respondent's current income</b>	724	241.0	528.6	<b>Family members' current income</b>	724	583.0	596.8
<b>Years worked for previous employer</b>	722	19.0	8.5	<b>Income before unemployed</b>	722	601.9	850.5
<b>Length of unemployment (months)</b>	724	14.7	9.4				

Source: 2006 survey.

(Tianjin Training Centre, 2006), training schools/institutes would receive subsidies from the government. Prospective trainees should be laid-off workers from the state sector and the urban unemployed. Trainees should have registered with the local authorities and not yet received licences for self-employment. Each person is entitled to one free training course.

Training programmes have several categories. There are financial incentives attached to each programme to make sure that the training programmes can achieve re-employment results. The first category of training is targeted training, in which the trainees or training schools and future employers sign up agreements. Once a trainee completes the training and has passed exams, the employer will hire them. Training can be offered either directly by the employers to the trainees or through the services of a training school. The total number of hours of each training programme is longer than 80 hours. The student who wants to pass the exams should attend no less than 80 per cent of the total number of classes. If after a training programme ends, the re-employment rate is higher than 60 per cent, the government will pay 300 Yuan per trainee to the school.

The second category is general training, in which neither the training school nor the trainees have an employers' guarantee before the programme starts. The courses have to be on the state-designated set of skills. If a training programme is longer than 100 hours, the attendance rate is higher than 80 per cent, and more than 50 per cent of the trainees pass the exams, the school can receive a subsidy of 300 Yuan for each trainee. If within half a year, more than 50 per cent of the trainees become employed, the government will give 200 Yuan to the training institute for each person who finds a job.

The third category of training, which is relatively new, is entrepreneurship training. The programme is designed to help people who want to become self-employed. The training programme should be more than 100 hours and if the attendance rate is higher than 90 per cent, at the end of the programme, the training institute can receive 300 Yuan per trainee. At least within one month after the programme is completed, the training school is required to continue providing consultative services to the trainees. If more than 60 per cent of the trainees start their own businesses and registered as being self-employed with the necessary licences, the government will give 700 Yuan for each successfully self-employed trainee.

Several characteristics can be observed regarding the various dimensions of training policies. First, the focus of training programmes is on vocational skills. The financial rewards attached to the re-employment outcomes generate incentives for schools to offer training programmes that are more suitable to the demand in the job market. However, what would be counted as being re-employed is a grey area. Whether a short-term temporary job constitutes a case of successful re-employment is not spelled out in the national policies. In practice, it is very difficult for the state to trace the employment

status of a former student once he/she graduates from the school. Therefore, although there is no specific policy trying to use training programmes to boost informal employment, the built-in financial incentive mechanism almost certainly generates better incentives for the schools to push students into any jobs that are available in the market. Second, there is a shortage of training programmes that aim to provide basic information and guidelines to help the unemployed be better prepared for the life after unemployment and understand the scenario for re-employment. Third, although participation of training programmes can generate a sense of social participation, there is no training programme that tries to address the psychological needs of the unemployed. Finally, there is no specific target about the earning ability of the trainees. Therefore, it is difficult to tell by looking at the policies only.

### The take up of re-employment training

The unemployed people in Tianjin are entitled to a 15-day free training course if they are able to prove eligibility. They can select from a wide range of courses, which have to be in the skills training list published by the state (Table 14.3). Twenty-six types of training courses are reported by the interviewees. The most popular courses are computer, flower arrangement, domestic help and cooking. It is important to note that although the local state did not deliberately arrange courses for the informal sector, a number of training courses, including flower arranging, domestic duties, cooking

Table 14.3 Courses offered by the state-funded training

Course	No of cases	%	Course	No. of cases	%
Computer Application	219	30.3	Storage Management	1	0.1
Flower Arrangement	97	13.4	Sales	1	0.1
Domestic Helping	39	5.4	Mobile Phone Repair	1	0.1
Cook	32	4.4	Machinery Maintenance	1	0.1
Electrician	13	1.8	Knitting	1	0.1
Electronic Appliance Repair	11	1.5	Interior Decoration	1	0.1
Nutritionist	10	1.4	Hairdressing	1	0.1
Welding	4	0.6	Estate Management	1	0.1
Car Maintenance	4	0.6	Entrepreneurship	1	0.1
Massage	3	0.4	Driving	1	0.1
Beauty Treatment	3	0.4	Computer Maintenance	1	0.1
Security Guard	2	0.3	Chinese Medicine	1	0.1
Waiter	1	0.1	NA	274	37.9
<b>Total</b>	<b>724</b>	<b>100.0</b>			

Source: Tianjin survey 2006.

*Table 14.4* State re-employment training participation

	Total		Sex				Education			
	No.	%	Female	%	Male	%	High school+	%	Secondary school-	%
No	257	35.5	109	30.0	148	41.0	166	33.6	91	39.6
Yes	467	64.5	254	70.0	213	59.0	328	66.4	139	60.4
Total	724	100.0	363	100.0	361	100.0	694	100.0	230	100.0

Note: 'Higher school+' includes high school. 'Secondary school-' includes secondary school.

Source: Tianjin survey 2006.

and knitting are also suitable for self-employment and informal employment in the labour market.

As shown in Table 14.4, 64.5 per cent of the respondents participated in state-funded re-employment programmes. Women have a higher rate of participation rate than men. People with higher educational levels are more likely to participate in the re-employment programmes.

### Take up of state-funded training

We used a logistic regression model to examine the take up of state-funded training and its relation to other factors. The regression results are reported in Table 14.5.

Among the social demographic variables, age does not appear to be particularly significant. Although statistically insignificant, one can still observe that people older than 48 were more active participating in training than younger people. Women were much more likely to participate in training than men.

Human capital worked differently. Our findings do not support the results suggested in the data from developed countries (Galasso, Ravallion and Salvia 2004; Tatmolem and Warwicensis 2000; McKenzie and Long, 1995) which suggest that people with higher prior educational attainments are more likely to participate in training. This is probably because there was no official requirement with regard to the education background of the prospective trainees. In Tianjin, however, people with primary and medium skills levels were much more likely to take up training than people with no officially recognized skills. This is probably because the people with some skills were more aware of the importance of suitable skills in the labour market. As expected, disability also affected the level of participation in training. However, the result is not statistically significant.

Employment factors can be relevant. People who had quit their jobs were more likely to take up training. However, when other variables are controlled for, the correlation becomes very small. One unexpected result is that the longer a person had been unemployed, the less likely it was that he/she

*Table 14.5* Binary logistic regression for training with state funded programs (dependent variable = 1. trained; 0. not trained)

	Odds Ratio	Std. Err.	z	P > z	[95% Conf. Interval]	
age 50 (0, age < 50; 1, age ≥ 50)	2.24	0.58	3.10	0.00	1.35	3.73
Sex (1. male; 0. female)	0.53	0.10	-3.51	0.00	0.37	0.75
Education (high school) <sup>a</sup>	1.01	0.20	0.03	0.97	0.68	1.48
Education (higher) <sup>a</sup>	0.91	0.25	-0.33	0.74	0.54	1.56
Skill level (primary) <sup>b</sup>	1.99	0.55	2.49	0.01	1.16	3.42
Skill level (medium) <sup>b</sup>	0.89	0.30	-0.35	0.73	0.47	1.71
Poor health (1. poor health; 0. healthy)	0.65	0.14	-1.99	0.05	0.42	0.99
Quit/fired (1. Quit; 0. fired)	1.83	0.74	1.48	0.14	0.82	4.06
No. of months unemployed	1.00	0.00	2.96	0.00	1.00	1.00
Disability (0. disabled; 1 not disabled)	0.59	0.22	-1.46	0.15	0.28	1.20
Have school-age children (1. yes; 0. no)	1.22	0.22	1.11	0.27	0.86	1.74
Work in the future (1. Possible; 0. give up)	1.45	0.35	1.53	0.13	0.90	2.32
Life satisfaction (1-10)	1.05	0.03	1.69	0.09	0.99	1.12

*Note:*

a. Education (Secondary) is the reference category.

b. Skill level (No officially recognised skill) is omitted.

c. Number of obs. = 723; LR chi2 (13) = 59.84; Prob. > chi2 = 0.0000;

Log likelihood = -440.58101; Pseudo R2 = 0.0636.

