

# URBAN CHINA

TOWARD EFFICIENT,  
INCLUSIVE, AND  
SUSTAINABLE URBANIZATION

**The World Bank**  
**Development Research Center of the State Council,**  
**The People's Republic of China**

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Internal Migration and Urbanization  
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THE WORLD BANK

**DRC**

国务院发展研究中心

# Background for the Study

The idea was conceived during the first meeting of Premier Li Keqiang and World Bank President Jim Yong Kim in November 2012. Premier Li Keqiang has placed urbanization as one of the government's top priorities and asked the World Bank Group to partner with China in conducting a joint study on the country's urbanization challenges.

Premier Li posed several questions to inspire the team's work, including:

Can urbanization be an engine for consumption-based higher-quality growth?

Can more efficient urbanization help China's next economic transformation?

Can more inclusive urbanization promote integration and cohesion? What fiscal and financial reforms would be needed to support China's new vision of urbanization?

Can negative environmental consequences be avoided and can China's use of resources become more efficient?

Can urbanization be compatible with - and even support - food security?

The research was organized jointly by China's Ministry of Finance (MOF), the Development Research Center of the State Council (DRC), and the World Bank. The report was written and produced by a joint team from these organizations.

## Overview Report

## Pillar Reports

I. Urbanization and Economic Growth

II. Planning and Connecting Cities for Greater Diversity and Livability

III. China's Urbanization and Land—A Framework for Reform

IV. Inclusive Urbanization and Rural-Urban Integration

V. China's Urbanization and Food Security

VI. Financing Urbanization

VII. Green Urbanization

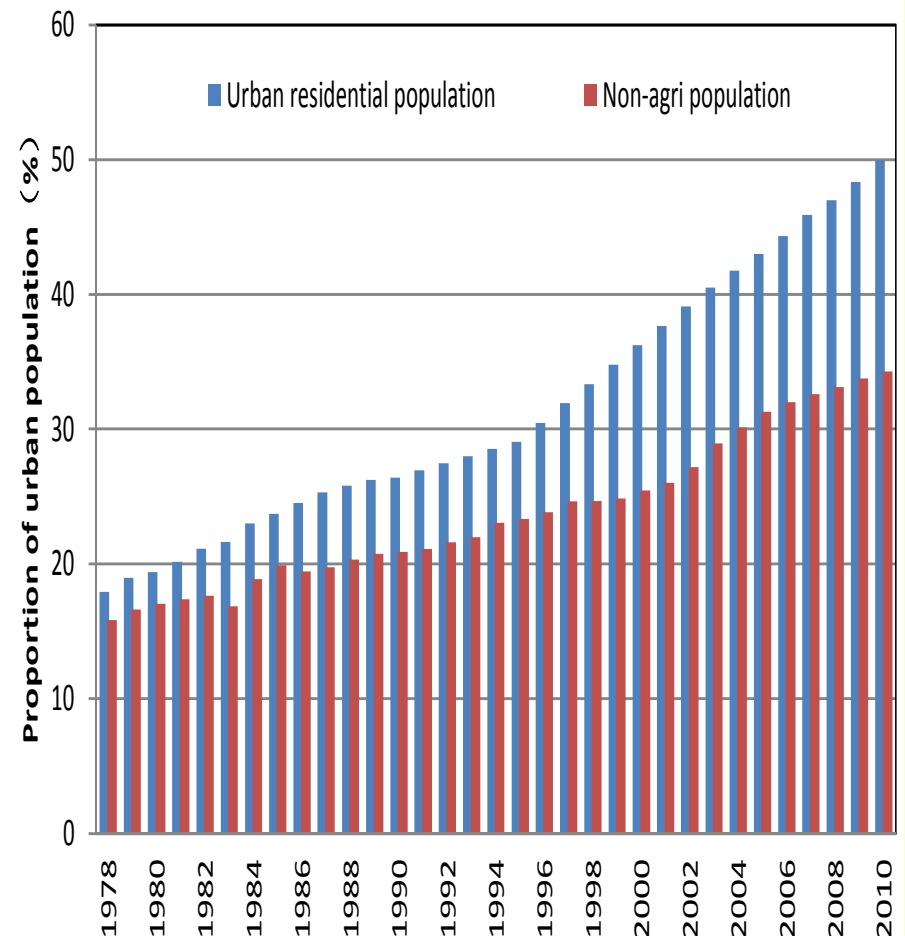
<http://www.worldbank.org/content/dam/Worldbank/document/EAP/China/WEB-Urban-China.pdf>

