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China's Urban-Rural Integration Policies

Ye Xingqing

Translated by Flemming Christiansen

Abstract: The analysis presented here is based on the keynote speech discussing the most recent developments in rural policy on urban-rural integration in China delivered in Chinese by Professor Ye Xingqing at the Ninth European Conference on Agriculture and Rural Development in China (ECARDC9) held at the University of Leeds in the UK on 3-5 April 2009. Professor Ye's paper provides a comprehensive overview of the main initiatives, their rationale and their context, including some of the debates surrounding them. Professor Ye, who is an invited keynote speaker of ECARDC9 and the director-general of the Department for Rural Economy, Research Office of the State Council, People's Republic of China, has been personally involved in the process of formulating these policy initiatives. This translation of his paper seeks to convey properly the author's meanings and to strike a balance between documenting the official perspective and rationales, including the use of concepts, on the one hand and ease of comprehension on the other. The translator's notes are intended only for the clarification of, not commentary on, the content.

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Introduction

China's economy and its citizens' incomes have grown steadily during 30 years of reform: the absolute GDP increased on average 9.8 per cent and the per capita GDP 8.6 per cent each year between 1979 and 2007; urbanization increased from 17.9 per cent to 44.9 per cent, and the share of the primary sector in total employment fell from 70.5 per cent to 40.8 per cent.

However, the urban-rural gap, one of China's major problems in economic and social development, has worsened. The gap in terms of the urban-rural income ratio has widened dramatically and is also manifested in the provision of infrastructure, compulsory education, health care and social insurance (Ye 2004). This widening urban-rural gap can be explained with the Kuznets curve,¹ which is normally used to show how the market economy leads to a widening of the urban-rural gap during early industrialization and then causes the gap to gradually close when industrialization has peaked. China's urban-biased development strategy, for a long time based on administrative separation in a dual system² of urban and rural areas, can be explained in the same way (Ye 2006a). The gap, if we compare it to those of other developing countries during similar stages of development, has been exaggerated by the fact that China's development has taken place while urban and rural areas were administratively separated; this has also postponed the moment when the Kuznets curve will show the greatest urban-rural disparity. This widening urban-rural gap has tarnished the achievements in development for over three decades. Measures to decrease the urban-rural gap therefore belong to the unfinished business of China's modernization.

Fortunately, decision makers in China have now begun to deal with this thorny issue. The Sixteenth National Congress of the Chinese Communist Party in 2002 was a turning point: for the first time it was declared that the countryside was key to achieving the goal of moderate

1 Translator's note: See Kuznets 1955.

2 Translator's note: The term *eryuan tizhi* (dual system), also often referred to as *eryuan jigou* (dual structure), is in Chinese political economy terminology used analogously to W. Arthur Lewis' (1954) concept of economic dualism between the agricultural and industrial sectors to signify the administrative division and state-monopolized resource transfers between the rural-collective and urban-state sectors under the planned economy of 1953-1983. See also Christiansen 1993, 1995.

prosperity³ and that socio-economic development must incorporate urban and rural areas alike. Following this, the fifth plenary session of the Sixteenth Central Committee of the Chinese Communist Party in 2005, the Seventeenth National Congress of the Chinese Communist Party in 2007, and the third plenary session of the Seventeenth Central Committee of the Chinese Communist Party in 2008, as well as the six Document No. 1 papers issued in the years 2004 to 2009,⁴ laid out a series of goals intended to promote urban-rural integration. These included “new state funding for culture, education and health targeted at the countryside”; “the construction of a new socialist countryside”; a commitment “to give more, take less and be more flexible”; provisions allowing “industry to support agriculture and cities to support rural areas”; the creation of “equal access to basic urban and rural public services”; and the establishment of “a social insurance system that covers both urban and rural areas”. In particular, the *Decision by the Central Committee of the Chinese Communist Party on Some Important Issues Regarding the Promotion of Rural Reform and Development* passed by the third plenary session of the Seventeenth Central Committee of the Chinese Communist Party in 2008 summed up recent thinking and policies on the integrated development of urban and rural areas and announced new policies and measures. These new policies give confidence that the widening of the urban-rural gap can be halted and a balanced urban-rural development promoted.

Urban-Rural Integration: An Analytical Framework

Urban-rural integration involves many areas of socio-economic development. We need a new analytical framework to analyse the main intersections and disparities between urban and rural areas in order to identify

3 Translator's note: The policy area of *xiaokang* (moderate prosperity) was originally introduced by Deng Xiaoping, and from 1991 a range of material welfare indicators were used to monitor developmental progress across jurisdictions in China; the aim was to achieve welfare for all well above the level of “leaving poverty behind” (*tuo-pin*). The administration was in the hands of a State Council research unit. This policy area was reinforced and given broader targets in 2002.

4 Translator's note: The Central Committee and the State Council in the 1980s and again after 2004 jointly issued an annual Document No. 1 on the main issues in rural policy. The documents signal the obligation of both state officials and party organizations to organize their work and priorities in keeping with the spirit and positions laid down in the documents.

the salient characteristics of the urban bias and urban-rural integration in development strategies (Ye 2006b). Current development thinking and policy measures consider urban-rural integration under three main rubrics (1-3) and as 10 points:

1. *Deployment of key factors between urban and rural areas*, that is, the terms of trade of agricultural products, the use of savings, the requisitioning of land, the labour transfer and environmental dividends. Accordingly, urban-rural integration means that key factor allocation must be changed from exclusively benefiting urban development to benefiting a balanced development of both urban and rural areas.
2. *Supply of primary public goods and services in urban and rural areas*, which are currently segregated into two sharply contrasting systems, that is, infrastructure, compulsory education, health care and social insurance. Accordingly, urban-rural integration means that this division into two systems must be changed and the policies already implemented in the cities must be extended to the rural areas, gradually diminishing the urban-rural gap.
3. *Allocation of public resources between urban and rural areas*. This subsumes the previous two rubrics. Broadly stated, urban-rural unification means that the cover of public finances must be extended to rural areas, and that financial support must be provided to readjust the deployment of key factors between urban and rural areas and to promote equal access to public services in urban and rural areas.

