

Problems of Land-Centred Urbanisation in China

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China has undergone the largest urbanisation process in human history since the late 1970s. Along with China's record breaking economic growth and industrialisation is a massive flow of rural migrants to the urban regions over the last two decades, especially in the coastal eastern cities. The surge in rural-to-urban migration has been a prominent feature of China's urbanisation. However, millions of migrants have not obtained legitimate permanent residency status to work and live in urban areas largely due to the *hukou* (household registration) system.

The Chinese central and local governments are aware of these problems and have since the 1990s made adjustments to the *hukou* system. However, the governments have yet to take a fundamental step towards totally reforming the ill-executed *hukou* registration system. Meanwhile, migrant communities remain largely deprived of the rights and entitlements of permanent city residency.

To promote China's industrialisation and urbanisation in the last two decades, the state has taken over vast tracts of agricultural farmland that were formerly collectively owned land for the construction of factories, urban real estate, infrastructure and other non-agricultural purposes. According to official data, the total size of cultivated land had declined from 135.38 million hectares (2.03 billion *mu*) in 2009 to 135.16 million hectares (2.02 billion *mu*) in 2012. In contrast, the supply of state-owned construction land for factories, real estate development, infrastructure construction and other commercial uses had increased almost two times from 0.36 million hectares in 2009 to 0.73 million hectares in 2013. Such land conversion policies and the creation of new cities/towns are other profound features of China's urbanisation.

The Chinese government has identified urbanisation as a key strategy and an engine to sustain China's economic growth. Urbanisation is also an important element in China's shift to domestic consumption by generating demands of rural consumers and for new infrastructure, housing, schools, hospitals and services, etc.

Local governments have aggressively expanded their urban territory through land requisition and conversion of farmland to urban construction land under the state expropriation system; they have shown little interest in offering fair compensation to the dispossessed peasants, or in integrating the displaced peasants in cities.

Land has become the primary commodity and major source of financial revenue. The land-centred urbanisation strategy promoted by the local governments has caused prices to soar as a result of housing and property speculation. It has also led to land-related issues such as illegal land grabs, massive housing demolition, forced eviction and inadequate compensation of peasants, which are major threats to social stability.

Land-centred urbanisation could be traced to local government GDPism. The development of land and infrastructure construction for city building can boost local GDP growth, key indicators of local political achievements referred to as "trophy projects" (*zhengji gongcheng*). Urban development and expansion accompanied by infrastructure construction and development of real estate have constituted one of the main pillars of the local economy and a driving force behind China's economic growth.

Urbanisation entails costly urban development and infrastructure construction. Government investment in urban infrastructure is the driving force behind boosting local GDP growth. Government investment is derived mainly from bank loans through local government investment vehicles (LGIVs). The debt-financed government investment model is widespread and pervasive in China. A National Audit Office (NAO) of China report indicated that more than 50% of local government debt has been incurred due to investment in urban transportation and other infrastructure construction.

As a consequence, many local governments have been heavily in debt over the past decade. According to the latest NAO audit report, local government debt¹ reached over 10.57 trillion yuan by June 2013, up by 3.86 trillion yuan from the corresponding figure in 2010, an annual growth of nearly 20%.

China's push for urbanisation has been top-down, state-led and land-centred. To accelerate the urbanisation process and boost capital investment in real estate and infrastructure construction, the local governments have arbitrarily created numerous new urban areas, occupying large tracts of former rural farmland and giving rise to "ghost cities/towns".

Although the Ministry of Land and Resources and other relevant central ministries made many attempts to regulate land requisition, curb the establishment of new cities/towns and strengthen central supervision over land conversion, the measures have borne little fruit at the local level over the past several years. Uncontrolled land development and the proliferation of "new cities" in China have been rampant and seemingly unstoppable. According to *The Economist*, 144 Chinese cities across 12 provinces in China are planning 200 new cities/towns.

The emergence of so-called "ghost cities/towns"² in China is a byproduct of the ill-planned land-centred urbanisation strategy implemented by China's local governments. Chenggong New District is a case in point. Chenggong, 20 kilometres south of downtown Kunming, was originally an agricultural county but is now a new city in the making. Its development can be traced back to May 2003 when the Yunnan provincial government issued a strategic plan, "Modern New Kunming", designating Chenggong district as the future centre of government, education, industrial development and culture of Kunming, and incorporating plans to alleviate traffic and living congestion in the city. These plans marked the start of new city construction in Chenggong.

The Kunming municipal government has played a key role in the making of Chenggong with extensive rural land requisition for urban development and infrastructure construction financed by land lease premiums and bank loans. The Kunming authority has since provided

¹ Local government debt includes debts directly incurred by local governments, debts guaranteed by local governments and debts for which local governments might have some liability.

² Ghost city/town refers to fully built urban areas littered with unoccupied newly built residential properties and uncompleted construction projects but with very few residents.

huge capital investment for the construction and improvement of local transportation, housing, power plant, water and other critical infrastructure.

Nevertheless, the high-rise housing apartments in Chenggong are to this day still largely deserted. There were few people walking on the streets or cars on the lush tree-lined roads even during peak hours. Limited employment opportunities and poor public services have also discouraged migrants from moving to Chenggong. Around 80% of the housing units in Chenggong are empty. Some have been sold but remain unoccupied, while others remain unsold or are uncompleted.

The Kunming authority has so far failed to attract new residents to Chenggong. Although the local authority has relocated all municipal departments and spent billions of yuan on infrastructure projects, there are barely 250,000 people in total working and living in Chenggong, roughly one-fourth of the government's projection of one million residents.

The Chinese central government is now confronted with the daunting tasks of revising the current land-centred urbanisation model and tackling problems that have accumulated and remained unaddressed over the years, and have now reached tipping point.

The central government would have to replace this flawed urbanisation model with one that is more inclusive, sustainable and people-centred through urbanising rural migrants and achieving rural-urban integration. The key to implementing such reform is to provide equal rights and welfare to rural migrants and urban residents.

To solve the problems of land-centred urbanisation, and in particular those pertaining to local government debt and China's "ghost cities", the Chinese central authority has to show clear commitment and formulate hard-headed policy measures. The land-centred urbanisation model has highlighted many institutional problems, including the *hukou* registration system, taxation-sharing design and local cadre performance evaluation system.