# Pillar Report IV

## INCLUSIVE URBANIZATION AND RURAL-URBAN INTEGRATION

# Context

- Today every second person of China's 1.3 billion population lives in urban areas.
- Number of internal migrants reached 221 million in 2010 (a net increase of 100 million over a decade) and accounts for 16.5% of the total population.
- By 2030 China's urban population is projected to grow to 1 billion. This increase will be largely driven by rural to urban migration.
- The numbers of urban residents without access to urban social services are continuously increasing.



# Hukou

- Urbanization in China has been managed by regulating internal mobility through *hukou*.
- *Hukou* is the household registration system that categorizes the population into rural and urban residents according to their places of birth. It is an administrative tool which provides a resident's identity and assigns rights to public services and land (in rural areas).
- The household registration system restricts migration, creates a “three left-behind” phenomenon in rural areas:
  - 58 million “left-behind children”,
  - 47 million “left-behind women” and
  - 20 million “left-behind elderly” in rural areas in 2010.
- These add up 125 million, about the number of migrant workers who bring their families with them to the cities.
- Household registration lowers the cost of labor and public services and improves the competitiveness of “Made in China,” but it also reduces the supply of urban labor and increases the risks of social confrontation.
- For those who are in the cities, a dual system of “first” and “second” class citizens has been created separating the long-time resident families with urban *hukou* from the newcomers with non-local *hukou*.

## CHALLENGE:

- “New dualism” of the urban population, and
- “Old dualism” of the urban and rural disparities



## VISION:

- Free movement of people to seek and maximize economic opportunities, and
- Equitable access to basic social services and social protection across space, allowing all citizens full integration into urban life

## REFORMS TO ACHIEVE THE VISION:



- Household registration system;
- Service delivery;
- Public finance;
- Labor market institutions and skills acquisition



# EQUALIZATION AGENDA

## Prevailing “urban standard” of social services for all residents of urban areas

- Residence-based eligibility - set of rules for granting residence and sequencing of access rights;
- Modality of provision of social services;
- Short-term fiscal subsidy for cities.

## Rural-urban integration through equalization of access to a minimum package across provinces and urban and rural areas

- Minimum package of social services and social insurance guaranteed by the Central government;
- Incentives for local government to top-up for all residents;
- Medium-term fiscal system reforms (revenue and expenditure side) to ensure sustainability;
- Sectoral reforms to increase efficiency and improve equity;
- Accountability reforms to contain cost and improve quality.



# URBAN AREAS

*from an origin-based system of eligibility to a modern residence system*

## LESSONS:

- local experiments and international practices, incl. Shenzhen, Chongqing, Shanghai, Guangdong; EU, the US and Japan.
- concerns about *large cities bias*; selection of migrants with desired characteristics; *cities as welfare magnets*; and social tensions and competition for urban services.

## ELEMENTS OF THE MODERN RESIDENCE SYSTEM:

Central government: principles and the National Framework with guidelines, incl.

- system by which local governments should grant residency to people that live in a specific locality;
- division of financing responsibilities of central and sub-national governments (for particular programs);
- sequencing of access to privileges that
  - prioritize - services that provide externalities beyond the individual city, that allow families to live together, and that are largely self-financing;
  - provide later in the sequence - those primarily of a welfare nature.

Local governments: qualifying periods for access privileges.

*Convergence over time: conditions and requirements to obtain local residence that vary between cities at the initial stage, would converge, supported by broader reforms.*

IT platform: set of national standards for exchanging population data across jurisdictions (unique national ID and social security cards).