*Source:* 2006 survey.

would go for training. This may be related to the fact that government-funded training programmes did not have a very long history. People who had become unemployed some time ago were less likely to keep themselves aware of training that had begun long after they completed their unemployment registration. Another possible explanation could be that newly unemployed people who were usually eager to return to work were more likely to take up training in the hope of finding another job as soon as possible. In this sense, we can tell that institutional settings are indeed correlated with people's decision making.

### **Psychological well-being of the long-term unemployed**

In this section, we try to look at the role of training in improving the psychological well-being of the underemployed. The psychological well-being is observed in three ways: reported health conditions; life satisfaction; and job searching efforts. The reason that we include job searching efforts as an indicator for subjective well-being is that we consider lack of search effort can be a result of mental health issues or poor levels of life satisfaction. This has been discussed in Vansteenkiste et al. (2004, 2005).

Table 14.5 shows the result in respect of health and life satisfaction. The results of the logistic model show that it was significantly related to training participation. People who considered themselves healthy were much more likely to participate in training. The life satisfaction has 10 values – ranging from 1, the lowest life satisfaction, to 10, the highest life satisfaction. The impact of life satisfaction is not significant in this model.<sup>1</sup>

We only look at the job searching efforts of those who were not working at the time of our interviews. Some of them have participated in training and some have not. We asked whether they had looked for a job in discrete periods of time: the past two weeks, one month, three months and one year. The cross-tabulation suggests that in all of the different periods listed, people who had participated in training were significantly more active in job searching than the rest (Table 14.6).

### **Informal employment and training**

We asked those interviewees who had actually participated in the training courses whether or not they thought the courses were useful. We deliberately phrased the question somewhat vaguely so that the idea of usefulness would not be limited to job matching only. About half of the interviewees reported that the free courses had indeed been somewhat useful. Another 17 per cent expressed themselves indifferent and around 30 per cent were negative. If we further examine the response by the original skills level of the interviewees, as shown in Table 14.7, people at all different skills levels found the courses useful for them. People with medium or lower skills were most likely to consider the courses useful. However, instead of remaining indifferent, people

Table 14.6 Job searching by training participation

Job Search	Training Participation											
	In 1 Year <sup>a</sup>			In 3 Months <sup>b</sup>			In 1 Month <sup>c</sup>			In 2 Weeks <sup>d</sup>		
	No	Yes	Total	No	Yes	Total	No	Yes	Total	No	Yes	Total
No	69	83	152	99	134	233	107	157	264	113	175	288
%	44.8	30.4	35.6	64.3	49.1	54.6	69.5	57.5	61.8	73.4	64.1	67.5
Yes	85	190	275	55	139	194	47	116	163	41	98	139
%	55.2	69.6	64.4	35.7	50.9	45.4	30.5	42.5	38.2	26.6	35.9	32.6
	154	273	427	154	273	427	154	273	427	154	273	427
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes:

a. Pearson  $\chi^2(1) = 8.9083$  Pr = 0.003.

b. Pearson  $\chi^2(1) = 9.1775$  Pr = 0.002.

c. Pearson  $\chi^2(1) = 5.9787$  Pr = 0.014.

d. Pearson  $\chi^2(1) = 3.8569$  Pr = 0.050.

Source: 2006 survey.

*Table 14.7* Reported usefulness of training by skill levels

	<b>High</b>	<b>%</b>	<b>Medium</b>	<b>%</b>	<b>Primary</b>	<b>%</b>	<b>No</b>	<b>%</b>	<b>Total</b>	<b>%</b>
Useful	7	43.8	37	54.4	44	60.3	159	52.1	247	53.5
Indifferent	6	37.5	12	17.6	14	19.2	45	14.8	77	16.7
Not useful	3	18.8	19	27.9	15	20.5	101	33.1	138	29.9
<b>Total</b>	<b>16</b>	<b>100.0</b>	<b>68</b>	<b>100.0</b>	<b>73</b>	<b>100.0</b>	<b>305</b>	<b>100.0</b>	<b>462</b>	<b>100.0</b>

Source: 2006 survey.

*Table 14.8* Reported usefulness of training by working status (working informally and not working)

	<b>Not working</b>	<b>%</b>	<b>Working informally</b>	<b>%</b>	<b>Total</b>	<b>%</b>
Useful	96	47.5	151	58.1	247	53.5
No preference	40	19.8	37	14.2	77	16.7
Not very useful	66	32.7	72	27.7	138	29.9
<b>Total</b>	<b>202</b>	<b>100.0</b>	<b>260</b>	<b>100.0</b>	<b>462</b>	<b>100.0</b>

Source: 2006 survey.

with medium or lower skills are also more likely to report that the trainings were not useful to them.

Intuitively, people with high skill levels were overqualified for the basic skills training. The research did not find strong evidence that they were much less happy about the courses on offer than the other trainees. On the contrary, people with no skills had the largest proportion of unsatisfied trainees. If we look at the reported usefulness by working status, people who had been working informally reported a higher rate of satisfaction with the courses (Table 14.8).

We asked a further question about the reasons for non-participation. 240 people responded to this question and the results are shown in Table 14.9. A large proportion of the respondents were unaware that the training courses were free and said that they could not afford the training. About 20 per cent of the respondents were not sure what they could study. Another group clearly showed signs of lacking confidence in their learning ability, either using age, intelligence or bad mood as excuses for not studying. There was also an element of distrust in the intention of the training schools.

Putting these results together, we can see that the information about the courses and the potential of the unemployed people were not very well communicated to the unemployed. What is more, offering skills training would be only partly useful. It is equally important to encourage people with little confidence or little understanding of their future prospects to get them into the classroom in the first place before they can really benefit from the training on offer.

Table 14.9 Why did you decide not to take training courses?

	No. of cases	Percent
I want to study, but I have no money.	74	30.8
I do not know what to study.	48	20.0
Even if I had studied, I would still not be able to find a job.	43	17.9
I am too old. I do not want to learn new things again.	25	10.4
I am too slow. I cannot understand anything they teach.	22	9.2
I have no time to study.	16	6.7
The schools only want to make money. I do not think I will be able to learn anything.	7	2.9
I am suffering from health problem and cannot study.	2	0.8
The schools are at inconvenient location.	2	0.8
I am depressed and do not want to study.	1	0.4
Total	240	100.0

Source: 2006 survey.

