



Urban growth dilemmas and solutions in China: Looking forward to 2030



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ABSTRACT

China's urbanization and industrialization process is replacing large amounts of farmland, which is strongly driven by the country's land finance regime, with the intensified regional/local competition for manufacturing investment opportunities pushing local governments to expropriate farmland at low prices while leasing land at high market value to property developers. The additional revenue obtained in this way, termed *financial increment in land value*, can drive local economic growth and provide associated infrastructure and other public services. At the same time, however, a floating population of large numbers of inadequately compensated land-lost farmers, although unable to become citizens, have to migrate into urban areas for work, causing overheated employment and housing markets, with rocketing unaffordable housing prices. This, together with various micro factors relating to the party/state's promotion/evaluation system, plays an essential role leading to serious economic, environment and social consequences, e.g., for migrant welfare, the displacement of peasants and loss of land resources, in need of immediate attention.

Our question, therefore, is whether such type of urbanization is sustainable. What are the mechanisms behind China's phenomenal urbanization process? From the perspective of institutionalism, this paper investigates the institutional background of the urban growth dilemma and solutions in urban China by introducing an inter-regional game theoretical framework to indicate why the present urbanization pattern is unsustainable. Looking forward to 2030, major policy changes are made from the triple consideration of the floating population, social security and urban environmental pressures. This involves (1) changing the land increment based finance regime into a land stock finance system, (2) the citizenization of migrant workers with affordable housing and (3) creating a more enlightened local government officer appraisal system to better take into account societal issues such as welfare and beyond.

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1. Introduction: the process of China's urbanization

The rapid continuous industrial development of China in recent years has resulted in the ascent of many modern cities. Since the early 1990s, the central government has also removed many restrictions on market economy. This, together with a decentralized fiscal system, has resulted in local governments accumulating a

significant amount of development capital. Along with the accompanying circulation flow of capital and economic growth, the focus is no longer solely on agricultural production or living conditions and local governments now pay more attention to business development and direct rapid urbanization (Zhou et al., 2004; Lu, 2007).

The conversion of farmland to urban construction land and the associated so-called "floating population" or *liudong renkou* have become two aspects of macro performance in the urbanization process. For instance, the urban population in China in 2012 was over 710 million, equal to 52.6% of the country's total population - 4.13 times that at the time of the 1978 *Reform and Opening Up* policy - and with an annual average urban population growth rate of 3.7%

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from 2000 to 2012. The national urban construction area also reached 45 751 square kilometers in 2012, an annual growth rate of 6.25% since 2000. As these figures indicate, the land expansion rate is nearly double the population expansion rate, which will inevitably influence urban land use efficiency – a critical issue in such a densely populated country as China.

Urbanization and urban growth issues have been investigated in several countries. Grimm et al. (2008), for example, propose six hypotheses concerning the local to regional effects of urbanization and pollution, while Kabisch, Haase, and Haase (2006) analyze the chances and limits of urban modeling in developed cities to explain and assess the urban shrinkage process of many places in Europe. In less developed parts of the world, Cohen (2004), typically, points out that urban growth has become one of the most important challenges of the 21st century and is being affected by continued global economic integration and the struggles of developing countries, while Ravallion, Chen, and Sangraula (2007) comment on the negative externalities of geographically concentrated poverty and irreversibility resulting from the costs of migration. Similarly, Heinke (1997) lists the many problems faced by Asian mega-cities, including control of the population, conservation of resources, careful planning for the redevelopment of current mega-cities, etc.

Most of the research into China's urban growth challenges has been conducted over the last two decades. Wong (1994), for instance, argues that urban migrants, being relegated to the margins of civil society, are likely to remain a barrier to urban stable development. Hills and Barron (1997), on the other hand, regard sustainable development as a challenge for Hong Kong because of the existing relationship between pollution control and economic growth, while Chen (2007) focuses more on agricultural production, observing the major risks involved in the decreasing availability of cultivated land because of the urbanization process. Other studies also analyze urban growth dilemmas from such aspects as land scarcity, water scarcity, policy and eco-environment coupling (Chen, Jia, & Lau, 2008; Hsing, 2010; Jiang, 2009; Liu, Li, & Song, 2005; Tan, 2000).