## MODALITY OF PROVISION IN URBAN AREAS -

**EDUCATION:** Current policy is residence-based. Equalization options are: (i) incorporating migrant children in public schools and (ii) incorporating migrant children in private schools, with public subsidy to cover the fees that these schools charge.

**HEALTH CARE:** Current policy - migrants are eligible for NCRMS. Equalization options are: conversion (i) from NCRMS to URBMI; and (ii) from NCRMS to URBMI and UEMBI.

**PENSIONS:** Current policy - migrant workers are eligible for urban employee pension scheme and the rural residents' scheme. (The urban residents' scheme does not accept migrant workers). Equalization options are: (i) all rural migrant workers in the newly merged resident pension scheme; (ii) wage-based migrant workers in the urban worker pension scheme and non-wage migrant workers participating in the newly merged resident pension scheme; (iii) all migrant workers in the urban worker pension scheme.

**SOCIAL ASSISTANCE:** Migrant workers and their families should be eligible for urban *dibao* payments after they acquire residence and meet qualifying conditions.

**HOUSING:** Demand side subsidies based on a means tested targeting approach are considered to address the housing needs of the qualified migrants.

**ADDITIONAL FISCAL RESOURCES** - in tune of 2.5 percent of GDP per annum;

**SHORT TERM SUBSIDIES** - central fiscal subsidy provided to cities that host a large share of migrants.



# RURAL-URBAN INTEGRATION

*equalization across provinces and urban and rural areas*



## **Minimum package of social services and social insurance guaranteed by the Central Government**

- An expanded cycle of quality general education that is accessible for all. Pre-primary education would be available affordably to all, with subsidies to the most needy, and senior secondary schooling would be fee-free.
- Pension and health insurance systems that have full coverage and provide more uniform and deeper financial protection, integrating rural, urban, and migrant residents.
- A safety net that is available for the poorest and most vulnerable and has greater coherence with different parts of the social protection system and across space.

# SECTORAL AND CROSS-CUTTING ACCOUNTABILITY REFORMS TO SUPPORT RURAL-URBAN INTEGRATION (1)

## Education

- Narrowing the disparities in quality of basic education;
- Extending access to senior secondary education and to early childhood development;
- Experimenting with demand-side financing to stimulate competition and choice;
- Encouraging private provision particularly in non-compulsory stages of education.

Additional reforms:

- realigning teachers' incentives, improving quality of instruction, and strengthening of school management;
- accommodating and supporting the diversity of learners in urban areas
- innovating in sparsely-populated rural areas

## Health Care

- Preparing the urban delivery system for increased demand for health services through improving primary health services and coordination among hospitals, ambulatory providers and public health professionals;
- Arresting escalating cost by introducing:
  - provider payment reform to replace fee for service payment system with a DRG-based system
  - managerial cost control measures;
  - institutional separation revenues from expenditures
- Integrating and increasing portability of health insurance so that those who have insurance coverage can get treated in places where the best treatment exist;
- Fostering healthy urban environment

# SECTORAL AND CROSS-CUTTING ACCOUNTABILITY REFORMS TO SUPPORT RURAL-URBAN INTEGRATION (2)

## Pension

### Upgrading pooling level

#### Achieving financial sustainability and improving participation incentives through:

- Parametric changes (gradually increasing the minimum retirement age to 65, automatically adjusting the annuity factor, and automatically providing hybrid indexation);
- A partial-funding strategy to address the future cash-flow funding requirements through establishment and financing of buffer reserve funds on a provincial basis.
- Financing legacy costs from general revenues rather than from pension contributions.

#### Moving to an integrated design for the pension system

- Notional Defined Contribution (NDC) to anchor the design and financing of contributory pensions. Integrated framework under three pillars: a **basic pillar** providing minimum elderly poverty protection through noncontributory Residents Social Pension benefits; a **contributory pillar** with a mandatory NDC scheme for wage-based workers and a voluntary defined-contribution pension savings scheme for the urban and rural populations with non-wage incomes; a **supplementary pillar** providing voluntary occupational and personal pension savings options that may supplement other pension benefits.