The strategies – urban-biased development and urban-rural integration – are not clearly separated by a point in time. Rather, in different parts of the country they have begun at different times and lasted for different lengths of time. We shall ignore these intricacies here for the simplicity of the argument.

Urban-Rural Integration: New Policies in 10 Points

Terms of Trade between Industry and Agriculture

The terms of trade for industrial and agricultural products substantially determine the deployment of resources between urban and rural areas. From the early 1950s to the early 1990s, China's planned economy saw the state set the procurement prices of agricultural products and of industrially produced inputs for agricultural production. The price difference between industrial and agricultural products was used to transfer large surpluses from agriculture to industry.⁵ From the mid-1990s onwards, the prices for agricultural products and for agricultural inputs gradually began to be set by the market, so that trade in industrial and agricultural products now takes place on equal terms.

Beginning in 2004, China began to implement a guaranteed minimum procurement price for the main grain sorts, meaning that under conditions of a basic balance in grain supply and demand, the grain prices are set by the market; the government has determined a minimum procurement price, and when the market price decreases below this price, the Central Grain Reserves Corporation, directly or through other grain buyers, carries out market-stabilizing procurement in order to temporarily withdraw the surplus supply from the market. In the last few years, the guaranteed minimum procurement price has gradually risen, the number of grain sorts and areas affected by market-stabilizing procurement have increased, and the amount of grain procured in this way has increased from year to year, so one could say that the guaranteed minimum procurement price is becoming the target price. In 2008 the state, in several steps, increased the guaranteed minimum procurement prices for wheat and rice, broadened the area covered by the guaranteed

5 Translator's note: This practice, referred to in Chinese political economy terminology as the *jiandaocha* (scissors' gap) was based on (a) the total monopoly of procurement and monopoly of retail held by state trading agencies, (b) price setting based on the calculus of factor inputs (rather than market scarcity), (c) distribution of goods through plan quotas. By setting the value of labour input significantly lower for rural labour than for industrial labour, the terms of trade allowed cheap agricultural output to subsidize industrial production. The system was invented by Yevgeni Preobrazhensky (1886-1937), introduced in the Soviet economy in the 1930s, and later put to use even more potently in the Chinese planned economy. It has been estimated that the scissors' gap in 1982 amounted to the equivalent of one-fourth of the state's financial income.

minimum procurement price for rice to 11 provincial-level jurisdictions, introduced a draft scheme for a guaranteed minimum procurement price for wheat in six key wheat-producing provinces, and adopted a temporary stock procurement policy for japonica rice and maize in the north-east and for rice in South China, thereby increasing farmer incomes across the country by more than 50 billion CNY (Du 2009).

In 2004 the state began subsidizing inputs to agricultural production. By 2008, the subsidies for improved rice, wheat, soy bean, maize, cotton and rape seeds had reached 12.16 billion CNY; the subsidies for the purchase of farm implements had reached 4 billion CNY; and the comprehensive subsidies for agricultural production materials such as chemical fertilizer and diesel oil had reached 71.6 billion CNY. Similarly, by 2008 direct subsidies to grain-producing farmers had risen to 15.1 billion CNY (Yi 2009: 257).

The guaranteed minimum procurement price system and the agricultural input subsidies currently form the core of China's agricultural policy, facilitating the flow of resources from industry to agriculture. Following the decision of the third plenary session of the Seventeenth Central Committee, the system for protecting the price of agricultural products will continue to be perfected, within an increase of the guaranteed minimum procurement price and the improvement of methods to protect the prices of other key products. The agricultural subsidy system will be perfected through the expansion of its scope, an increase in the standards, and improvements to the implementation methods.

The debates on the transformation of the urban-rural terms of trade have focused on whether it is necessary and on what the consequences of such a transformation are. One opinion holds that once industrialization has reached a certain level it is necessary to provide price protection and subsidies to agriculture in order to coordinate industrial and agricultural development, and that China has already entered the development stage when industry must subsidize agriculture. Another opinion holds that China has not yet entered the development stage that requires subsidies to agriculture, and that agricultural subsidies distort the market signals, impeding the efficiency of resource allocation in the agricultural sector and also affecting Chinese agriculture's comparative advantage in the international division of labour. Yet others, critical of the current subsidy mechanisms, believe that the subsidy policy does not promote agricultural development as long as it is the rural households as such,

rather than those to whom the actual farming of the land has been transferred, which receive the subsidies.

The Utilization of Savings Deposits

According to development economics, high individual savings rates, combined with the efficient financial transformation of savings into investments, help guarantee economic growth. However, China's rural savings have for a long time been prevented from being fully utilized in the countryside and instead enter the urban areas in various ways. These rural savings are eroded through the following channels: (a) The rural branches of financial institutions maintain a high loan to deposit ratio, even to the extent of limiting their rural services to savings, that is, offering no credits, thereby channelling the savings to urban areas within their own organization. (b) Rural savings are transferred to the central bank as deposit reserves. (c) Rural postal savings services can only absorb savings and cannot issue credits.

