

CHAPTER 1

Introduction: China's Great Urbanization

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The spectacular rise of China as a world economic power is one of the most important events at the turn of the 21st century. In the three decades after China launched its market-oriented reform in 1978, the world's most populated country has seen its wealth continuously grow by almost one tenth per annum. With that rate of growth, the size of the economy doubles every seven years. Thanks to hyper economic growth, hundreds of millions of people have been lifted from poverty even though income distribution has become more polarized. With a 12-fold rise in just 30 years, China's per capita income has risen from merely one tenth of the world average to about one third in the past 30 years (NBSC, 2009a). Meanwhile China has also become a global hub of manufacturing, the second-largest exporter in the world market (2009), and the second-largest economy in the world (2010). By 2008, China had lifted itself from the rank of low-income countries to be one of the middle-income countries (Fig. 1.1).

Spatial concentration of production and population through urbanization is a salient feature of modern economic development in all countries. Industrialization and urbanization are the twin processes of modernization. China is no exception. In this giant country of 1.3 billion people, as the economy puffs ahead, urbanization is taking place at a scale and pace never before seen in human history. Figure 1.2 shows that every year since the mid-1980s, 13–15 million people have been added to China's urban population. That is equivalent to expanding the urban population every year by the size of the population in New York City. With this pace, China has added an urban population of 111 million in the 1980s, 141 million in the 1990s, and about 200 million in the first decade of this century. In other words, more

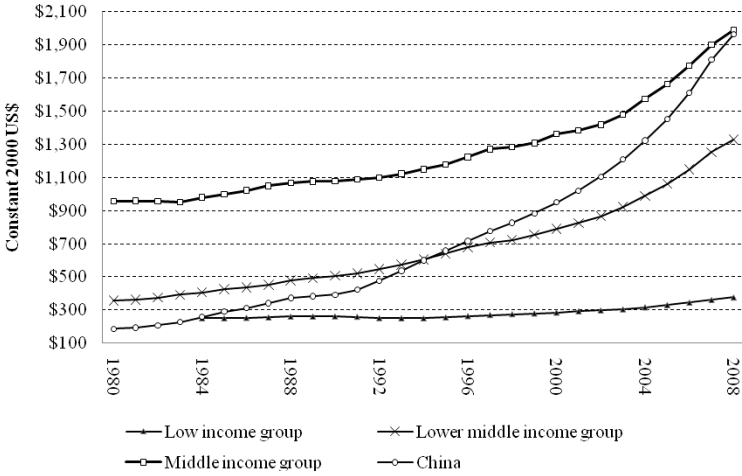


Figure 1.1. Per capita GDP: China compared to various income groups.

Source: World Bank, *World Development Indicators* online database.



Figure 1.2. China's urban population increase and growth rate (1979–2008).

Source: World Bank, *World Development Indicators* online database.

than 400 million people, nearly the combined population of the US and Mexico, have been added to China's urban population over the past 30 years.

Across China, new cities are sprouting up and the existing ones are being restructured and expanded. Hundreds of skyscrapers shadowed by numerous

cranes and scaffolds are changing the city skylines day and night. The phenomenon of Shenzhen, a modern city of over eight million residents that was launched three decades ago as a special economic zone in a village-town near the border of Hong Kong, has been emulated and repeated in many places around the country. Between 1978 and 2008, the number of cities of all sizes tripled while the number of cities with one million residents or more quadrupled (Fig. 1.3). Urban city built-up areas have been expanding at an amazing pace of over six percent per annum since the mid-1980s.

Thirty years ago, China was not only one of the low-income countries but also a laggard in urbanization. From the 1960s to the 1970s, due to a series of peculiar events and policy options in a centrally planned regime, China's urbanization process stagnated and even reversed. Its share of global urban population actually declined. By 1978, its urbanization rate (percentage of population living in urban areas) was less than 19 percent. Thanks to the persistent and massive urban building drive since the early 1980s, China has nevertheless quickly caught up with the rest of the world in its level of urbanization. By 2004, China managed to raise its urbanization rate to 39 percent, surpassing that of the lower-middle-income group for the first time (Fig. 1.4). It is notable that it was not until 2008 that China's per capita income qualified it as one of the lower-middle-income