Although China covers a vast area and has abundant resources, large differences between regions make land a scarce natural resource, especially in coastal developed cities such as Beijing and Shanghai. Parcels of land cannot, of course, move independently from space to space even under the force of value laws. Thus, strict control of urban construction land supply and urban planning are necessary (Qiu, 2010). Meanwhile, however, local governments are dependent on attracting businesses through land leasing (Tang & Lu, 2008). For instance, the government prefers to sell industrial parks and industrial land leases at a low, or even zero, land price to induce purchases and attract the flow of capital into the area (Wei & Cong, 2005). In contrast, a popular action with commercial-residential land transference is to set high prices to strengthen local government finance (Zhang & Zheng, 2010).

Such behaviors seriously interfere with the market allocation of scarce land resources, however, with national income consequently reduced and the contradiction between population, land and environment becoming increasingly extreme. Therefore, if local governments continue to use the current extensive urban expansion method to seek higher local economic returns, the eventual outcome for the whole country will be counterproductive. In recognition of this, in 2014 the Xinhua News Agency was authorized to issue a “national new urbanization plan”, pointing out the unsustainability of relying on a cheap labor supply, extensive resource consumption and inequitable distribution of public services to promote urbanization.

According to World Population Prospects research, the urbanization level in the world as well as in China has risen continuously

from 1950 and is expected to continue in this way to 2050 (Fig. 1). In the mid-1970s, China's urbanization level was less than the world average, but the extraordinary progress since has narrowed the gap considerably and is expected to disappear by around 2020. When a country's urbanization rate surpasses 30%, it is generally believed that it is in an accelerated development period and needs more resources, population and capital transfer as material support (Liu et al., 2005). The country is now well beyond this and has entered a state of rapid growth. Of course, China has certainly received positive benefits from urbanization. For instance, urbanization helps cities create more job opportunities and absorb a large number of surplus rural population. Moreover, China's traditional secondary industry dominated economic pattern has been changed by rapid urbanization to substantially developed tertiary industries in order to promote industrial transformation as well as achieving sustainability. However, every coin has two sides. Such development momentum creates many social problems, including the effect of growth on the environment, quality of life, economic competitiveness and inequalities within regions (Wiewel & Schaffer, 2001). Specifically, understanding how to coordinate the complex relationship between the urban population and land in a sufficiently equitable manner is an explicit need in China. It is necessary to identify an appropriate way to do this in the future under the new urbanization guiding principles such as urban-rural integration, intensive use and harmonious development.

2. The mode of urban growth promotion in China

2.1. Three production factors in the market

This paper is based on neoclassical economics and aims to identify the urban growth track needed for China through production factors against the background of urban growth. Western economics regards the variety of resources used in production as production factors and declaims the production process as equal to the integration of these factors. The first person to propose such ideas was the British classical economist William Petty, who famously held in his “Treatise on Taxes and Contributions” that “labor is the father and active principle of wealth, as lands are the mother” (Petty, 1769). Land and labor were subsequently considered to be production factors and “value” defined as their co-creation. However, Petty did not propose the concept of production factors directly. This emerged only some time later in Say's 1803 “A Treatise on Political Economy”, with the notion that “land, labor and capital interact with each other to produce a corresponding value in which land is the most important factor” (Say & Biddle, 1851).

2.2. Development background of urban growth: market factors

2.2.1. Labor: a dual structure between the urban and rural on the census register

In the agrarian age, humans took land as the original source of production. The population of settlements steadily grew and villages gradually evolved into towns (Ann, Wu, Zheng, Zhang, & Shen, 2014). The spread of urban civilization requires an adequate labor force (Zhang, 2010). As China's urbanization expands, so does the labor population, which research shows will continue into the foreseeable future – expecting to reach 1 billion by around 2025 (Yang & Lu, 2006).

The labor population is often divided into two groups: urban labor and rural labor. The urban labor population usually lives and works in the city. Nonetheless, not all labor in countryside creates value. A certain percentage of rural labor relocates and works in cities (Zhang, & Song, 2003). In China, such people cannot receive

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