By the end of 2007, the savings-deposit balance in county-based financial institutions across China amounted to 9,100 billion CNY, whereas the credit balance amounted to 5,300 billion CNY (Zhou 2008: 164). Among the many reasons for this situation we note the following: (a) The transaction costs in the rural finance market are high, and under the interest rate regime, the rural savings resources spontaneously flow towards the urban areas. (b) The procedures and regulations designed for urban enterprises, including the demands for collateral and credit guarantees, are unsuitable for rural areas and rural households. (c) There are too few lenders and borrowers in the rural financial market, and there is insufficient competition.

The following measures currently aim to optimize the utilization of rural savings in rural areas: (a) The reform of existing rural financial institutions. This has since 2003 included reforming rural credit cooperatives, dissolving their bad assets and improving their management structures; reforming postal savings services and increasing their credit functions; reforming the Agricultural Bank of China, putting in place county-based community divisions and providing these with greater business decision-making powers than the county branches; broadening the scope for credit provision by the Agricultural Development Bank of China from procurement funds for grain, cotton and oil crops to also include rural infrastructure and the processing of agricultural products. (b) The lowering of the threshold for entering the rural financial market, thereby al-

lowing for the establishment of village and town banks, micro-credit firms, rural mutual funds and other new types of rural financial institutions. (c) The implementation of a preferential policy towards rural finance by requiring lower reserves, allowing greater interest rate fluctuations, and charging lower business tax rates for rural credit cooperatives than is the case for normal financial institutions.

The new policies of the third plenary session of the Seventeenth Central Committee on rural finance reform include the following: New savings deposits in financial institutions belonging to the county-based banking sector must be used mainly to provide local credit. Small-scale financial organizations are allowed to seek funding from financial institutions. Specialized farmer cooperatives that meet the conditions are allowed to engage in credit cooperation. Finally, the scope of effective rural collaterals has been widened.

The debates on the use of rural savings concentrate primarily on four points:

- How to measure rural financial services in China. One opinion holds that indicators such as the proportion of agricultural credits in the total domestic product of agriculture and the credit coverage of rural households suggest that rural financial services in China do not fall short of those in other countries (Zhou 2008: 164), while another holds that there is a severe imbalance in the urban-rural deployment of financial resources, that rural financial services are greatly inadequate, and that they constitute a major bottleneck in rural development (Chen 2007: 150).
- How to identify the main contradiction in the rural credit market. That is, is it the supply of credits that is inadequate or is there is a lack of credit-worthy projects?
- How to meet the demand for community reinvestment in practice. Does “financial institutions for county-community banking” signify independent banks established within the counties or all bank institutions operating there? What sort of proportion is meant by “must mainly be used to provide local credit”? How can the state provide interest compensation to the banking institutions that fulfil the stipulated duties?
- How to expand the scope of collateral. Farming rights to rural contract land, usage rights to rural residential land, and farmers’ residential real estate can currently not be used as collateral; however, these rules are being overcome in some places.

Land Requisitioning

Land is a highly visible link between urban and rural areas, for as the cities expand they need to occupy rural land, and this is particularly so in the current phase of rapid industrialization and urbanization. The national urban built area, 12,856 square kilometres in 1990, had by 2007 reached 35,470 square kilometres. Farmers have not received sufficient compensation for the large-scale appropriation of rural land for urbanization. The erosion of farmers' proceeds from their land assets has become an important source of support for low-cost industrial and urban expansion. Some research maintains that urban governments have gained more than 2,000 billion CNY through land appropriation, vastly exceeding the negative effects of the terms of trade between agricultural and industrial products in the planned economy era and also surpassing the total amount of foreign funds attracted since the beginning of the reforms in 1978 (Wang 2009).

Farmers' gains from their land are decreased due to three systemic arrangements:

- The Land Administration Law. The current Land Administration Law underpins the separation of urban and rural places. The main clauses in the Land Administration Law against urban-rural integration state that urban construction is to be limited to the use of state-owned land and, accordingly, that if rural land is to be used, it must first be requisitioned to become state-owned land. Further, when the state requisitions rural land, compensation not exceeding the value of the average annual proceeds from the land in the three years preceding requisitioning multiplied by a factor of 30 is to be offered.⁶
- The land-use compensation system. As the state requisitions the farmers' land at a low price and makes available land for urban construction projects through administrative planning, the erosion of rural land-ownership rights is a matter of urgent concern; since the early 1990s, the state has continuously requisitioned farmers' land at

6 Translator's note: The compensation procedures are based on the idea that farmers lose a source of income; this means that the average value of the crop over a three-year period (to take fluctuations in output into account) multiplied by the number of years the farmer's contract is for (30 years) is given in compensation. In addition, compensation is also paid for houses, outhouses, trees and "seedlings in the ground".

low prices and at the same time made land available for commercial land-use projects through “tender, auction and bidding”, resulting in a huge discrepancy between the requisitioning and lease prices that clearly exposes the erosion of rural land-ownership rights. To put it differently, the primary land market is monopolized by the state and prices are set by the state, while prices in the secondary market are set by the market.

- Incentives to civil servants. The formally budgeted funds available to city governments for investment in urban construction are very limited, and yet the civil service appraisal systems currently in place in China measure performance against urban-construction indicators, thereby creating strong incentives for civil servants to seek other sources of funding for urban construction.⁷ The central government only receives a small fraction of the proceeds from leases of requisitioned land, while the lion’s share is at the disposal of the city governments. Because lease revenues have already become an important income that can be used for urban construction, the city governments have an inherent incentive to requisition rural land (Zhu 2009).