### The employment outcomes of training

User evaluation of the training programmes are important; however, it is also important to examine whether trainees are more likely to be able to find jobs in the informal market than the non-trainees. We use a binary logistic regression to examine the relationship between participation in informal employment and five sets of variables. They are demographic variables, household characteristics, the characteristics of the previous jobs, benefit received, and job searching variables. The selection of variables are based on the hypothesis that decision to work informally can be a result of financial desperation, the willingness to work and the attitudinal acceptance of informal employment as an alternative to formal employment.

As shown in Table 14.10, state-funded re-employment training were positively related to informal employment participation, although in this model it is not statistically significant after other variables are controlled.

### The earning ability of training

So far we have divided the respondents by training participation and informal employment. Not all the informally employed have participated in training. In this part of the analyses, we only examine people who were informally employed. A series of independent variables are used in a regression model of log income. Training is included as a repressor to see whether it can help to boost the earnings of the informally employed.

Apart from demographic variables, we mainly include human capital and social capital variables in the analyses. The hypothesis is that higher education and skills level and social network may contribute to the earning ability of the informally employed. Given that the state-funded training

Table 14.10 Binary logistic regression for informal employment (dependent variable = 1 for information employment)

	Odds Ratio	Std. Err.	z	Significance
<b>Social demographic</b>				
Age $\geq$ 50 (1. yes; 0. no)	0.257	0.086	-4.050	0.000
Sex (1. male; 0. female)	2.453	0.559	3.940	0.000
Marriage status (0. single, widowed or divorced; 1. married or cohabit)	1.761	0.659	1.510	0.130
Education (high school) <sup>a</sup>	1.845	0.424	2.670	0.008
Education (higher) <sup>a</sup>	1.110	0.377	0.310	0.759
Skill level (primary) <sup>b</sup>	1.852	0.556	2.050	0.040
Skill level (medium) <sup>b</sup>	0.914	0.239	-0.340	0.732
Poor health (1. poor health; 0. not poor health)	0.728	0.187	-1.240	0.216
Disability (1. with disability; 2 without disability)	0.867	0.389	-0.320	0.750
<b>Household characteristics</b>				
Have school age children (1. yes; 0. no)	1.725	0.496	1.890	0.058
Have working children (1. yes; 0. no)	2.415	0.964	2.210	0.027
Have unemployed children (1. yes; 0. no)	1.870	0.755	1.550	0.121
Partner in employment (1. yes; 0. no)	0.323	0.070	-5.200	0.000
Parents living together (1. yes; 0. no)	0.902	0.194	-0.480	0.631
Income of family members ( $0 < x \leq 500$ ) <sup>c</sup>	11.773	3.456	8.400	0.000
Income of family members ( $500 < x \leq 1000$ ) <sup>c</sup>	5.972	1.570	6.800	0.000
Income of family members ( $x > 1000$ ) <sup>c</sup>	2.865	1.062	2.840	0.004
Owe money to others (1. yes; 0. no)	0.734	0.144	-1.570	0.116
<b>Previous employment</b>				
Working in public sector in the past (1. yes; 0. no)	1.012	0.203	0.060	0.951
Formal employee (1. yes; 0. no)	0.737	0.165	-1.360	0.173
Earned more than 1000 yuan (1. yes; 0. no)	0.710	0.141	-1.720	0.085
No. of years in previous job	1.101	0.054	1.980	0.048

No. of years in previous job, sq.	0.997	0.001	-2.140	0.032
Worked for a large company ( $\geq 1000$ people) (1. yes; 0. no)	0.664	0.158	-1.720	0.085
<b>Unemployment</b>				
Unemployment compensation (1. yes; 0. no)	0.774	0.163	-1.210	0.224
No. of months unemployed	1.020	0.033	0.630	0.530
No. of months unemployed, sq	1.000	0.001	-0.560	0.575
<b>Reemployment</b>				
State re-employment training (1. yes; 0. no)	1.375	0.275	1.590	0.112
Looked for job in 1 year (1. yes; 0. no)	1.018	0.277	0.070	0.946
Looked for job in 3 months (1. yes; 0. no)	1.835	0.695	1.600	0.109
Looked for job in 1 month (1. yes; 0. no)	0.452	0.219	-1.640	0.100
Looked for job in 2 weeks (1. yes; 0. no)	1.763	0.698	1.430	0.152
Looked for job with state/work unit help (1. yes; 0. no)	1.588	0.400	1.830	0.067
Expected income ( $0 < x \leq 500$ ) <sup>d</sup>	4.047	1.436	3.940	0.000
Expected income ( $500 < x \leq 1000$ ) <sup>d</sup>	1.586	0.394	1.860	0.063
Expected income ( $x > 1000$ ) <sup>d</sup>	1.765	0.540	1.860	0.064
N=	721			
LR chi2=	242.3			
Prob.>chi2=	0.000			
Pseudo R2=	0.244			
Log likelihood=	-375.1			

*Notes:*

- Education (Secondary) is the reference category.
- Skill level (No officially recognized skill) is the reference category.
- "Income of family members=0" is the reference category.
- "Expected income=0" is the reference category.

*Source:* 2006 survey.

*Table 14.11* Multiple variable regression (dependent variable is log income)

	Co-efficient	Std. Err.	t	Significance
Age 40–44 <sup>a</sup>	–0.061	0.081	–0.760	0.448
Age 44–48 <sup>a</sup>	–0.129	0.086	–1.500	0.134
Age > 48 <sup>a</sup>	–0.227	0.094	–2.410	0.016
Sex (1. Male; 0. Female)	0.300	0.065	4.630	0.000
Training (1. Yes; 0. No)	0.097	0.063	1.550	0.123
Education (high school) <sup>b</sup>	0.118	0.073	1.610	0.108
Education (higher) <sup>b</sup>	0.135	0.109	1.240	0.216
Skill level (primary) <sup>c</sup>	–0.094	0.082	–1.140	0.255
Skill level (medium) <sup>c</sup>	0.128	0.089	1.430	0.154
Poor health (1. Yes; 0. No)	–0.197	0.094	–2.110	0.036
Socializing (1. Not less than before; 0. Less than before)	0.270	0.062	4.310	0.000
Constant	5.901	0.103	57.480	0.000
R-square: 0.186; Adjusted R-square: 0.153				

Note:

a. Age ≤ 40 is the reference category.

b. Education (Secondary) is the reference category.

c. Skill level (No officially recognised skill) is the reference category.

Source: 2006 survey.

that is used to enhance employability and earning ability, we can try to see whether it is the case in reality.

The income model cannot demonstrate that there is a significant correlation between state-funded training and informal income. What really mattered were age, sex, health and social networking. Those aged more than 48 years of age were earning less than the younger age group. On average, men earned more than women. This confirmed the claims made by researchers on women's unequal position in the labour market. People who perceived that they were in poorer health conditions also earned less than people who were less pessimistic about their health conditions. What is striking is the impact of socializing. People who are socially withdrawn since they become unemployed were earning less in the informal jobs see Table 14.1).

## Conclusion and policy suggestions

This research provides important evidence regarding the role of state-funded training on the circumstances and behaviour of the long-term unemployed people. We argue that the role of training regarding re-employment should be examined in several dimensions: information dissemination and guidance to re-employment, the outcome of re-employment, earning ability and the well-being of the unemployed.

