

HOUSING RURAL IN CHINA'S URBANIZING



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The annual rate of urbanization in China has increased rapidly from 17.9 percent in 1978 to 39.1 percent in 2002, accompanied by rural-to-urban migration on a massive scale. More than 70 million rural migrants were working and living in urban areas at the end of 2000.

This influx of population has created a unique urban form—villages within cities, also referred to as “urbanizing villages” or *ChengZhongCun* in Chinese. For example, in the city of Shenzhen, with an official population of around 9 million in 2000, approximately 2.15 million inhabitants lived in 241 urbanizing villages with a land area of almost 44 square kilometers. In the city of Guangzhou, with a population of more than 8 million, there were 277 urbanizing villages with approximately one million inhabitants in 2000.

The emergence of this new type of urban settlement contrasts with housing development in other regions. In many Latin American countries, for example, poor migrants also move to cities for better jobs and income opportunities, but generally they live in makeshift houses in new informal settlements, often on unserviced land on the urban fringe.

The physical environment in many urbanizing villages in Chinese cities is in poor condition with overcrowded buildings, narrow public stairways and pathways, and unhygienic public spaces, but basic living standards are met through the provision of fundamental utilities such as water, electricity, phone lines, and natural gas. Furthermore, many of these urbanizing villages are located near busy downtown financial districts and are accessible to employment centers.

How did these urbanizing villages develop? Why do rural migrants choose to live in these villages? And is China’s urban housing market able to accommodate these rural migrants?

Urbanizing villages are crowded, but basic utilities such as water, electricity, phone services, and natural gas are supplied for the buildings.

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MIGRANTS VILLAGES

Villages within Cities

The emergence and prevalence of urbanizing villages is an outcome of China's rapid urbanization, the dichotomy between rural and urban policies, and China's urban land policies.

China's annual urbanization growth rate has been two times higher than the world average over the past several decades. As Chinese cities expand beyond their administrative districts, many rural territories are surrounded and absorbed by urban development. This expansion is now encroaching on many rural villages at the original urban periphery or in rural-urban transitional areas (referred to as *ChengXiang JieHeBu*) and transforming them into villages within cities. At the same time, massive rural migration has created enormous demand for inexpensive and accessible housing units in urban areas.

Despite the reduced constraints on rural labor mobility since the late 1970s and the recent improvements in supporting institutional controls on migration, rural migrants still encounter great difficulties in acquiring urban household registration permits (*hukou*) and permanent residence status in urban areas. Due to incomplete reforms in the urban social service system, nearly all of those migrants are considered to be temporary residents in urban areas, and thus do not have access to many amenities such as education, health care, or urban housing subsidies (Zhang, Zhao, and Tian 2003; Wu 2004).

There are two main types of land ownership in China: 1) state ownership of administratively allocated land or of urban land whose land use rights can be transferred and leased to users in exchange for payment; and 2) collective ownership of rural land by rural communities. All members of rural communities are entitled to an equal share of the collectively owned land, acting *de facto* as landowners with unrestricted tenure. By function, rural land can be categorized into land for farming and land for housing (see Ding and Song 2005).



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This dual system of rural land ownership leads to the formation of villages within cities in several ways. First, city governments tend to avoid acquiring the land designated for housing so they do not have to make the larger compensation payments required to relocate or provide new housing to the native villagers. Instead, governments acquire and purchase the land designated for farming. Since the farmers retain their property rights on their remaining rural housing land, they can use it as long as they keep their rural *hukou*. The governments generally pay a large lump sum in compensation when acquiring farm land from the villagers, who then have the capital necessary to build new housing projects on their land to address the demand for inexpensive housing by rural migrants.

Many urbanizing villages are accessible to employment centers. Xiasha Village is close to one of the industrial employment centers in the city of Shenzhen.

Second, real estate developers who do not own urban land must pay a significant amount to city governments to obtain user rights. In comparison, native villagers who hold collective land ownership do not have to pay a fee to develop housing projects. Further, development projects in these former rural villages are not generally scrutinized by urban management regulations. Villagers are thus able to develop housing projects at much lower costs than the urban real estate developers, and even to develop substandard housing units free of regulation.

These villages within cities are generally perceived as undesirable places and are consequently dismissed by urban authorities. Since the villages are associated with unplanned land uses, very narrow streets, substandard housing units, overcrowded living conditions, and inadequate public safety, many cities have adopted policies to demolish and redevelop the villages into commercial and housing districts. Under such schemes, real estate developers are allowed to build high-rise office and residential buildings, and native villagers are compensated with new units.