## Social Assistance

### Reforming *dibao* and other social assistance programs through:

- consolidation,
- standardization across space, and
- harmonization with anti-poverty interventions in poor counties and other social programs.

### Gradually moving toward a more systematic approach in determining eligibility thresholds

## SECTORAL AND CROSS-CUTTING ACCOUNTABILITY REFORMS TO SUPPORT RURAL-URBAN INTEGRATION (3)

### **Cross-cutting accountability reforms:**

Given the scale of China's challenge to increase accountability for better results in service delivery, progress is needed through three broad channels: (i) government systems, (ii) citizen-based, and (iii) choice or market-based.

#### **Government systems:**

- leveraging budgetary transfers to sub-national governments, as well as human resource management and compensation systems and facility-based management initiatives;
- regulation and accreditation and licensing systems for providers.

#### **Citizen-based channels:**

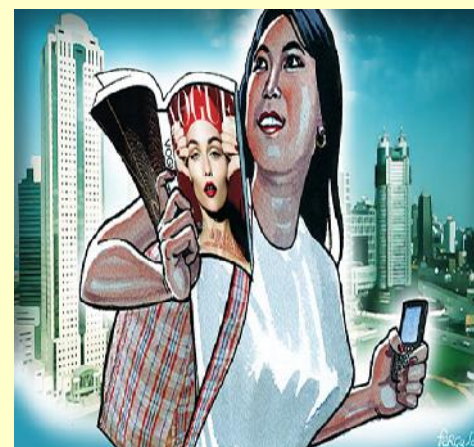
- Harnessing information efforts to generate citizen oversight and feedback on service delivery performance.

#### **Choice and market-based channels:**

- greater reliance on demand-side financing of services where appropriate (and China already experimented with vouchers for skills training in some provinces) and
- greater public purchasing of social services

## LABOR MARKET TRENDS

- Rural labor surplus depleted...
- Hukou and fragmented social security still constrain mobility
- Profile of rural labor force changes
- Productivity grew faster than wages in the last 30 years – but there are signs of stalling or even falling labor productivity growth in the second half of the 2000s.
- The wage differential between migrant and long-term urban residents that is unexplained by differences in their human capital has diminished considerably.
- China remains a human resource-poor country: half the workers have nine-year compulsory education; among 253 million rural workers 70% have not received any type of training.
- China still has too few college graduates to become a high-tech economy - only about 10% of China's labor force is college-educated (Korea, Japan, and the US – over 40%)
- Migrant workers expect better non-wage benefits, including social security coverage and other urban social entitlements.
- Workplace disputes occur, and need to be managed in a manner that considers the interests of all stakeholders.