The first of these systems create the conditions for land requisitioning, while the latter two provide the motivation.

The Decision of the third plenary session of the Seventeenth Central Committee states as a substantial principle that safeguarding rural land rights is imperative for promoting urban-rural integration. Safeguarding these rights involves the following measures: (a) curtailing the state’s use of its right to requisition land by gradually limiting the scope of land requisitioning and by perfecting the system for land requisitioning compensations; (b) granting greater rural collective land rights for development and use by granting permission to use rural collective land for non-public purposes outside the scope of urban construction specified in land-use plans, by allowing farmers to legally participate in the development and operation of such development schemes, and by protecting farmers’ legal interests; (c) granting equal rights to rural collectives so they are allowed to buy and sell construction land, thereby creat-

7 Translator’s note: The point is that civil servants’ promotions are (where appropriate) based on the degree to which they have been involved in initiating and carrying out urban construction projects, even if the formal budgets for urban construction are very small. They are, in other words, encouraged to engage in more complex and risky financing arrangements for urban construction.

ing a level playing field for trading construction land owned by the state and by rural collectives in one unified land market and in compliance with one set of planning rules; (d) broadening rural households' material rights to use and benefit from residential land, so that rural residential land and land released through village re-parcelling, in compliance with land-use plans and annual plans for the use of land for construction, can be reclassified as construction land.

The proposals to reform the land system put forward by the third plenary session of the Seventeenth Central Committee conflict with the existing Land Administration Law. Efforts to perfect the relevant laws and regulations as well as matching policies are currently under way, and before these are in place the reform of the land system cannot be fully implemented. However, in some places small-scale explorations are already being carried out. In Wenzhou and Jiaxing in Zhejiang Province experiments allowing farmer housing as collateral for credits are in progress. In Tianjin there are currently experiments involving rural residential-land replacement. In Chengdu and Chongqing experiments with tangible property exchange markets for rural-collective construction land are under way.

The debates on the reform of the land-requisitioning system concentrate mainly on the following:

- The possibility of limiting the state's requisitioning right strictly to cases of "public interest" – for example, by demanding the early and binding registration of public interest and commercial construction – as well as the need to improve the system for determining requisitioning prices in those cases where state land requisitioning is allowed to continue.
- The effects of letting the market set the prices for commercial construction projects' occupation of rural land, as well as methods for distributing the proceeds from the increments in rural-land value and the challenge that this poses to the cost of industrialization and urbanization and to the investment systems for urban construction.
- The consequences of expanding the farmers' property rights to rural residential land, allowing usage rights to be transferred to those who are not members of the collectives. These include, for example, the

risk that urban capital will occupy land in rural areas and the possible emergence of new “small property” houses.⁸

- Ways to protect farmland, maintaining it above the 1.8 billion mu (120 million ha) baseline, once the rights to develop and use rural-collective land and to trade land belonging to rural collectives for the purpose of construction have been expanded. This might include measures to prevent rent seeking by people in charge of the collectives and to protect collective members’ interests and decision-making power.

Labour Transfer

The transfer of labour from low-productivity rural sectors to high-productivity urban sectors tends in general to be a major source of economic growth and also one of the main conduits by which cities drive rural development. However, between the early 1950s and the end of the 1970s, China’s planned economy applied the terms of trade between industrial and agricultural products in an extreme way in order to promote industrialization. In the process it ignored the possible contribution to long-term economic growth of the efficient redistribution of the labour resources. The planners in that period wrongly believed that labourers entering the cities would consume large amounts of agricultural products and increase the urban living costs, thereby harming industrialization and urbanization; they believed that by leaving the farmers in the countryside it would be possible to increase agricultural production. Therefore, the strict household registration system and the centralized labour system of the people’s communes served to keep large numbers of low-productivity labour in agriculture and in the countryside. This led China into a severe systemic imbalance. Between 1952 and 1978, the agricultural sector’s share of China’s GDP fell from 50.5 per cent to 28.1 per cent while its share of total employment fell from 83.5 per cent to 70.5 per cent and the urbanization rate rose from 12.45 per cent to 17.92 per cent, the latter two indicators being significantly smaller than the former.

After the beginning of the rural reforms, as farmers gained control over their use of work time and their labour activities outside the

8 Translators’ note: This means properties where it is not the state land registry but rather the rural authorities, with limited and questionable authority, which underwrite the property right.

planned system grew, agricultural labourers began to take on employment in township and village enterprises. Encouraged by the reform of the urban economic system and the strategic opening of the coastal cities, rural labourers began to move long distances to the cities and coastal areas. The Second National Agricultural Census of 2006 reported that 130 million labourers in China's countryside had by then already transferred into other occupations. This mobility of labour from rural areas into the cities to a certain degree reversed China's systemic imbalance. Between 1978 and 1997, the agricultural sector's share of the GDP dropped from 28.2 per cent to 11.1 per cent, while its share of total employment fell from 70.5 per cent to 40.8 per cent and the urbanization rate rose from 17.92 per cent to 44.9 per cent, with the latter two indicators now significantly larger than the former. These figures allow us to appreciate the profound changes after 1978 as compared to the period between 1952 and 1978 outlined above.

Rural labour mobility between 1978 and 2007 can roughly be divided into two phases: Between 1978 and 2002, government policy tended to encourage the occupational transfer of rural labour, while maintaining a restrictive attitude to rural labourers entering the cities. After 2003, the government shifted to encouraging and supporting rural labour entering the cities, demanding that a unified urban-rural human resource market be established, carrying out training to facilitate occupational transfer, and strengthening the protection of the rights of the rural-to-urban migrants.

