

INSIGHT

The great change

Kam Wing Chan says China's bold new urbanisation plan raises many questions, not least how the increased social costs will be funded and whether the focus on small cities can achieve the desired result

After more than a decade of mostly empty talk, China has finally announced a bold move to grant urban *hukou* status to 100 million people by 2020. The target is a major component of China's new urbanisation plan, which represents a significant commitment towards achieving genuine urbanisation.

In the past two to three years, urbanisation has been refashioned to drive growth and remake the Chinese economy in the coming decades. To accomplish that, it is essential to allow migrants living in cities to have a full urban *hukou*, and thus be able to access basic urban services.

For the past three decades, "urbanisation" in China has often meant allowing millions to move into cities without giving them an urban *hukou*, thereby excluding them from using social services. In recent years, it has also meant local governments borrowing huge amounts of money against land (much of it expropriated from rural people) to build infrastructure, some

latest urbanisation drive. For a more holistic, human-centred approach to succeed, three interrelated reforms are crucial. First, *hukou* reform, to enable rural migrants to build more secure lives for themselves and their families in the cities and towns where they now live.

Second, reform of the rural land-transfer system, to permit a more equitable process for rural land conversion to urban use.

Third, fiscal reform, to create a sustainable local tax base to fund the recurrent social expenditure that will result from expanding the urban service system to include migrants. Of these three, the newly announced plan rightly sets *hukou* reform as the top task. Beneficiaries of the plan will be those no longer involved in farming, including many current migrants. College-educated and skilled workers, and longer-term migrants will get priority.

Preliminary estimates suggest that the average annual *hukou* conversion, from rural to urban, in the next six years will be about 50 per cent more than the average achieved in the previous decade, but the number allocated to migrants will be two to three times higher than in the past. This is still lower than what I called for last year in my *hukou* reform proposal, which laid out a plan to phase out the entire *hukou* system by 2030.

In terms of actual measures to achieve the target, I have serious concerns about where the conversions will happen. The plan calls for expanding the practice of easing *hukou* restrictions in towns and small cities, while also extending controls on migration to the big cities.

Relaxing *hukou* restrictions in smaller urban centres will only help a minority of the migrants, most of whom are in the big cities. Most new jobs, especially those in the private sector, will continue to be generated in these mega cities. More stringent restrictions on migration to them will probably be ineffective as well as economically counterproductive.

A more geographically balanced pattern of development may be desirable socially, but this is seldom achievable in developing countries without strong government intervention or public funds, such as through relocation of major government functions out of the larger cities, or offering tax incentives to entice businesses to move to smaller urban centres. Is China ready to take those steps?

As for reforming the land-transfer system, there is still no clear direction because it is not easy to do so fairly in today's China. Advocates of expanded property rights for farmers argue that they should be allowed to use their land as a source of capital, as



collateral to fund agricultural investment or to finance a move to a city. Others contend that any such change must proceed with caution, since further marketisation of rural land will greatly increase the risk of mass rural dispossession and dislocation, especially in many inland provinces with weak protection of rural property rights.

These contending views have led to uncertainty. The third plenum decision apparently gave the green light for reform, but since January there have been many signs that it will not proceed immediately. This may reflect concerns of some leaders over the risks of mass dislocation.

Undoubtedly, to address the needs of the "new-style" urbanisation, more work is required in reforming the fiscal system and related institutions. For example, the plan contains no cost estimate of the increased social expenditure; in the cities and towns where migrants are granted a local *hukou*, local governments will presumably be expected to foot most of the bill. So far, no strategy has emerged to create a fiscal mechanism to enable cities to provide for millions of newcomers on an ongoing, sustainable basis. The new blueprint does reaffirm the new municipal bonds plan, allowing local governments to raise funds in the market to finance urban

construction. But a local revenue system is needed that is tied to the growth of the population, such as one based on taxes on property or household consumption.