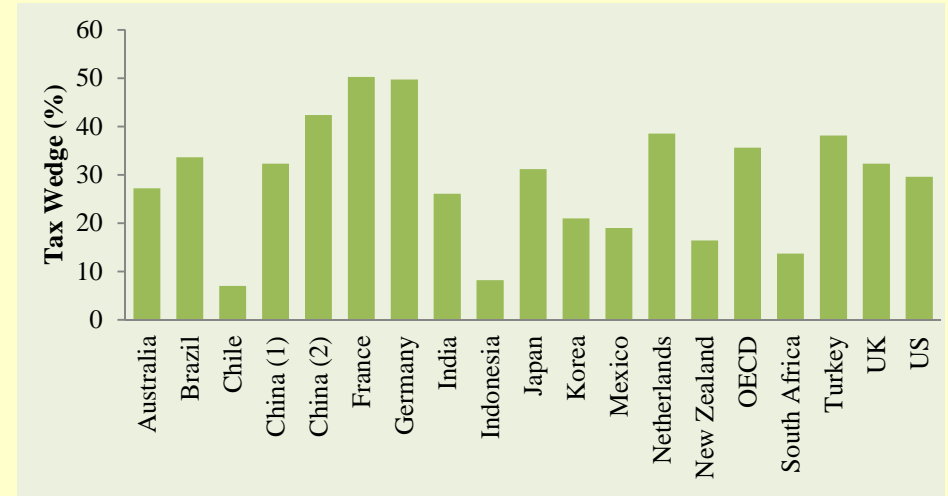


Total Labor Disputes Handled, 2001-2012

# POLICY RESPONSE - LABOR MARKET INSTITUTIONS AND SKILLS ACQUISITION (1)

- Labor taxation - potential for reduction in pension, unemployment, and housing contribution, accompanied by reforms of the overall tax mix and financing, especially pension;
- Monitoring the implementation of the Labor Contract Law.

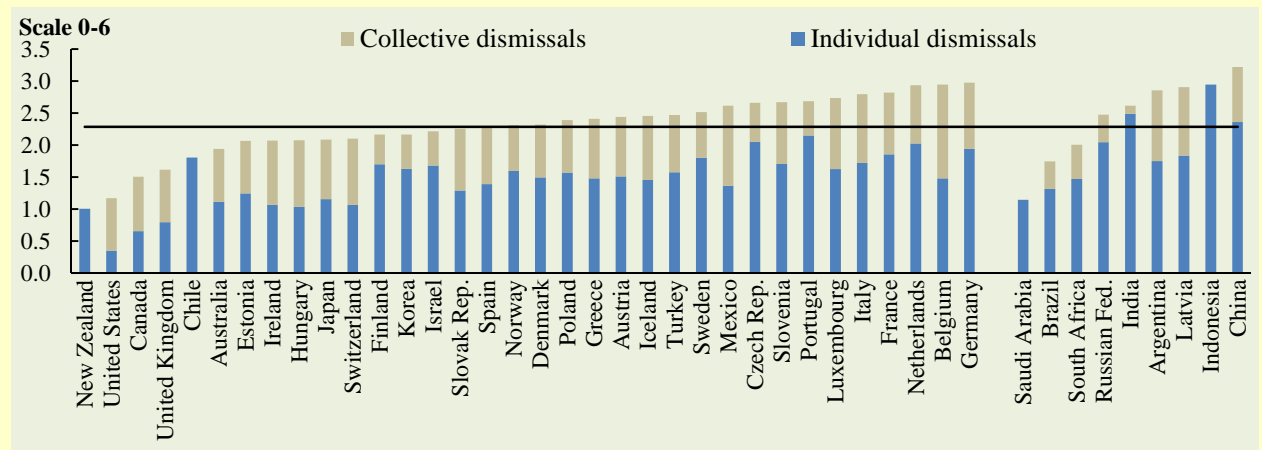
AN INTERNATIONAL COMPARISON OF TAX WEDGE, 2012



- Wage setting – shifting from the “living wage” approach and collective bargaining;
- Strengthening the labor dispute resolution system to handle “interest” disputes.

PROTECTION OF PERMANENT WORKERS AGAINST INDIVIDUAL AND COLLECTIVE DISMISSALS, 2013

source: OECD employment protection database [www.oecd.org/employment/protection](http://www.oecd.org/employment/protection)



# POLICY RESPONSE - LABOR MARKET INSTITUTIONS AND SKILLS ACQUISITION (2)

## TVET and non-formal training

- more efficient use of training resources;
- promote a more modular and competency-based technical and vocational education and training (TVET) system;
- broaden ongoing experiments with demand-side financing of training;
- encourage private sector training providers to enter the training market;
- build institutions for accreditation of skills which increase the portability and relevance to employers of skill certification

## High education

- strengthen links between high education system and industry;
- increased resources and improved investment efficiency;
- greater autonomy, but also greater accountability for universities, and, possibly, private provision and financing of higher education;
- revision of the current provincial quota system to slowly increase the quota towards more populous provinces (rather than abolishing the quota system right away).



<http://www.worldbank.org/content/dam/Worldbank/document/EAP/China/WEB-Urban-China.pdf>