The state-funded training programmes in Tianjin have focused on offering skills training to the unemployed. Our research on the registered long-term

unemployed people in 2006 shows that the current training programmes adopted in Tianjin have several achievements. The training participation rate is quite high compared to the training rates reported in other research using data from other cities in the country. This is probably because the training programmes were free and there were no special requirements in terms of education or skills qualifications.

People who have participated in training either work informally or did not report better results in terms of psychological well-being. It is difficult to tell in which direction the causal relationship goes. Is it because people who are happier in nature are more likely to participate in the training programmes or is it because the training programmes offer better social participation that make the life after unemployment less miserable? Certainly this aspect requires more research.

A fairly large proportion of the respondents reported that they felt the training programmes were at least somewhat useful to their life after unemployment. This is not limited to job hunting. However, the purpose of re-employment training is to improve the level of employability and the earning ability of the trainees. Our research shows that the training courses appear to be fairly ineffective. Informal employment has indeed opened up new channels of self-help and coping. However, training seems to be relatively ineffective in helping the people who could not find jobs in the formal sector to get into informal employment.

The approach we have taken in this research offers several insights on the future reform of the system. First, the focus on vocational skills training might be more useful for people who have targeted sectors for future employment. However, a lot of the long-term unemployed workers (57.9 per cent) used to work for the state sector and were not yet used to the fact that they needed to find a suitable career in the market on their own. As a result, they do not know what to study and what might be most suitable for themselves personally. Some unemployed people, especially the long-term unemployed, have a strong sense of failure and do not think that they are able to take up new skills and work in a new job. Without being able to attract these people out of their home, there is little hope to improve the employability through skills training. Therefore, it is important for the state to offer either supplementary training programmes or tutoring services to guide the potential trainees about the prospects in their life. This needs to be done when they are first registered as unemployed. Second, given that some people who do not take training courses are also less happy in their life it is important that there are some methods to help them improve their subjective well-being such as training courses or counselling services to encourage them to gain confidence.

The newly offered training programme to help people to start their own businesses is an important step to recognizing the importance of self-employment as an alternative to formal employment. This may be the first

step. Informal employment is in various forms. Unregistered self-employment, such as street businesses, is only one of them. There may also be jobs that are temporarily available in the formal sector, in other informal businesses and in communities. So far, most of these informal employment opportunities are open to potential employees through personal contacts. Training programmes have the potential to be transformed into useful networks. This has been achieved with the training programmes related to formal employment through signing-up agreements with employers. However, in the area of informal employment, the ability to use training programmes to provide trainees with more stable working opportunities so as to improve their earning ability has yet to be developed.

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## Note

1. We also tried to group life satisfaction scores into (1–2), (3–4), (5–6), (7–8) and (9–10) separately to see whether there is a difference (model not presented in this paper). Comparing to people who were very dissatisfied with their life, higher level of satisfaction are more likely to participate in training. However, the differences are not statistically significant in this dataset. A large dataset might be able to offer more fruitful information in this respect.

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# 15

## What Has Been Marginalized? Marginalization as the Constrained 'Right to the City' in Urban China

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In many ways, the term 'marginalization', like 'social exclusion', is loaded and subject to different interpretations. Recent debates on Wacquant's *Urban Outcasts* published by a series of review papers in *International Journal of Urban and Regional Research* highlight the controversies about the term (e.g. Caldeira, 2009). As Hamnett shows (in this volume), urban inequality has a bearing on the condition of urban life but the notion of social polarization might not be universal in different globalizing cities. Occupational polarization, for example, clearly depends upon the level of immigration of unskilled labour. Gilbert (in this volume), referencing the Latin America experience, relates marginalization to 'neoliberal' state policies, another meta concept extensively used recently to explain social inequality. In doing this, he notes, however, that the impact of neoliberalism across Latin America has not been homogenous. The poor do benefit from at least some of the neoliberal instruments that expose them to the processes of globalization. What is particularly significant in the context of Latin America is the *relative* impoverishment affecting *working* populations, and in this sense, urban growth driven by globalization is accompanied by a process of marginalization. This point, as elaborated below, is particularly relevant to urban China. That is, the growth of impoverishment is not just the result of a welfare state shrinking in quantity and quality but also due to the institutional changes associated with urbanization, for example, the development of informal settlements, residential segregation and a systemic shortage of affordable housing. Keeping in mind the controversies surrounding the notion of marginalization, in this final chapter, we attempt to ask what has been marginalised in urban China.

The authors of this collection aim to assess, through comparative perspectives, the process of marginalization in China. We ask: Is there such a process of marginalization? Who are marginalized, and how are they marginalized? We ask these questions under two contextual conditions in urban China (Wu, 2009). First, millions of rural migrants physically moved into the cities and became the 'core' labour force for China's global factory production.

Second, the Chinese government has recently announced a series of 'expansionist' programmes to extend social security to the whole of society. We ask in what sense the poor are marginalized in this specific context.

This book shows that the marginalized are not detached from the 'main-stream' society in Chinese globalizing cities or China's global commodity production sector. Spatial flexibility in production does not lead to hyper-ghettoes of 'irrelevant' population in urban China, as argued by scholars of post-Fordist western economies. Rather, certain types of workers are marginalized because their ability to determine the priority of urban development is weak. They may be allowed to work in the city but they are unable to share the prosperity of the city. This is due to the institutional reforms that have taken place since 1979. More specifically, it is due to a reconfiguration of entitlements to commodified 'property rights' to the benefits of urban agglomeration. The 'property rights' can be defined as a bundle of rights over public and private goods, acquired legally or by force, giving the 'owner' the right to use a resource and the right to make economic gain from it. Legal rights have varying degrees of permanency, depending on the laws that protect them. Rights acquired by force or assertion (so-called economic rights) are dependent not so much on the policing power of the state but on individual and collective might. A marginalized people have emerged in Chinese cities because their 'right to the city' has been removed because others execute their 'property rights' in the newly configured commodity market. The marginal people, in legal terms, are not necessarily unequally treated. In fact, it is the 'voluntary' transactions based on the principle of equal values that restrained the marginalized peoples' 'right to the city'.

Various contributors to this book use the perspective of 'property rights'. But instead of suggesting that the clarification of private property rights will always benefit the marginalized, as in de Soto's paradigm (de Soto, 2000), Smart (in this volume) argues that the effect is contingent, echoing Gilbert's (2002) questioning of the difference made by 'legal' entitlement in the context of developing countries. The impact will vary according to the specific nature of institutional change. Land and housing development in poor neighbourhoods following the clarification of property rights can result in the disadvantaged losing out (Shin in this volume; He and Wu, 2009; He et al., 2009). This happens in China because the clarification involves a move from rights allocated (sometimes ambiguously) by administrative rule and discretion and by informal markets to secure long-term lease rights. In the process, the interests of municipal government and, to some extent, the more powerful villagers, tends to override the interests of former agricultural landowners.

However, the process of social-spatial differentiation and marginalization is not uniformly biased against the poor. The legacy collective rural governance institutions of the centrally planned era have conferred valuable monopoly rights to peri-urban village collectives. Their ability to resist the

redevelopment initiated by the municipal government can lead to windfall gains to the farmers belonging to these villages. Institutional innovation has naturally occurred to protect and enhance these rights. The joint-stock property management companies described by Webster and Zhao (in this volume) enable former farmers-turned-renters to appropriate benefits not only from their former farmland but from wider urbanization.