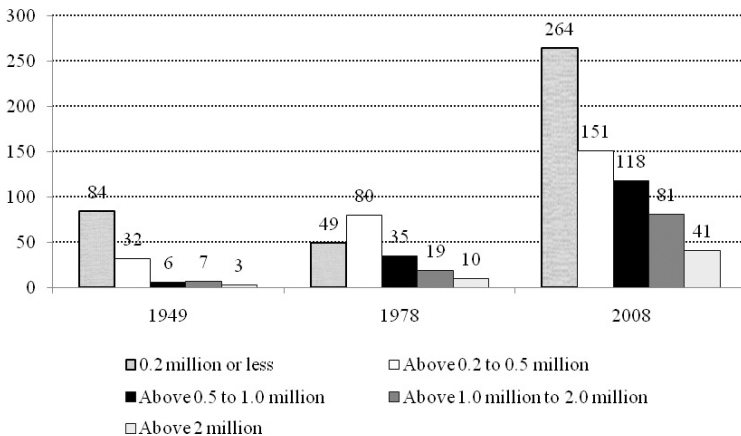


Figure 1.3. Number of Chinese cities of different population sizes (1949, 1978, 2008).

Source: NBSC (2009b).

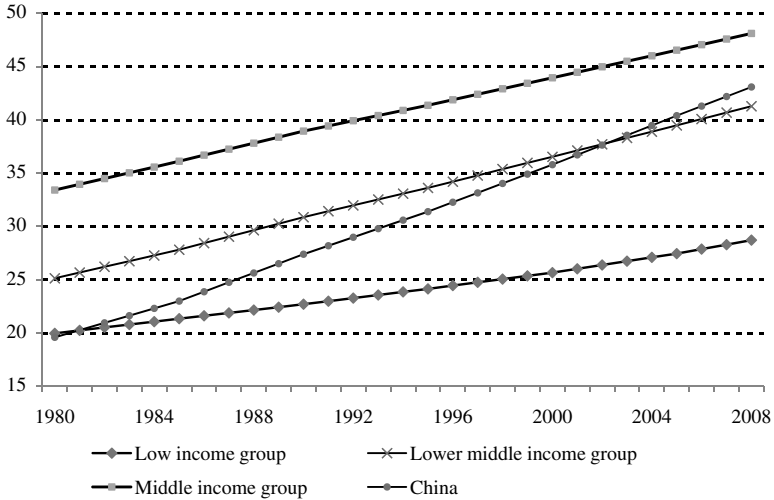


Figure 1.4. Urban population: Percentage of total (1980–2008).

Source: World Bank, *World Development Indicators* online database.

countries. China's urban agglomeration level, measured by the percentage of population in urban agglomerations of more than one million residents, had even surpassed the middle-income group's by 2007: China with 18.4 percent vs. the middle-income group with 17.8 percent.¹

The momentum of China's great urbanization seems unstoppable. As discussed by Northam (1975), urbanization has followed a growth path of an S-curve in most places in the world. When the urbanization rate is below 30 percent the pace tends to be slow since the industrialization is still at a preliminary period. When the urbanization rate surpasses 30 percent, its pace accelerates as massive rural-urban migration occurs while agricultural productivity rises and the industrial and service sectors create more and more jobs. The urbanization will slow down after it reaches 70 percent of the population. From this historical perspective, China has entered a period of rapid urbanization since the early 1990s and now is still in the middle of the second phase of the S-curve, a steep upward slope.

While China's per capita income has reached the average middle-income countries' level (as seen in Fig. 1.1), its urbanization rate is still

¹ World Bank, *World Development Indicators* online database.

about five percentage points lower than the latter's (as shown in Fig. 1.4). This remarkable contrast between the two indicators points to a huge potential for rapid urbanization in the coming years. According to a report by the McKinsey Global Institute (2010), if managed well, China will have 335 million more urban residents by 2025; one billion Chinese will live in cities by 2030; and the number of Chinese cities with a population of one million or more may reach 221 by 2030. In this process, approximately 40 billion sq meters of floor space will be built in five million buildings.