However, many of these development programs have been ineffective. The demand for inexpensive housing units by rural migrants is so great that illegal, self-built units often appear soon after the old villages are demolished and before the new real estate development can be started (Zhang, Zhao, and Tian 2003).

Determinants of Housing Choice

Why do rural migrants choose to live in these urbanizing villages? To answer this question, my colleagues and I carried out a housing choice model to evaluate how factors ranging from household and income characteristics to *hukou* status would affect migrants' decisions about where to live (Song, Zenou, and Ding forthcoming 2007; 2008).

In 2005 we administered a consumer survey in the city of Shenzhen, using multistage stratified cluster sampling procedures. The 1,389 respondents, including both permanent urban residents and rural migrants, were asked about their housing choice. Did they own a housing unit; rent a public urban housing unit or employer-based housing unit; rent a private housing unit in an urban area (not in an urbanizing village); or rent a private housing unit in an urbanizing village?

The respondents were also asked about their individual and household socioeconomic and institutional characteristics. Individual socio-

demographic characteristics included age, education, gender, marital status, and expected length of stay in Shenzhen. The information on household attributes included income and composition of the household unit. Institutional characteristics included place and type of *hukou* (i.e., rural, urban, local, or nonlocal registration permits). In addition, the survey asked about employment to see if the respondent worked for a state-owned enterprise, a collectively owned enterprise, or a stock-venture enterprise, or was self-employed in a private business such as garment making, shoe repair, waste collection, domestic maid service, hair or beauty salon, or a restaurant.

Through a multinomial logit specification (MNL), we were able to estimate the effect of the *hukou* system and other household characteristics on housing choice. The findings suggest the importance of possessing an urban or a local *hukou* as a critical factor in housing choice. Respondents who hold an urban *hukou* are more likely to choose to own a housing unit, to rent a public housing or employer-provided unit, or to rent a private housing unit in urban areas, rather than to rent a unit in an urbanizing village. This indicates that urban *hukou* holders prefer to stay in urban areas outside of urbanizing villages.

For respondents who hold a local *hukou* (either urban or rural), the possibility of choosing to own a housing unit is significantly higher than the renting options. The results also indicate that when choosing among renting options, a person with a college degree is more likely to choose a public rental unit, employer-provided unit, or private rental unit in an urban area than to live in an urbanizing village. Finally, when comparing private renting options, a person with higher income is more likely to choose a rental unit in an urban area than to rent in an urbanizing village.

In evaluating housing choices for those people who have a local *hukou*, the findings suggest that individual life cycles, income, and urban *hukou* status strongly affect the choice to own a housing unit. Individuals who are between 35 and 60 years old, married, or with a child at home, those with college degrees and higher incomes, or those who hold an urban *hukou* are more likely to own than to rent in urbanizing villages. Among renting options, people at higher incomes or those who hold an urban *hukou* or work for a state-owned enterprise are more likely to choose a public rental unit or employer-provided unit than to live in an urbaniz-

ing village. Furthermore, people with higher income and an urban *hukou* are more likely to choose a rental unit in an urban area than to live in an urbanizing village.

When comparing private renting options for people without a local *hukou*, those most likely to choose to live in an urbanizing village are younger; less educated, lower-income and/or self-employed; they lack an urban *hukou*; and they are less likely to stay in Shenzhen for a long time. These rural migrants must find ways to bypass their financial problems and *hukou* status, as well as the institutional and policy constraints of urban housing provision. Urbanizing villages thus play an important role in providing shelter for rural migrants and other underprivileged groups who have difficulty gaining access to affordable urban housing options.

China's Urban Affordable Housing Policies

The housing reform carried out in China since the early 1980s put an end to the old housing provision

system, under which each work unit distributed houses to its employees as a benefit. As a result, new housing units are oriented to privatization and commercialization of housing, and are built essentially for profit by real estate developers, making them generally unaffordable for low-income groups (see Ding and Song 2005).

Acknowledging the housing needs of moderate- and low-income families, the State introduced a multilayered housing supply system in 1998. Within this framework are three programs: subsidized affordable (or economic) and functional housing units (*Jingji Shiyong Fang*); low-cost or subsidized rental units (*Lianzu Fang*); and the compulsory housing saving system known as housing provident funds (HPF; *Gongji Jin*).

Affordable Housing: Established in 1998, the policy of affordable housing involves government subsidies and profit caps for developers. The subsidies include the administrative allocation of state-

Native villagers, acting as stock shareholders, worked together to redevelop Tianmian Village in Shenzhen. Affordable units are still rented out to rural migrants.