Regardless of the ideological stance taken on property rights clarification, the Chinese reality is a reconfiguration from all-inclusive 'citizen entitlements' transferred by the state to property-based rights transferred by market exchange (Wu in this volume). For example, labour can now be transacted between rural and urban sectors through migration of peasants to the city, but the set of property rights is configured in such a way that for many workers, the sale of the right to labour cannot be exchanged for the right to education, health care and healthy housing in the city. Solinger (in this volume) discusses how the *dibao* system is designed to meet the minimal requirement of the targeted needy. Despite an expanded *dibao* system, its implementation does not lead to a process of empowering the poor. For one thing, it is confined to those with urban *hukou* and therefore does nothing for the marginalized migrant workers. For another, it is effectively a safety net aimed at preventing absolute, not relative poverty. It is calibrated by a basket of subsistence food items and merely prevents recipients starving.

To associate marginalization with the processes of urbanization, the authors of this book have examined the living and working conditions of migrants in cities. Hussain and Wang (in this volume) show that a significant proportion of migrants cannot bring their families to live with them. They are sojourners, impelled by harsh urban living conditions and the expense of raising children in the city, to leave them behind. In principle, this is a voluntary transaction, but it is a harsh one and in many cases the alternative is harsher.

The conditions of the migrant workers are indeed minimal. Their right to the city is constrained by the commodified urban housing market which constitutes an impediment to their integration into urban society. Their right to public goods is also constrained by the lack of entitlements. Because migrants are mostly job active, they can typically earn a higher cash income than the poverty line. However, they have to pay market prices, for example, for health care and often for education. This book provides detailed accounts of migrants' living places (Wang et al. and Liu and He in this volume). They show that because migrants cannot afford the commodity housing and are not able to enter the ex-public housing market (lacking legal entitlement to do so), they largely concentrate in the peri-urban villages. Their places of living are marginalized neighbourhoods, vulnerable to commercial redevelopment. Profit is made from the sale of such neighbourhoods but it is the farmer landlords who receive all the benefits, not the displaced migrant renters. Focusing on the spaces occupied by urban China's marginal people,

we note a difference between China and the USA. These marginalized spaces are not ghettos in the US sense, where there is a severe detachment from mainstream society and labour market. The migrant villages in China are marginalized in the sense that they are underserved by the municipality, leading to a chaotic, yet dynamic living environment. The irony of this is that these residual neighbourhoods have become the de facto strategy of municipal governments for housing the migrant workers needed to keep their urban economies growing at such a breathneck speed. Urban villagers have been permitted to build illegal cheap high-density and poor-quality apartment buildings and migrants have been allowed to rent them (Webster and Zhou, this volume), but at the same time, these places are declared unfit and scheduled for demolition. Their migrant tenants are not given rights to urban services and neither are they given upgraded infrastructure to make their neighbourhoods more healthy and habitable.

An important aspect of marginalization is the spatial pattern of deprivation and residential segregation. Using a more standard deprivation measurement, Yuan and Wu (in this volume) found multiple dimensions of deprivation structured by particular age groups; those vulnerable to the programme of lay-offs; household registration status; occupation; and locational concentration. Some of these findings are contextually specific to the Chinese case, but they do reveal that the sources of marginalization are different for different social groups. For laid-off workers, marginalization is due to age and occupation vulnerability (formerly or currently working in the state industrial sector), while for migrants it is due more to the institutional discrimination. A study of residential segregation in three cities by Li and Wu (in this volume) elaborates on the problem of residential segregation. But again, compared to the hyper-segregation between whites and blacks in the USA, China's poor spaces continue to show the legacy of East Asian mixed living environments. However, segregation between migrants and locals is apparent. This is mostly evident in Guangzhou, which has operated a more market-oriented land development from an early stage in the economic reform. Beijing, by contrast, has a different kind of segregation as the inequality between different workplace statutes formed under state socialism. Shanghai, on the other hand, has a relatively lower level of socio-spatial segregation. Because of the relative strong role of city planning, the former villages were not demolished during urban expansion and thus did not lead to the formation of concentrated migrant villages. The separation between locals and migrants in Shanghai is thus lower than that in Guangzhou.

When considering marginalization as the result of a retreating of the welfare state that isolates those who were and are welfare dependent, the Chinese case is not exactly a 'panel state', namely the use of the state apparatus to criminalize the poor. Both Solinger and Li and Peng (both in this volume) described the expansion of *dibao* and re-employment training programmes. They both reveal the side effects of rolling out this welfare system and the

'pragmatic' nature of these programmes. In terms of *dibao*, the system is designed to exclude a wide range of marginal people. Even though in some aspects it is not designed to exclude the marginalized people, during the actual implementation the poor have been excluded due to a high level of stringency. As for re-employment training programmes, they are designed to solve short-term vocational skills. But these skills are not necessarily useful in the labour market. The capacity of the unemployed may not be improved. The findings show that the state is willing to act to address social problems through labour market interventions but that the current programmes might not be best designed to solve the challenge of marginalization.

To conclude, the contributors to this book have argued from various perspectives that the marginal status of the Chinese urban poor is not due to their withdrawal from social and economic activity. Rather, their disadvantaged position is created by the institutions of transition to a market economy. Migrants are allowed to trade their labour. The residual value from this transaction permits them only to subsist in the urban economy, living in the most basic of conditions at excessive densities. And given the almost infinite supply of cheap rural labour, this does not give them sufficient surplus to reproduce their own labour within the city (many can afford neither health care nor education). Municipal governments have been preoccupied with the process of growing their cities and meeting local GDP growth targets through land development, land leasing and infrastructure investment. They have latterly been incentivized to build low-cost housing for urban *hukou* holders and to explore alternative methods of housing migrant workers. But by and large, migrants have been accepted as a factor of production to fuel rapid urban and economic growth but have been given inadequate rights to the agglomeration benefits of the city that they contribute to through their labour. Migrant workers occupy a lowly position in the supply chain that produces the shared benefits of modern industrial cities. Further up, industrial and commercial taxation fuels urban social and environmental services, city beautification and other public goods. Migrant workers have no contractual rights to a share in these benefits. Neither do they have a political right in the sense that local voters and taxpayers do in a western democracy. In a very real sense, the principal drivers and stakeholders of urban growth (particularly the municipal governments) benefit from the sacrifice made by rural migrants. Adjusting the terms of trade in the urban economy to provide them with adequate housing, education and health care will add massively to the cost of production and is a major challenge for China's leaders. Without that institutional adjustment, a vast army of industrial workers and low-level service employees will remain ambiguously placed at the margin between the modern city economy and urban subsistence living. In this sense, we argue that marginalization in urban China is a result of the processes that constrain the disadvantaged from making a wide-ranging citizenship claim.