In the present situation, some issues have yet to be resolved: (a) promoting the transfer of rural contract land, developing large-scale farming and increasing agricultural mechanization, thus releasing ever more surplus labourers from agriculture; (b) promoting the reform of the collective-property and residential-land systems, thereby strengthening the farmers' ability to sell their assets and allowing them to enter the cities as property owners; (c) promoting the reform of the household registration system and lowering the threshold for farmers to settle in the cities; (d) including migrant workers in the urban social insurance systems. The proportion of migrant workers participating in insurance systems is currently low. According to a survey of 15,984 returned migrant workers in Chongqing, the participation rate was only 19.6 per cent; in 80.3 per cent of the cases, returnees' pension insurance coverage and funds remained in the original locality. Only in 10.1 per cent of cases could any individual contributions be transferred, and in 9.7 per cent of

the cases this applied only to the individual part of the contribution. There was no case where it applied to the company contribution. According to the current rules, employees' insurance coverage is terminated unless they return to the place of work. This creates a conspicuous contradiction between, on the one hand, huge financial expenditure pressure in the sending areas and, on the other hand, a "demographic dividend" windfall in developed areas, something which constitutes a major social problem (Qu, Jin, and Tan 2009).

The third plenary session of the Seventeenth Central Committee touched upon some solutions to these problems:

- Perfecting the rights associated with rural land-use contracts. For instance, by extending the 30 years' contract to be valid "in perpetuity", by allowing farmers to transfer rural land-use contracts in a range of ways, and by creating legal safeguards for the tangible right to use and derive benefit from rural residential land.
- Broadening the conditions for settlement in small and medium-sized cities, thereby allowing farmers with a stable occupation and residence in cities and towns to change their status to that of urban residents.
- Strengthening the protection of the rights of migrant labourers by gradually implementing equal treatment of migrant labourers and urban workers in terms of labour remuneration, children's education, public hygiene, and conditions for renting and purchasing living space.
- Broadening the coverage of occupational accident, health and pension insurance schemes among migrant workers, including urgent measures to transfer and continue migrant workers' pension insurance.

The debate about labour transfer includes the following elements: Some people fear that if farmers are granted freedom to dispose of their rights to contract land and residential land, through, for example, the granting of permission for them to use these rights as collateral, this will lead to the emergence of a large "landless peasantry" or even "rural paupers". Some opine that the introduction of a minimum wage, together with the demands in the new Labour Contract Law that employer and employee sign long-term contracts and pay social insurance contributions, will cause China to prematurely lose its advantage of low labour costs, harming investment in enterprises and ultimately employment. Adding

migrant workers to the urban social insurance schemes, in these people's opinion, will increase the burden on social insurances. The same people also question whether the reform of the household registration system will serve to remove the root cause of inequality, wresting social benefits away from the urban household registration they are bundled with, or whether it will simply involve less stringent conditions for obtaining the urban household registration.

Ecological Dividends

Unlike products, savings, land and labour, ecological dividends⁹ are an invisible element that is hard to count and to value. However, as urban and rural areas belong to one and the same ecological system, ecological dividends form an important urban-rural link. For example, in areas with a water deficit, industrial and urban water use crowd out agricultural and rural water use. Paddy agriculture provides large wetlands that help regulate the air temperature and moisture in the local area, including in the cities and forests. In the growing season, the agricultural crops absorb urban CO₂ emissions, while the oxygen they emit benefits the cities. Water retained by forests provides an important source of water for the cities, and in some areas the protection of water resources for the cities severely curtails the development of agriculture and rural areas. Additionally, the countryside plays an important role in treating urban waste. As economic development reaches higher levels and development thinking changes, the ecological dividends provided by agriculture continue to gain relative value for society.

In the early phases of China's industrialization, cities enjoyed the ecological dividends derived from agriculture and rural areas free of charge because they were insufficiently appreciated by society. In recent years, the central and local authorities have begun to emphasize compensation for the ecological dividends provided by agriculture and rural areas. This has mainly included providing grain and cash compensations where farmland is afforested; setting up effective forest environment

9 Translator's note: *Shengtai hongli* (ecological dividends) is a neologism in Chinese; the usage in a number of sources consulted tends to reflect tangible (sometimes monetary) gains from good environmental stewardship or from the protection of ecological resources, but has also been seen in the sense (more common in European languages) of improvements to the environment achieved through taxation and other policy interventions.

compensation institutions to subsidize forest public goods; charging per capita or metered water fees in downstream cities to subsidize water retention in upstream forests; establishing a system for water use quotas; and distributing and trading water rights, making increased industrial and urban water use dependent on the purchase of water quotas from agriculture and rural areas. The development of carbon sequestration forests has also been initiated, encouraging those industrial enterprises required to reduce greenhouse gas emissions to invest in afforestation to off-set carbon emissions.

The third plenary session of the Seventeenth Central Committee furthermore made the point that a national agricultural environment subvention system should be established to stimulate natural resources and agricultural species beneficial to the protection of farmland, water bodies, forests, grasslands and wetlands. Funds for subsidies, collected from a variety of sources, will provide effective support for forest, grassland, water and soil protection, allowing the standard of subsidy to gradually increase.

Infrastructure

Before 2000, the state's main infrastructure construction was undertaken in urban areas and there was virtually no investment in rural infrastructure. In the people's commune era, rural infrastructure construction was based on the collective investment of communal funds and labour, for example, to create hydrological works. Since the dissolution of the people's communes, the money for investments has been raised through farmers' own funds and labour. This has led to severe postponements of rural infrastructure construction, something which is not only a major aspect of the urban-rural disparity but also an important obstacle hindering rural development.