The blueprint is a start for charting a new direction of urban development, with the hope of bringing more balance and prosperity to the country, especially in urban areas. It will probably whet the appetite of many for more comprehensive change. The plan has identified some important broad strokes, but specifics are still lacking or being worked out. Like many other good plans in China, it can still be distorted, usurped for other purposes or even reversed as it gets implemented at the local level, where the real test will lie.

The commitment to granting urban *hukou* permits for a much increased population of migrants in the next few years is a major step forward and deserves praise. Let's hope this new blueprint, along with its pledge to improve the human side of urbanisation, will push China onto a path to finally end its *hukou* era in the not-too-distant future.

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Word power

Cliff Buddle says previous controversies have shown that the Basic Law text is open to interpretation, no matter what officials might tell us today



The government's enthusiasm for closely following the wording of the Basic Law on universal suffrage is easy to understand. The law's apparent requirement that candidates for chief executive be nominated by a broadly representative committee allows officials to conveniently brush aside proposals involving nominations by the public.

But this assumes there is only one way of interpreting the law – and that it means precisely what it says. In the past, the government has strongly resisted such an approach. Indeed, there have been times it has argued the Basic Law means something completely different to what it actually says.

Not on this occasion. Chief Secretary Carrie Lam Cheng Yuet-ngor has said Article 45 of the Basic Law "clearly states that the power to nominate candidates is vested in the nominating committee". Writing in this newspaper, she added: "Any proposal bypassing the committee or undermining its substantive nomination power will not be acceptable in the realm of law."

Then there is the view of Secretary for Justice Rimsy Yuen Kwok-keung who tells us the language of Article 45 is "abundantly clear" and that allowing nominations from the public or political parties would be inconsistent with it. When interpreting the Basic Law, he adds, the court cannot ignore the clear language used.

This strong attachment to the wording of the Basic Law is refreshing. The law should, as far as possible, mean what it says. Otherwise, why draft it in the first place? However, constitutions are expressed in broad terms and are often open to different interpretations. The various constitutional controversies of the past 17 years have taught us that interpreting the Basic Law is not as simple as looking up the words in a dictionary.

Take, for example, one of the court battles over the right of abode in 1999. Chinese citizens "born of" a Hong Kong permanent resident have the right to live in Hong Kong, according to the clear wording of the Basic Law. But this, the government argued, did not include those born before their parents become permanent residents.

And where was the government's fondness for the wording of the Basic Law in 2000 and 2001, when it told courts a provision giving the right of abode to all Chinese citizens born in Hong Kong should be interpreted in a way that would exclude many in that position from claiming the right? Such arguments prompted one appeal court judge to ask whether the government was suggesting the court "rip up the Basic Law".

The reality is that the Basic Law does not always mean what it says. Once this is understood, it is not so difficult to fit public nomination for the chief executive within the meaning of its provisions – especially if taken together with the right to vote and stand provided by the International Covenant on Civil and Political Rights.

It might well make sense to focus on reform proposals more likely to be approved in Beijing. That is a political, rather than a legal question. But we should remember our officials' attachment to the wording of the Basic Law. They may not find it quite so convenient the next time a controversy arises.

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necessary, some not. Impressive GDP growth is generated, some of it suspicious.

More dangerously, such urbanisation has led to mass environmental damage and social unrest. Critics have dubbed this China's new Great Leap Forward.

About two years ago, in response to widespread criticism, then vice-premier Li Keqiang (李克強) began to push for a "new-style" urbanisation, focusing on the human aspects, rather than construction, and emphasising growth in urban household incomes rather than local-government investment spending on buildings.

At the third plenum last November, it was recognised that China's dual rural-urban social structure, set up in the 1950s, remains a major obstacle to development. The system of *hukou*, or household registration permits, for rural and urban residents separates them into two disparate social, economic and political spheres, resulting in many problems. Recognition of this opens up the possibility for a bolder and more innovative strategy to guide the