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# Index

- affordability of housing  
  *see* housing, affordability of
- assets, 61, 92, 93, 154, 179, 180, 190, 268–9  
  accumulation of, 127  
  collective, 68, 70, 114  
  family, 83, 112, 117, 126  
  farmers, 8,  
  villages, 180–2
- ‘asset stripping’, 97
- authoritarian state, 34, 43, 77, 80, 227, 246
- authoritarianism, 36, 42, 51
- bairros*, 3
- Beijing, 9, 10, 19, 63–4, 99, 105, 113, 114, 116, 122, 126, 134, 148, 180, 226, 228, 230, 232–46, 268, 304  
  inner city poor neighbourhoods, 116, 118, 120
- Brazil, 12, 31, 33, 36, 37, 39, 41–3, 49, 93, 101
- China, 3–13, 17, 18–24, 29, 32–3, 38, 40, 43, 44–6, 48, 49–51, 61, 62, 63, 65, 66, 72–4, 76–8, 79, 82, 83, 84, 87, 95, 96, 102, 103, 104, 105–7, 112, 113, 114, 116, 119, 120–1, 123, 125, 127–8, 133–4, 137, 139, 142, 150, 153, 154, 155, 162–3, 177–82, 185–7, 190–4, 197, 204–5, 210, 214, 217, 219, 222, 226–8, 230–1, 233, 242, 244, 246, 253–9, 263, 265, 271, 278, 279, 280, 282, 301–5  
  economic success, 93–4, 98  
  *see also under individual subject entries*
- ‘citizen entitlements’, 303
- citizenship, 4, 7, 10, 43, 72–4, 85–7, 96, 150  
  in China, 77–8, 87  
  and mobilization, 12  
  and property rights, 74–6  
  rights, 5  
  rural migrants, 82  
  ‘social citizenship’, 254  
  urban residents, 83–4
- commodity housing, 5, 74, 80–1, 16, 120, 160, 219, 229–30, 233, 238, 241–5, 303  
  concentration, 242
- crime, 3, 48, 93, 108, 154  
  and violence, 49
- danwei*, 61, 123
- de Soto, H., 5, 90, 91, 107, 109, 125, 302  
  *The Mystery of Capital* (2000), 102
- debt crisis, 29–30, 34, 37, 39–40
- democracy, 31, 40–3, 127, 305  
  clientelist, 93
- deprivation, 6, 7, 8, 97, 128, 144–50, 178, 197, 253, 304  
  and capacity, 75  
  of migrants, 133, 144–7, 149  
  multidimensional, 2  
  and poverty, 151–2  
  and segregation, 8–10  
  *see also* multiple deprivation; social deprivation
- deprived households, 208
- developmental state, 2, 22, 25, 95–6
- dibao*, 6–7, 10–11, 72–3, 84, 85, 87, 253–4  
  funds, 263  
  history, 255–7  
  procedures, 265
- disentitlement, 267–8
- dual city, 19–21
- education, 1, 4, 22, 36–8, 47, 59, 74, 78, 79, 83–4, 86, 133, 149, 150, 173, 203, 217, 218, 228, 229, 230, 233–4, 236, 254, 260, 263, 270, 283, 288–9, 293–7, 303, 305  
  low levels of attainment, 9, 72, 139, 141–3, 151–2, 182, 190, 194, 196, 205–7, 209–10, 220, 236–8, 241  
  migrants’ entitlement to, 63–6

- employment, 3, 17, 18, 21, 24, 38–40, 51, 78, 80, 84, 97, 99, 133, 137, 143, 147, 154, 159, 186, 193, 194, 217–18, 222, 230, 268, 278, 287
- informal, 11, 196, 279–81, 290–2, 294–5, 297–8
- Latin America, 38–40
- urban, 258
- employment conditions, 41, 288
- employment opportunities, 142, 182
- employment outcomes, 293
- employment problems, 31, 183
- employment sectors, 163–6
- employment situation, 206, 265
- entitlement, 1, 4, 7, 10, 74, 75, 77, 81–2, 83, 84, 100, 103, 106, 127, 280
- ‘citizen’, 303
- ‘legal’, 302, 303
- to the benefits of urbanization, 59–71
- welfare, 214, 253
- ‘entitlement failure’, 75–6
- exclusions, 32, 34, 104, 105, 107, 203, 267–8
- institutional, 11
- social, 74, 76, 144, 149–50, 189, 301
- source of, 74
- state design, 268
- exclusionary development, 43
- extra-legal tenure, 6, 113, 117–22, 123, 127, 128
- farmland, 68, 81, 115, 177, 180, 182–3, 194, 197, 231, 245, 303
- favelas*, 3, 47
- fiscal decentralization, 98–9
- formal titles, 102
- ghettoes, 7, 8, 226, 304
- hyper-ghettoes, 9, 302
- ghettoization, 105
- Gini coefficient
- Latin America, 37
- global cities, 2, 22–6, 75, 226, 233
- social inequality and polarization, 18–20
- see also* world cities
- Guangzhou, 9, 10, 19, 94, 98, 148, 178–9, 188, 189, 192, 194, 205, 226, 27, 228–9, 230, 231, 232–46, 258, 265, 304
- and migrant housing, 183–6, 189–90
- health, 1, 4, 9, 17, 22, 38, 61, 62, 65, 74, 159, 165, 170, 172, 205–11, 218, 263, 266, 270, 283–4, 289, 290, 293, 294, 296, 304
- mental, 189
- public, 62, 152, 186
- health care, 4, 59–60, 63, 65, 66, 72, 74, 78, 83, 150, 187, 192, 193, 229, 303, 305
- health coverage, 36
- health expenditures, 1
- health facilities, 38, 173
- Hong Kong, 2, 5, 23, 24, 25, 26, 90, 124, 194, 233
- and property rights, 90–108
- housing, 3, 5–7, 17, 21, 22, 45–6, 50, 60, 61, 62, 65–6, 67, 78, 80–4, 86, 95, 100–1, 106–7, 112–28, 133, 136, 144, 146, 149, 150, 152, 153, 168–70, 173–4, 177–8, 180–2, 185, 190–2, 193, 194, 196, 197–8, 203–9, 214–17, 218–19, 220, 228–31, 233, 236, 242–4, 265, 271, 301, 303, 305
- affordability of, 8, 103–4, 107, 116, 154, 162–8, 169, 173, 185, 219, 229, 232, 245, 301
- attitudes to, 170
- low-rent, 8, 178, 180, 183–5, 197–8
- see also* commodity housing; public housing; migrant, housing; rental housing
- housing condition, 9, 221, 242
- migrants, 160–2
- urban village, 196–198
- housing inequality, 126–7, 218–19
- housing preference, 169–170
- housing problems, 44–5, 154, 178
- housing reform, 72
- hukou* status, 5, 61–2, 63, 66, 74, 76–7, 81–2, 85, 87, 135–6, 149, 150, 155, 158, 183, 190, 192, 195, 196, 210, 218–19, 221–2, 226, 230, 233, 242, 246, 282, 330, 305
- type of, 214–15