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Rural migrants work in the early morning for a fast-food restaurant.

owned land at no cost and the reduction of 21 different taxes, development costs, and fees paid to local government. Developer profits are limited to 3 percent. This affordable housing program is designed for middle- and low-income households in the urban housing sector, since one of its requirements specifies that the applicants must have the local *hukou* or household registration permit.

This program is less applicable in meeting the housing needs of rural migrants in urban areas. Nevertheless, there are several pilot cases where the local governments relax the requirement of local *hukou* and thus make the affordable housing units accessible by the rural migrants. For example, in Nanchang in 2005, the requirement that the applicant for such housing have a local residence

permit was substituted by the requirement that he or she must work or pay taxes in the city for three consecutive years.

Low-cost Rental Housing: China's low-cost rental program was formally established in 1999 by the National Reform and Development Commission. Under this government regulation, the price of low-rent housing considers housing maintenance and management costs and should be affordable to urban low-income families. There are two main forms of low-cost rental units that are available and affordable to most rural migrants. The first is converted former work unit apartments, which are predominant. Temporary exemptions of property and business taxes can be applied to these units that are leased at prices prescribed by the government.

The second type, new low-cost rental units, is also being constructed by local governments in several cities, mostly at the urban fringe to avoid the high cost of land in central cities. However, these low-cost rental units have poor access to employment sites, so people are not as willing to move into them. For example, in Chengdu in 2003, the vacancy rate of one low-cost rental project located far from the city center was as high as 60 percent.

This program for low-cost rental units requires a direct commitment of public investment, but the lack of available funds from most local governments explains the program's limited extent to date. Since the allocation of funds is not yet institutionalized, the implementation of these programs remains ad hoc. As one example, the local government in Changsha in 2005 invested 42 million yuan (approximately US\$5.4 million) to construct 60,000 square meters of rental space to house low-income rural migrants. Capital was raised mainly through special funds allocated from the local government's fiscal budget, donations, and the housing provident fund.

Housing Provident Fund (HPF): Implemented in cities throughout China in 1994, this is a policy-based financing system under which the State, work units, and individual buyers join together to provide funds for housing development. In 1999, the State issued its *Regulations for the Management of the HPF* to ensure that the program functions in an institutionalized and standardized way. By the end of 2003, a total of 60.45 million employees through-

out China had opened accounts for the HPF, raising a total of 556.3 billion yuan, of which 174.3 billion yuan was withdrawn from the banks by employees to buy or build their houses or for retirement. However, HPF is an employment-based housing finance scheme that excludes those who are unemployed or laid-off. The large number of rural migrants who are employed by small businesses or are self-employed are also excluded from the HPF program unless they can contribute to it directly.

Alternative Redevelopment Programs for Urbanizing Villages

It is evident that China's low-income housing policies largely neglect the housing needs of rural migrants in urban China. The affordable housing program discriminates against those who do not have local household registration permits. Although the low-cost rental program is available to the rural migrants, the scarcity of such housing limits its effectiveness in meeting their expanding housing needs. And the HPF is an employment-based housing finance system that excludes most rural migrants who are self-employed or employed by small businesses that do not contribute to the HPF. For a more thorough evaluation of China's urban affordable housing policies, see Quercia and Song (forthcoming).

In this context, urbanizing villages have played an important role in housing rural migrants by providing inexpensive shelter and freeing local governments from instituting costly programs to house migrant laborers. As such, programs aimed at eliminating urbanizing villages or improving their physical environment are likely to be ineffective and even harmful to China's economy.

Several scholars have stressed that China's urban policy toward urbanizing villages was adopted for the sake of social appropriateness rather than for economic rationality (Gu and Shen 2003; Zhang, Zhao, and Tian 2003). Programs aimed at eliminating urbanizing villages also have neglected to recognize that rural migrants have made great contributions to economic growth in urban China by taking most of the 3-D (dirty, dangerous, and demanding) jobs shunned by long-time urban workers.

As the rate of rural-urban migration is expected to increase for years to come, the demand for low-cost urban housing will also continue to grow. The current policy of demolishing and redeveloping

villages within cities can be devastating for rural migrants who cannot afford the new units. There are a few exceptions where native villagers have worked collectively as shareholders to redevelop their villages with affordable housing units rented out to rural migrants. Tianmian Village in Shenzhen is such an example of a successful redevelopment project where the interests of native villagers, rural migrants, and local governments are all met.

Overall, China's urbanizing villages are a realistic and effective solution for providing affordable housing to rural migrants in the short run. However, the current village redevelopment program will be a planning action undertaken at the expense of rural migrants, and the economy in general, unless alternative housing options can also be created for them. **L**

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