After the reform of rural taxes and other levies in 2000, the funding sources for rural infrastructure construction were restructured and the institutions for "fund raising" in the communities were dissolved. The state entered into a variety of rural infrastructure construction projects:

- Hydrological engineering projects. Since 2000, central authorities have raised funds through state bonds for rural drinking-water projects. Beginning in 2006, the National "Eleventh 5-Year Plan Period" Rural Drinking Water Safety Plan was implemented with a financial investment from the central authorities of 4 billion CNY; in

2008 this investment was increased to 7 billion CNY. The central and local authorities arranged special project funding for improving large and medium-sized irrigation districts and small-scale hydrological construction projects.

- Rural roads. The state has made large-scale investments in rural public roads since 2003. Between 2003 and 2007, 1.3 million kilometres of new roads were constructed, of which 850,000 kilometres were asphalt-concrete roads – 2.5 times the road length built in the 53 years between 1949 and 2002. The Ministry of Transport's investment of the vehicle acquisition tax in rural road construction amounted to 39.4 billion CNY or 47.3 per cent of the total investment of vehicle acquisition tax in road building.
- Rural biogas. In 2003 the state began to set in motion rural biogas construction projects financed by state bonds. In the same year it arranged for an investment of 1 billion CNY; by 2008 the investment had risen to 3 billion CNY.
- Rural power grid. Since 1998, the construction of new rural power grids and the improvement of existing grids has been financed, nationally, with 288.5 billion CNY, of which 61.2 billion CNY was raised through state bonds. In the eleventh five-year-plan period, financing of the renovation and completion of rural power grids in central and western areas will continue to be carried out, and in 2008 the central authorities arranged 2.9 billion CNY to support the electrification of areas without power supply.

The third plenary session of the Seventeenth Central Committee formulated further demands for rural infrastructure construction in the areas of rural drinking water, roads, energy, communications and the lived environment. Two issues call for discussion in this context:

- Whether or not it is necessary to demand matching financial contributions from local governments for projects initiated centrally. One side of the argument is that rural infrastructure construction is the remit of local governments and that the central authorities only provide support, so local governments must shoulder the main burden of investment. The other is that the requirement for matching funding from local governments, especially from levels below the county, should be abolished because areas with poor rural infrastructure tend to be financially distressed. The requirement for the local matching of financing causes problems, thereby exacerbating inter-

regional disparities, and non-payment of matching funds by local governments tends to result in poor project quality.

- The role to be played by farmers in rural infrastructure construction. One side opines that rural infrastructure is a public good to be shouldered by the state, and that the farmers, similar to urban residents, should not be required to share in the cost of infrastructure construction. The other side thinks that farmers should share in the investment burden and through “village compact”¹⁰ mechanisms contribute part of the construction funds and labour needed.

Compulsory Education

Unlike urban compulsory education, which is managed by the government, rural compulsory education was for a long time “run by the people for the people”, meaning that the rural collectives and individual farmers financed most of the cost of rural compulsory education, with some local and virtually no central investment. Schools were established by farmer collectives, and the rural teachers’ (*minban jiaoshi*) wages were covered through school fees. In the process of the reform of rural taxes and fees, the state has gradually increased its investment in rural compulsory education through special transfer payments.

The year 2005 was a turning point. Following the demands of Document No. 1 of 2005, 592 counties nominated by the state for poverty-alleviation measures began to practise a system of “two waivers and one contribution” (the waiving of miscellaneous school fees and fees for schoolbooks and teaching materials, and the contribution towards the living costs of boarders from families in economic difficulty) for pupils in compulsory education. At the end of 2005, the State Council made specific arrangements to deepen the reform of the system in order to

10 Translators’ note: Village compacts (*yishi yiyi jianshe*) or financial award village compacts (*cunji gongyi shiye jianshe yishi yiyi caizheng jiangbu*) have as a core principle that any local residents at an open “town meeting” can make a community decision about operating a service or amenity that is neither a private business nor a public entity yet is formalized in a way that is formally binding and thus allows public money to be directed towards the establishment or operation of the amenity. Guowuyuan nongcun zonghe gaige gongzuo xiaozu, caizhengbu, nongyebu guanyu kaizhan cunji gongyi shiye jianshe yishi yiyi caizheng jiangbu shijian gongzuo de tongzhi (Circular of the Rural Comprehensive Reform Work Group, the Ministry of Finance and the Ministry of Agriculture on Carrying Out Experimental Work on Financial Award Village Compacts in Village-level Public Amenity Construction). Document No. 2 [2008] of the Comprehensive Rural Reform Group, Feb. 1, 2008.

guarantee the financing of compulsory education. It demanded that within the eleventh five-year-plan period, the first two years should be used to bring about such a system and the following three years should be used to firm it up, thereby bringing rural compulsory education completely under the auspices of public funding guarantees. Within two years all pupils in compulsory education should be exempt from miscellaneous school fees and fees for schoolbooks and teaching materials, and contributions for living expenses should be granted to all boarders from backgrounds with economic difficulties. The public funding guarantees for primary and middle schools with pupils in rural compulsory education should be increased; a permanent mechanism for the repair and improvement of primary and middle school buildings in rural compulsory education should be established; and the guaranteeing of teachers' wages in rural compulsory-education schools should be perfected and consolidated. At the time it was estimated that the total cost of implementing this reform in the eleventh five-year-plan period would be 218 billion CNY, of which the central and local governments would contribute 125.8 billion CNY and 92.4 billion CNY, respectively. The real cost may be higher than the estimate made at that time.