- immigration, 24, 26, 301  
 illegal, 105
- income, 17–18, 21–2, 23–5, 26, 40, 46, 59, 60–1, 65–6, 72, 73–5, 78, 84, 93, 114, 120, 144–7, 154, 164, 166–7, 168–9, 178, 183–5, 193, 195, 215, 222, 229–30, 254, 255–6, 259–62, 263, 265–6, 268–70, 283, 285, 294–6, 303
- distribution, 19, 25, 47, 62, 97, 253
- migrants, 75–8, 106, 167, 218
- rental, 7, 68–70, 81, 82, 114, 159, 173, 177, 187, 190, 193
- sources, 8, 133, 157, 197
- income inequality, 23–5, 36–8, 72, 99, 101–2, 106, 203
- income poverty, 7, 8, 148–9, 151–2
- income structure, 18
- Index of Dissimilarity, 231, 236
- inequality, 9, 21, 48, 49, 73, 83, 99, 106, 203, 215, 304  
 comparison, 24–5  
 empirical evidence, 23  
 in Latin America, 36–8  
*see also* housing inequality; income inequality; social inequality
- informal economies, 2, 5, 8, 12, 106
- informal education, 63–4
- informal employment, 11, 39–40, 82, 90, 194–5, 196, 280, 290  
 in Tianjin, 276–98
- informal housing market, 7, 61, 93, 101–2, 154
- informal private renting, 66, 67, 69, 81, 120–1
- informal self-built space, 118–19
- informal settlements, 3, 5–6, 127
- insecurity, 8, 189, 190  
 source of insecurity, 188  
*see also* social insecurity
- institution affiliation, 4, 79
- integration, 11–12, 100, 145, 303  
 global, 37  
 of migrants, 6–7, 68, 136–8, 175, 181, 196, 197
- joint stock company, 8, 67, 303  
 urban villages, 186, 187, 192–3
- joint ventures, 95, 114, 127, 230
- labour, 6, 21, 23, 40, 47, 59–60, 62, 72, 77, 78, 83–4, 87, 135, 136, 137–41, 163–4, 173–4, 185–6, 227, 260, 301, 303, 305  
 migrant, 4, 73, 79–80, 85–6, 178, 183  
 unemployment insurance, 83
- labour law, 7, 34, 145
- labour market, 1, 7, 9, 38, 65, 66, 70, 73–4, 80, 108, 134, 147, 149, 196, 217, 278, 279, 280–1, 282, 288, 296, 304, 305  
 changes in, 2–3, 12  
 integration, 150
- labour organization, 1, 4, 77–8, 103
- labour reproduction, 84
- labour rights, 3, 6–7, 60
- land, 12, 36, 45, 66–7, 79, 81, 84–5, 90, 93, 94, 100–6, 117, 122, 124, 127, 137, 138, 156, 173, 178–9, 183, 214, 217–18, 227, 234, 244–5, 302  
 affordability of, 3, 7, 45  
 compensation, 69  
 peri-urban, 4, 62, 70  
 property rights, 5, 59–60  
*see also* farmland
- Land Administration Law, 82
- land appropriation, 4
- land conversion, 62–3, 123
- land development, 81, 82, 97, 304
- land expropriation, 69, 70
- land use, 8–9, 67, 112, 114, 117, 119–21, 122, 124, 157, 178, 186, 187
- land value, 4, 60
- landlords, 45, 59–60, 66, 67
- landownership, 6, 79, 97, 119–20, 185, 196, 242, 302
- Latin America, 3, 6, 12, 301  
 informal settlements and, 102, 120, 127  
 poverty and, 3, 29–52  
 relevance to China, 32
- local state corporatism, 95, 98
- low-rent housing  
*see* housing, low-rent
- marginalization, 1, 9, 10, 32, 73, 74, 80, 87, 90, 100, 102, 104, 106, 107–8, 113, 183, 237–8, 245, 254, 267–8, 269, 301–5  
 definition of, 1, 2–3  
 and property rights, 3–6, 91–3

- marginalization – *continued*  
 as constrained rights, 11–12  
 and rural–urban migration, 6–8  
 marginalized neighbourhoods, 190–1  
 marginalized residents, 193–4  
 mega-city growth, 44  
 Mexico, 30, 31, 36, 37–40, 42, 46  
 crisis, 33  
 migrant poor, 5, 85–6  
 migrant workers, 3–4, 8, 11, 24, 51,  
 60, 61–3, 68–9, 73, 78–82, 86,  
 134–6, 143, 149, 150, 152, 153–5,  
 159–60, 173–4, 177, 197, 245,  
 303–5  
 migrants, 5, 6–7, 12, 23, 29, 44, 47, 51,  
 59–60, 61, 70, 72–3, 83, 98, 100,  
 101–2, 104, 106, 126, 133–4, 135,  
 136–9, 155–6, 159–60, 164–6, 168,  
 169–72, 173, 178–9, 180–2, 189–90,  
 191, 193–6, 198, 214, 217–18, 219,  
 221–2, 230, 232, 233–7, 241, 244,  
 246, 301, 303–5  
 age, 140  
 attainment, 141–2  
 citizenship, 80  
 composition, 139–42  
 durations, 143  
 education, 150  
 entitlement, 63–6  
 gender, 139  
 housing, 7–8, 12, 154–6, 160–2, 162,  
 183–6  
 impacts on the countryside, 151  
 income, 166–7, 168, 218  
 living conditions, 7  
 marginalization, 7  
 reasons for moving, 171  
 migration, 2, 12, 22, 26, 227, 303  
 policy implication, 150  
 rural to urban, 6–8, 80, 133–52, 153,  
 155–60, 173–4, 183–4  
 tenants, 113  
 underclass, 22  
 minimum living standard support  
 (MLSS), 10, 12, 72, 84, 87, 144, 145,  
 207, 215, 218, 222  
*see also dibao*  
 ‘modes of integration’, 2, 11  
 multiple deprivation, 8–9, 144, 203–7,  
 304  
 age group, 210  
 employment, 217  
 gender, 211  
 geography, 215  
*hukou*, 214  
 indicator, 204–05  
 method, 206  
 occupation, 212  
 neoliberalism, 3, 6, 29–56, 74, 80, 227,  
 242, 246, 301  
 impact on the poor, 29–56  
 ‘new urban poverty’, 1, 2  
 occupation polarization, 24  
 outcasts, 1, 11–12, 301  
 ‘outcast ghettos’, 8  
 peri-urban land, 4, 7, 59, 60, 62, 66,  
 70, 74, 82, 113, 118, 119–20, 123,  
 125, 128, 133, 179, 180–1, 219,  
 302, 303  
 development of, 6  
 property rights, 6  
 polarization, 2, 3, 17, 19, 21–3, 24, 47,  
 93, 226, 227, 233  
 class, 23, 24  
 occupational, 24, 301  
*see also social polarization*  
 polarized cities, 19  
 policy, 7, 18, 25, 26, 30, 31, 34, 37, 66,  
 67, 123, 126, 155, 157, 159, 254,  
 255, 259, 265, 269, 270, 279, 287  
 education, 4  
 housing, 3, 45, 194  
 socialist, 244  
 urban, 17  
 policy suggestions, 150–2  
 employment, 296–8  
 politics, 3, 32, 40–1  
 poor neighbourhoods, 47, 112–28, 204,  
 208, 302  
 population change  
 Shenzhen, 156  
 poverty, 1, 7, 9, 17, 20, 34, 38, 43, 59,  
 60, 63, 80, 82, 83–6, 102, 112, 124,  
 127–8, 154, 206, 207, 210–12, 220,  
 221, 222, 281  
 and deprivation, 144–50, 151–2, 204,  
 214–15, 217, 221