Moving ahead with further urbanization is indispensable to China's ambitious plan to sustain fast economic growth and raise its per capita income to the level of the high-income countries in the 21st century. The challenges and difficulties are abundant. To transform half a billion people from rural villagers to urban residents in the next three decades will not only require a colossal amount of investment in urban infrastructure and real estate but will also call for the development of many socioeconomic institutions and policies to facilitate and accommodate the massive transformation. Resource constraints, environmental pressures, social tensions, and institutional barriers all must be seriously addressed.

To understand the challenges and difficulties China faces today in this great urbanization, one must review what has happened in the unfolding events over the past decades. In particular, we must examine how various public policies have been adjusted and how institutions have been reformed to address critical issues in urbanization. To what extent have these policies and reforms been successful in meeting their challenges? In which ways are the past policies and institutions related to the issues in the coming years? Given the past experience, how likely will China's governing system meet the future challenges and solve knotty problems in urbanization?

This book aims to guide readers in comprehending some key developments in China's urbanization process. The volume collects insightful research papers by scholars on some key urbanization issues in China. These papers not only present a historical review of the evolution of public policies and institutions regarding urban development, but also a useful survey and in-depth analysis of various socioeconomic forces that define and contribute to the process of urbanization.

A good starting point is to take an overview of the whole city system in this populous country of vast territories. In Chapter 2, Song and Zhang examine the size distribution of Chinese cities and towns and compare it with the empirical observation of the so-called Pareto law of city-size distributions in other countries. Their study suggests that China's city-size distribution is better described by a modified Pareto distribution function with a quadratic term: city-size distribution appeared to be more even for large cities but less even for small urban and town areas. They also discovered that Chinese cities became more evenly distributed in the 1990s. The duo tried to interpret the phenomenon through the government intervention in urbanization: the policy that favors the development of small cities till the mid-1990s and the restriction of rural-urban migration especially for large cities.

Government policies have played a pivotal role in China's urbanization process. Chapter 3 (Lu) reviews the evolution of the country's urban development strategy at the national level. The chapter delineates major events in China's urban development since the founding of the People's Republic and describes how the central government's urban planning policies have drastically changed over time. It is interesting to observe that a new policy agenda to promote the growth of metropolitan hubs and urban clusters has emerged in recent years. The chapter also describes a series of institutional reforms since 1978 that have overhauled the resource allocation mechanisms in urban development and redefined the roles of the central government and local governments.

Local governments have crucial roles to play in China's urbanization. In Chapter 4, Zhu describes how, with the birth and growth of the urban land market, decentralization of urban land use planning to local governments has created an urban planning system conducive to economic development and rapid urbanization. He observes that this urban planning regime has been very pro-business and pro-growth by releasing land resources previously locked and underutilized in a centrally controlled system to be utilized productively in a market-based economy. However, he cautions that this transitional regime is not sustainable over a long term due to its lack of well-defined property rights and market order that provide certainty and internalization of externalities.

Rapid industrialization and urbanization have transferred more and more land away from agricultural use. The authors of Chapter 5, Zhang, Mount, and Boisvert, give a historical review of agricultural land use in China and its tension with the rising demand for urban land driven by industrialization. They then develop an analytical framework to describe what drives local governments to convert farmland for non-agricultural use and how the farmers determine the land use intensity (i.e. intensive cropping) for agricultural production. The empirical study confirms that with the deepening urbanization and rising incomes, it is inevitable that many farmers will eventually lose interest in intensive farming and move to non-farm jobs.

With more land being converted from farming uses to urban uses, the issue of assessing the efficiency of urban land uses arises. In Chapter 6, Ding and Zhao examine three typical urban spatial development forms in China — special economic zones, university towns, and central business districts — and evaluate the potential negative consequences and associated efficiency losses that may affect the long-term sustainable growth of cities. They argue that urban development in China should be focused on the creation and development of employment (sub)centers and urban spatial development in conjunction with these (sub)centers through the integration of land use and transportation.