Once the difference in financial guarantees for urban and rural compulsory education has been removed, both sides face another huge problem related to urban-rural inequality in education, namely, that the gap between urban and rural students is widening in terms of their opportunity to access higher secondary and tertiary education. According to media reports, after completing junior middle school, 67.1 per cent of children with urban-resident household registration continue in further education, and 15.9 per cent achieve university degrees or higher. Only 26.8 per cent of children with rural household registration achieve university degrees, and only 3 per cent of them complete higher degrees. Among the freshmen recruited by the key Chinese universities since the 1990s, the proportion of rural students has declined.

There are two reasons for this situation, of which one is the recruitment system. On the one hand, the organization of examinations and the setting of base marks are done by province. On the other hand, the recruitment quotas offered by each key university to each county do not match the population of the particular province. This means that the competition is exacerbated in provinces with large populations, particularly those with large rural populations. The other reason has to do with the teacher resources. The most outstanding teaching staff move to the

cities, thereby widening the urban-rural gap in teaching quality. According to a survey in Shaoyang, Hunan, 80 per cent of the best teachers in county cities move to city districts and the provincial capital, whereas rural middle school teachers move to county cities (Li 2009).

The third plenary session of the Seventeenth Central Committee formulated the demands “Develop Rural Education and Promote Fairness in Education” and “Promote Balanced Urban-Rural Development of Compulsory Education” and stipulated a policy of encouraging teachers to work in the countryside and of sending excellent teaching resources to rural areas. Even so, these measures do not suffice to eliminate the gap in quality between urban and rural education. Thus, the narrowing of this gap will remain a major issue in urban-rural integration.

Medical and Health Care

China is one of the countries in the world with the highest inequality in the distribution of medical and health resources, a disparity mainly manifest between urban and rural areas. During the people’s commune era, the cooperative medical system promoted in the countryside and the presence of “barefoot doctors” for a while guaranteed the farmers a basic level of medical care. With the dissolution of the people’s communes, the rural cooperative medical care also disappeared and farmers had to meet the costs on an individual basis. The problem of farmers’ difficult and expensive access to medical care is palpable. The large majority of farmers are unable to carry the economic burden of serious illness, and a high proportion of ill farmers are unable to go to the clinics or stay in the hospital. According to the third national health survey, the number of cases of farmers who needed hospital treatment but were unable to afford it rose from 64 per cent to 75 per cent between 1998 and 2003. The proportion of the poor population who either fell into poverty due to illness or fell back into poverty due to illness in the same period rose from 22 per cent to 33 per cent. In 2003, 18 per cent of rural households incurred medical expenses that exceeded the annual household income, 24 per cent borrowed money to cover medical costs, and 6 per cent sold their limited real estate to see the doctor. Among the families that had borrowed money due to illness, 47 per cent could not cover their basic needs. In 2003, 62 per cent of ill people in rural areas of China’s western regions needed treatment but could not afford it due to economic difficulties; 75 per cent of ill people had to leave hospitals

untreated. This leads to a vicious circle of illness leading to poverty, and illness causing a relapse into poverty.

To solve the problem of difficult access and high price of seeing a doctor in rural areas, two measures have been adopted:

- The strengthening of the rural medical and health infrastructure. In the eleventh five-year-plan period, rural medical service construction programmes planned for 2004 to 2009 involve 21 billion CNY in investment funds arranged by central and local governments. By 2010 they are poised to have completed county hospitals; county TCM hospitals; national minority hospitals; county maternity and paediatric health units; and the establishment of a three-tier rural medical service network suitable for farmers' income levels at the county, township and village levels.
- The establishment of a new rural cooperative medical system. In 2003 the establishment of a new rural cooperative medical system was initiated, and by 2008, 2,729 county-level jurisdictions with rural populations had established such a system, covering a rural population of 814 million people.

The debate on the new rural cooperative medical system mainly focuses on the following aspects: (a) As the financial investment is weak and its capitalization standard low, the farmers have to shoulder the lions' share of the medical expenses. Thus, the system is not very attractive to the farmers. (b) There are huge discrepancies between the new rural cooperative medical system, the urban employee health insurance system, and the urban resident health insurance system; consequently, there are two different health insurance models for urban and rural residents and there is no urban-rural integration at the systemic level. In 2007, for example, the urban employee health insurance system, the urban resident health insurance system and the new rural cooperative medical system, respectively, refunded 70, 50 and 30 per cent of hospitalization costs. (c) The household registration system as a precondition for access to participation in health insurance is likely to be an issue in the longer term.

A new trend worth noting is that in some places, such as Xinghua in Jiangsu Province, the equal right of choice between rural and urban residents has been introduced, allowing the rural residents to choose between the new rural cooperative medical system (individual contributions of 20 CNY, a government financial contribution of 80 CNY, an average compensation level of 40 per cent for hospitalization and a maximum

insurance limit of 70,000 CNY), the urban resident basic health insurance scheme (individual contribution of 100 CNY, a government financial contribution of 80 CNY, a hospitalization compensation level 5 per cent higher than the new rural cooperative medical system, and a maximum insurance limit of 70,000 CNY), and the urban employee basic health insurance scheme (following the relevant national standards). It would thereby allow for the right of choice and urban-rural equity. This is one possible future direction for achieving urban-rural integration in health insurance.