- and quality of life, 35–6
- concentration, 178
- relative, 303
- urban, 49, 50, 72–4, 76, 113, 178, 203  
*see also* new urban poverty
- poverty line, 6, 207, 259–61, 262–3, 268, 271, 303
- poverty rate, 9, 148, 214, 218, 262
- poverty reduction, 30, 31
- poverty relief, 11
- poverty-stricken neighbourhoods, 1, 3, 8, 72, 83–4, 112, 113, 116–17, 127, 128
- private ownership, 92, 95, 102, 112, 113–15, 117, 122–3, 127–8
- reinstatement of, 115–16
- professionalization, 2, 24, 116
- property rights, 2, 3, 7, 10, 12, 29, 31, 60–2, 67, 68, 72, 79–84, 86–7, 90, 106–8, 120, 127–8, 177, 180, 183, 193, 211, 302, 303
  - Beijing, 112
  - and China's economic success, 93–100
  - and citizenship, 74–6
  - distribution, 125
  - fragmented, 122
  - fuzzy, 105, 123, 193
  - and Hong Kong's squatters, 100–6
  - implications for the disadvantaged, 106
  - and inner city neighbourhoods, 122
  - and marginalization, 4–6, 91–3
  - reform, 5, 112–13, 116–17, 122–6
- psychological well-being, 280, 281, 290, 297
- public housing, 5, 78, 79, 100, 106, 107, 116–17, 121, 153, 194, 230, 303
  - Hong Kong, 103–4
- quality of life, 86
  - Latin America, 35–6, 49
- redevelopment, 6, 9, 67, 68, 80, 112, 113, 118, 119, 121–3, 124–5, 127, 128, 154, 157, 173, 177, 180, 191, 197, 220, 229, 242, 303
  - monetization of compensation, 126  
*see also* regeneration policies
- re-employment training, 11, 12, 217–18, 278–98, 304–5
- regeneration policies, 9, 17, 220–1, 222
- rent, 7, 61, 63, 64–7, 69–70, 81–2, 96, 101, 114, 120, 154, 158, 159, 168, 169, 171, 183–4, 185, 190, 229, 264, 304
- rental housing comprehensive management office, 159
- rental housing, 3, 6, 7, 22, 45–6, 103, 105, 114, 116–17, 124, 128, 153–74, 178, 183, 187, 193, 198, 206, 208, 210, 219, 303
- informal, 120–2
- policy, 3
- residential segregation, 2, 3, 9, 12, 226–7, 230–2, 237, 240, 241–2, 244, 246, 301, 304
  - Latin America, 47–8
- 'right to the city', 4, 12, 73, 74, 75–6, 79, 82, 84, 87, 127, 301–3
- rights, 59, 150, 256, 269, 302, 303–4, 305
  - constrained, 11
  - see also* labour rights; property rights; 'rights to the city'
- rural migration
  - see* migration, rural to urban
- self-built informal space, 5, 118–19
- self-organized grassroots unit, 178, 186–7, 193, 197
- Shanghai, 9, 19, 114, 134, 148, 226, 227, 228–9, 232–46, 257, 304
  - TVEs, 97
- shelter, 44–6, 51, 63, 79, 178, 197
- Shenzhen, 39, 147, 148, 192
  - urban villages, 7, 153–76
- social deprivation, 18
- social exclusion, 74, 75–6, 144, 149–50, 189, 301
- social inequality, 2, 3, 31, 34, 230, 301
- social insecurity
  - sources of, 189
- social instability, 8, 186
  - potential, 190
- social management system
  - urban villages, 192
- social polarization, 2, 21, 25–6, 90, 301
  - and global/world cities, 18–20
  - and inequality, 22–3
  - and Latin America, 47
  - and the role of the state, 22–3

- social space, 217, 266, 228, 233, 245  
 transformation of, 228–30
- squatters, 6, 61, 107, 179  
 Brazil, 93  
 Hong Kong, 5, 100–6, 107
- state, 49, 67, 73, 76–7, 78–80, 81–4,  
 85–6, 106, 114, 115, 122–5, 186,  
 191, 193, 227, 230, 244–5, 246,  
 254, 297, 301–5  
 role of, 2–3, 22–3, 26, 199
- State Council, 115, 119, 150, 28, 262,  
 265
- state design, 267–70
- state governance, 3
- state monopolies, 81
- state socialism, 4–5, 76, 83, 217, 227,  
 304
- state-funded training, 11, 278–9, 280,  
 282–3, 287–8, 293, 295–6  
 take up of, 288–90
- state–labour relations, 84, 87
- state-led industrialization, 32, 40, 74,  
 76–7, 83, 85, 95
- state-owned enterprises, 95, 97–8,  
 115, 125–6, 155, 163, 165,  
 217–18, 219, 220, 227, 253,  
 256–7, 278
- state–private ownership, 114
- state-run schools, 63–4, 65, 150
- Taipei, 23, 24
- tenure, 91, 100–1, 116, 120, 128,  
 229  
 extra-legal, 6, 113, 117, 121, 123,  
 127–8  
 housing, 21–2, 72, 114, 205–9, 211,  
 218, 220, 233, 242  
 land tenure, 138, 180  
 regulation, 101–2  
 rental, 46
- tenure rights, 66
- ‘three mountains’, 50–1, 65
- Tianjin, 114, 134, 148, 227  
 state-funded training, 11, 278, 280–1,  
 281–8, 296–7
- underclass, 7, 11, 12, 17, 18, 22, 73, 254,  
 255, 267, 270
- unemployment, 9, 17, 18, 34, 38–9, 49,  
 75, 126, 164–6, 176, 183, 205, 210,  
 211, 212, 218, 220, 267, 271,  
 278–80, 292, 294–5, 296, 297–8,  
 305  
 impact of, 9, 278–80
- insurance, 7, 83, 144, 166, 193, 260,  
 261, 269
- psychological impact of, 11, 287  
 training, 283–90
- urban future  
 Latin America, 50–1
- urban governance, 1, 49–50, 81
- urban inequality, 2, 301  
 and polarization, 17–28
- urban poverty, 49, 50, 76, 112–13,  
 145–6  
 China, 72–4, 178, 204–5  
 ‘new urban poverty’, 1, 2
- urban sprawl, 3, 45, 46, 48, 51, 153,  
 182  
 and transport, 48
- urban villages, 3, 4–6, 7, 8, 9–10, 12,  
 59, 66, 69, 119–20, 153–5, 158,  
 160–2, 164, 166, 168–70, 173–4,  
 177–9, 190–5, 197–8, 205, 215–17,  
 221, 234, 244, 302
- identification of, 182–7
- living environment, 188
- overview, 179–82
- physical landscapes, 187
- poverty, 8  
 problem, 187–90
- urbanization, 3, 11, 17, 44, 73, 85, 153,  
 173, 217, 218, 301, 303  
 Latin American experience, relevance  
 to China, 45–6  
 benefits of, 59–61, 66–7, 70  
 process of, 4, 119–20, 303  
 rapid, 177–200, 214, 218  
 ‘three mountains’, 60–1, 65
- villagers, 4, 59–60, 66, 68, 70, 97, 99,  
 107, 120, 190, 193, 302
- villages, 7–10, 59–60, 68–9, 70, 81,  
 86, 95, 120, 133, 138, 234, 303,  
 304  
*see also* urban villages; workers’  
 villages
- village collectives, 60, 188, 192, 221,  
 302
- village housing development, 4, 155

village housing plot, 157  
  self-built, 158  
village land, 67, 81, 245

Washington Consensus, 29, 30–1  
welfare state, 1–2, 12, 23, 25,  
  301

workers' villages, 9, 205, 215–17,  
  219–21, 244  
world cities, 18–19  
  *see also* global cities

Xiamen, 4, 147, 148, 258  
  land development, 68–70