To allocate land resources more efficiently, urban development needs not only foresight planning but also effective market mechanisms. Under the socialist legal framework, all urban land is owned by the state. In most Chinese cities before the late 1980s, urban land use rights were allocated free of charge to state-owned or state-controlled socioeconomic units (*danwei*) and there was no land market. An amendment to China's Constitution in 1988 legalized the transfer of land use rights through leasing and subleasing transactions between users, developers, and local governments. Since then, the real estate market has been burgeoning thanks to the transaction of land use rights. In Chapter 7, Ding outlines how the public (land) leasing system (i.e. land use rights system) was introduced as the foundation of today's urban land market. He uses the land transaction data of Beijing in 1997–1999 to examine the effects of the urban land market on land use patterns. His results provide evidence that market forces and prices have significant influences on the determination of urban land use and land development.

Zhu, the author of Chapter 8, describes how the land use right has evolved into the land development right (LDR) as he observed in a field study in Shanghai. By this account, the LDR was created to unlock the redevelopment process by eliminating supply-side constraints upheld by the old institution of the socialist land use right. It therefore was a major institutional innovation at the local level to facilitate urban development. However, it is also observed that this transitional institution has induced hasty capitalization of land rent and led to a suboptimal utilization of scarce land resources.

In Chapter 9, Zhu discusses the emergence of two major players in the post-reform urban development, namely the local developmental state and the *danwei*-enterprises (state-owned economic units inherited from the pre-reform regime). The spectacular urbanization and urban redevelopment in many Chinese cities have been driven by the incentives for these players to grab the rent in land use. Due to the ambiguity of entitlement to land rent, the transitional institution of the land use rights market has been associated with massive rent dissipation and wasteful investment. The author observes that the cost incurred by the institution is gradually overtaking its benefit.

A remarkable feature of China's fast economic growth and massive urbanization is the rapid expansion of urban land use. Chapter 10 by Lu applies the neoclassical growth accounting model to assess the distinctive role of urbanized land in economic growth. Using China's data of 31 provincial economies during 1996–2007, the study finds rather low contribution rates of urban land expansion to economic growth. The author interprets this finding as empirical evidence of low efficiency in urban land uses, which might be rooted in a series of institutional weaknesses of the land market, especially the monopoly power amassed by the local bureaucracy in determining the terms and conditions of land requisition and land use rights lease and sales.

Urbanization essentially converts rural residents into urban ones. Rural-urban migration is the core issue. As shown in Chapter 11 by Zhang and Song, in the two decades up to 1999, more than 75 percent of the urban population increase came from rural-urban migration and most of the migration took place across provinces, from inland rural areas to coastal urban areas. The authors of the chapter apply the rural-urban migration

theories in development economics to analyze the demographic data. They conclude that both inter- and intra-province rural-to-urban migrants are motivated by the income gap between the rural home and urban destinations. They also find that the urban population size in a province has positive effects on intra-province migration while geographic distance discourages inter-province migration. The most intriguing part of this paper is its time-series analyses, which show that the nation-wide migration boom in these two decades was a consequence of China's rapid economic growth, not vice versa. This is consistent with our observation of Figs. 1.1 and 1.4: China's urbanization rate has lagged behind its economic growth. A possible interpretation of this result is that some structural bottleneck (such as urban social services for migrants) or institutional barriers have constrained the urban economy's capacity to create enough jobs for migrants.

A unique feature of China's urbanization process is the existence of various institutional barriers to rural-urban migration, such as the *hukou* (household registration) system, which defines residency status in urban areas. Due to the system, about one tenth of the country's population has become the so-called floating population, living and working in places where they do not have permanent residency status. Most of the population consists of rural migrant workers (*nongmin gong*) and their dependents. In Chapter 12, Lu discusses how this pattern of rural-urban migration may affect the welfare of migrants and the people of their homeland in the big picture of heterogeneous demographic transition across regions. The main challenge to the poor and rural regions is that the outflow of their working-age population has demographic consequences that favor the rich and urban areas. The biased impact is exacerbated by the *hukou* system since it returns rural migrant workers to their homeland when they get old and become unemployable. Several policy options are suggested for poor regions to deal with this challenge.

Finally, the epilogue highlights the major challenges to China's great urbanization in the coming years, which concern the ecological environment, urban governance, and mass migration. How China responds to these challenges will define the pace and features of the great urbanization in the coming years.

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