Social Security

In the planned economy era, the work units guaranteed the urban employees social security from cradle to grave. The market reforms brought about a new urban social security system set up by the government, into which, in addition to the insurance contributions from employers and the insured, the central and local governments infused substantial funds on an annual basis. During the people's commune period, the rural areas relied mainly on the families to provide security for the elderly, while those without family were secured by the community-based "five guarantees".¹¹ After the rural tax and fee reform, the "five-guarantees" old-age-security system was changed to a state-led social security system for rural areas as the rural basic-guaranteed-income system was established nationwide. However, the main part of the annual social insurance expenditure of central and local finances was directed towards urban areas, with limited funds flowing into the rural social security system. In the central state budget for 2008 the financial expenditure earmarked for the old-age pensions of urban employees was 126.3 billion CNY and that for the urban basic guaranteed income was 26.11 billion CNY; the expenditure earmarked for the rural basic guaranteed income was only 9 billion CNY, and that for the rural "five-guarantees" pensions was only 7.67 billion CNY (including the local financial commitment).

The main disparity in urban and rural social security is in the area of old-age pensions. Before 2008, the rural old-age pension scheme was only established in some areas, mainly based on financing by rural com-

11 Translator's note: The five-guarantees system stipulated that the collective under the people's commune should provide food, clothing, housing, medical care and burial expenses for all members of the collective who had no relatives legally obliged to support them. The expenses were covered by collective funds.

munities and individual farmers and involving some local-government financial input, while there was no central government financial input whatsoever. The rural population ages faster than the urban population, so it is necessary to establish a rural old-age pension scheme. Among the new measures proclaimed at the third plenary session of the Seventeenth Central Committee is “to establish a new-style rural social and old-age pension system requiring individual contributions, collective support and government subsidy”, something which demands an “exploration of efficient ways of linking urban and rural old-age pension schemes”. Given the current initial schemes, 10 per cent of the counties in China should have established such a system by 2009. By the end of the current leadership’s incumbency in 2012, the coverage of the rural old-age pension scheme in terms of county-level jurisdictions will be 80 per cent, with an overall take-up rate of 60 per cent. By the end of the next leadership period in 2017, these two numbers will have risen to 100 and 80 per cent, respectively.

There is quite some debate on the issue of rural old-age pension. It is necessary to rapidly promote the interregional transfer and continuation of coverage; the old-age pension scheme that is specifically directed at migrant workers is only a transitional measure and must eventually be put on the same track as the urban employees’ or the farmers’ old-age pension schemes. The city of Beijing will, for example, allow farmers with a household registration in Beijing to opt to participate in the city’s urban employees’ old-age pension as of 2009.

Public Finance

Because the aim of China’s agricultural tax in the early stages of industrialization was to accumulate funds for industrialization, the proportion of agricultural taxes in the state’s finances was quite large. After the central-local tax-sharing reform of 1994, the agricultural tax became an important form of taxation at the county and township levels and an important source of funding for the county and township governments’ provision of public goods and services. In the past, an obvious disparity between urban and rural areas in the provision of public goods and services has been that the urban costs have been shouldered through the financial budget, while the rural costs at the township and village levels were funded with contributions collected from the farmers. The rural tax and fee reform, initiated in 2000 and completed in 2003, eliminated the mechanisms for collecting contributions at the township and village

levels; the abolition of the agricultural tax was initiated in 2004 and completed by 2006, and a budget expenditure transfer system was established for counties and townships as well as rural communities. In this process, central and local finance began to cover rural public goods and services, with the state thus replacing the farmers as the main provider of rural public goods and services.

The third plenary session of the Seventeenth Central Committee declared that it was essential to promote the equality of public resource deployment between urban and rural places, to equalize basic public services in urban and rural areas, and to make basic state infrastructure and the provision of social services in the countryside a development priority. In particular, it aimed to

on a large scale increase state investment in the development of rural infrastructure and social services, on a large scale increase the proportion of the gains from land leases and from value increments due to the occupation of farm land, and on a large scale bolster investments in rural public construction projects in the central and western parts of China.

However, as unbelievable as it may sound, central government financial expenditure on rural issues is showing a downward trend. The financial policy of 2009 saw an expansion of the budget deficit to deal with the global financial crisis. According to the statutory report of the government and the financial budget report, the central government in 2009 earmarked 716.1 billion CNY for rural purposes, representing an increase of 120.6 billion above the previous year – that is, 43.1 billion CNY less than the growth of 163.7 billion CNY in the year from 2007 to 2008. The 2009 funding constitutes 16.3 per cent of the total central government budget expenditure, 0.1 percentage points lower than the 16.4 per cent in 2008. This serves to demonstrate how difficult it is to realign the structure of financial expenditure to increase investment to solve the rural issues.

Conclusion

We can arrive at the following brief conclusions based on the above analysis: First, because China's long-term imbalance in urban-rural development results from a combination of deeply engrained factors, the process of breaking down the obstacles posed by urban beneficiaries of inequality and of eliminating the urban-rural dual structure is a huge and

difficult-to-achieve challenge. Thus, the promotion of urban-rural integrated development and the narrowing of the urban-rural gap will proceed step by step. Second, China has already adopted a raft of policy measures to promote urban-rural integration which are currently having a positive impact, and it is possible to predict that their effect will be incremental. Third, although the measures already taken and in the process of being implemented carry the obvious scars of the dual system – in particular the large differences in urban and rural land rights and the fact that the two major models for urban-rural health care, minimum guaranteed income and pension insurance rely on the household registration system – they do not represent an obstacle to the future integration of the urban and rural systems. Finally, integrated urban-rural development affects many policy discrepancies that have not been given sufficient attention. For example, the general mail and telecommunications services, the urban-rural digital gap, and the diverse policies in place for socially integrating demobilized soldiers in rural and urban areas have yet to be addressed through substantive measures.

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