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## Cautions on China's Urbanization

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**Abstract:** With a population of 1.3 billion, China faces unprecedented urbanization challenges. The Chinese government, at various levels, strives to accelerate the urbanization process through city expansion and lowering the threshold for farmers to move into cities. Although urbanization is an inevitable consequence of modern economic development, this process has shown signs of “overheating.” Hidden drawbacks, such as intensive pressures on employment and social security, and bubbles in the real estate industry, suggest that the government needs to put the brakes on this trend by carefully scrutinizing and taking steps to control the process.

## Cautions on China's Urbanization

Urbanization is a historic transformation process by which the means of production and people's lifestyles evolve from the country to the city. While this process is often characterized as farmers' migration to cities and the continuing development of cities, the process is in fact far more complex. Considering the rapid economic growth in China, some experts and scholars have maintained that urbanization in China lags far behind that of developed nations in Europe and America and it is imperative for China to catch up with this process within the next 30 years. As a result, the Chinese government is permitting farmers move to cities and has instituted various measures to accelerate the urbanization process.

This is dangerous. Particularly if this process is not brought under control in the next 5 to 10 years, it will cause many problems, which will have severe economic and political consequences and affect social stability as well. Urbanization is not simply a process in which farmers move to cities. Rather, it is a complex process that not only requires co-development with industries and the entire economic system but also needs to be compatible with the conditions of employment, security, education, public transportation, medical insurance, environmental protection and infrastructure.

## Overview of Chinese Urbanization

Of the 1.3 billion people in China, 900 million live in rural areas. The current urbanization rate (percent of the population that lives in urban areas) is 38 percent, well below that of other developed countries and regions (see the table below). However, the rate of urbanization has embarked on a fast track. As shown in the table, average urbanization during the 24 years since China's adoption of reforms and open-door policies in 1978 has more than doubled compared with the previous 30 years.

Percent of Population That is Urbanized

Region	1950	1970	1978	1990	2000	2002
World	30	37		44	47	
African	15	23		32	37	
Asian	17	23		32	38	
Europe	52	65		72	73	
Latin American and The Caribbean	42	58		71	75	
Oceania	62	71		71	74	
China	13	17	18	27	35	37
United States	64	74		75	77	



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Currently, Chinese cities are growing at an unprecedented rate. It is expected that the urbanization rate will increase by nearly 1.5 percent annually. Experts hope that the urbanization level will reach 50 percent by 2010.

**Analysis of the hidden problems of Chinese urbanization**

1. **Narrow employment opportunities.** It is well known that there is an interplay between urbanization and industrialization; the development of urbanization and industrialization are inseparable, and the urbanization levels of industrialized counties are usually higher. On the one hand, industrialization pushes the development of urbanization. On the other hand, urbanization also boosts the development of industrialization. In 2003, the relative proportion of China's production outputs from agriculture, industry and services was 14.7 to 53 to 32.3 percent respectively, which indicates that China has not completed the transformation from pre-industrialization to industrialization. During this period, therefore, it is inappropriate to over-emphasize urbanization. In addition, in 2002, the number of employees working in state-owned enterprises fell from the previous record high of 75 million to 40 million, with nearly 20 million people laid-off. As of June 2004, 8.37 million people in China's cities and towns were unemployed. Some of these unemployed workers, both those who were laid off from the state-owned enterprises and the unemployed in the cities and towns, now seek jobs in the 3<sup>rd</sup> industry, in direct competition with the newly arrived farmers who have traditionally pursued these positions. This process may make it more difficult for farmers to find jobs in China's cities. A recent *White Book on Social Protection and Security* by the Chinese government indicates that the tension between the surplus of Chinese labor and the structural employment problems will continue for a while. China's entrance into WTO has had a new round of impacts on traditional Chinese industries, and as a result, many workers will lose their jobs. This shock will last for 5-10 years. All of these factors impede the employment of farmers in cities.
2. **Blind expansion of cities.** During a Chinese construction conference on January 13, 2004, Guangtao Wang, the minister of construction, pointed out that there are several problems in today's city development in China:
  - a) Blind city expansions have intensified. Some local governments propose development objectives that are impractical and do not consider principles of city development, stages of economic development and limited resources;
  - b) Symbolic projects are prevalent. Without considering investment returns, some local governments build "show-off projects," such as administration centers and luxurious office buildings, at the expense of investments in city facilities that are critical for public welfare;
  - d) The construction of environmental and sanitary systems lags behind what is needed. The rates of environmentally safe solid waste and wastewater processing are less than 20 percent and 40 percent respectively;
  - e) Cities lack guidance on small-city development and special regulations, blindly imitating the patterns of others. Currently, almost all of the regional level cities are designed to accommodate a population of one million, irrespective of their current labor conditions. Very few people take into consideration future population growth and city infrastructure development. The Chinese government does not have a specific instructive guideline on city development in different regions, which leads to blind city expansion and irrational imitations among cities. More than 100 million Mu (1 mu, or mou, = 666 2/3 square meters, so 100 million mu = roughly 67 billion square meters) of arable or cultivated land has been under construction for building industrial parks over the past seven years. This has caused many problems,



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including traffic jams, water and electricity shortages, lack of energy, lack of schools and environmental pollution. Recently, media in both China and the United States reported a story about the so-called “new residence restriction” (New HU Kou) policy initiated one year ago by Zhengzhou, the capital city of Henan province in China. According to that policy, people from other cities are not allowed to move to Zhengzhou because the city’s surge of population has imposed a heavy burden on the city’s public services and facilities, such as public transportation, education, social security and medical insurance. The dilemma that Zhouzhong faces symbolizes the challenges of urbanization in China. This situation will become even worse in the next several years.

3. **Bubbles in the real estate industry.** The Japanese economy slid into recession at the end of 1980s mainly due to the burst of its real estate bubbles. There were still many half-erected buildings in Tokyo 10 years later. During the Asian economic crisis in the 1990s, much wealth vanished, primarily due to the devaluation of real estate. China learned its lessons in the 1990s from the evaporation of real estate bubbles in Zhuhai and Hainan. Currently, China is undergoing a rapid urbanization process, which inevitably leads to an overheating in the real estate sector. In a recent research report, Guozhong Xie, chief economist at Morgan Stanley Asia-Pacific, maintained that the world economy faces its largest bubble in the real estate industry, and that the bubble in China is especially severe. Real estate investment has accounted for 18 percent of the national investment in fixed assets in China. In some cities, this percentage has reached 55 percent. Although it is one of the main drivers of local economic growth, the real estate industry has become a dominant economic force, which draws resources from every walk of society. Real estate has embarked on an irreversible path of expansion. It is estimated that this real estate bubble will burst soon, and will cause an “earthquake” in China’s economy, with the seismic center in Shanghai.
4. **Social security and stability.** Stability means so much to China’s 1.3 billion people that the Chinese government has stressed many times that social stability ranks number one on its agenda. However, uncontrolled urbanization causes many farmers to flock to cities in a short period, which not only imposes pressures on city infrastructures, but also causes potential social problems. If the newly immigrated “city citizens” do not have a proper education or cannot find jobs, they may be more likely to commit crimes. In addition, China’s entrance to the WTO may negatively affect the Chinese agricultural sector and cause huge labor outflows from the rural areas. A national survey team at the Chinese Academy of Science utilized various indices to estimate the exact number of extra laborers in the agricultural sector. This figure was 94.85 million in 1984, more than 200 million in 1994, and in 2000 it reached 300 million. When this superfluous labor force flocks to cities to find work, a huge population explosion and attendant social problems result. Since the 1990s, the crime rate among urban immigrant populations has been on the rise. According to sources, criminals who were immigrants account for over 50 percent of the total criminals in Shanghai, and 80 percent in Guangzhou.

### Reasons for the Overheating of China’s Urbanization

1. **Blind application of urbanization theories from developed countries.** Theories on the relations between urbanization and industrialization, GDP and industrial structures are useful for Chinese people to study; however, it is not wise to apply them out of context. The populations in developed countries and their industrialization levels are quite different from the current situation in China. China has a much larger population with lower economic development and industrialization levels. Chinese companies are not competitive in the global market, and their adaptabilities are very low as well. Therefore, to be useful, urbanization theories from the western countries should be adapted to the Chinese context.



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2. **The Chinese government has few unified instructions.** China does not have a ministry or special government agency in charge of urbanization research and promotion, and the country lacks coordination among areas and collaboration among agencies. In its “10<sup>th</sup> Five-Year” and the most recent “11<sup>th</sup> Five-Year” government plans, there are no specific instructions on how local governments can adapt their urbanization plans to specific economic and regional conditions.
3. **Local government officials are short-sighted and motivated by their own interests.** Many local government officials have initiated “show-off projects” to achieve their own goals, aiming to be promoted to higher government positions. As a result, many funds are diverted from critical projects to “show-off” city expansions. Some cities even borrow money to expand, just for the sake of building larger cities.

### Approaches to Avoid Urbanization Overheating

1. **Enhance urbanization research and monitoring.** The Chinese government should assign a specific government agency to encourage experts to perform urbanization research. They need to consider both China’s economic and industrial conditions, and the uneven development among different areas. Not only should the global economic situation and its implications for China be examined, but the speed of urbanization should be adjusted according changes in the stages of China’s development. For instance, the rate of urbanization should increase moderately and steadily for the next 5-10 years.
2. **Develop small cities and towns.** There are many debates and controversies over the development of China’s small cities and towns. We should acknowledge that developing small cities is an ideal path for China’s urbanization. Small Chinese cities are the inventions of Chinese farmers. Without any investments from the Chinese government, the township enterprises (TE) have grown very fast over the past 20 years, accompanied by the development of small cities. TEs have hired more than 100 million employees and account for half of the national industrial output. Small cities serve as an ideal stepping stone for the Chinese farmers who wish to leave their traditional agricultural lives for the market economy, and also the perfect transition from rural areas to the city. Liushi town, called the “town of electric appliances,” in Wenzhou, and Humen town, called the “hometown of overseas Chinese,” in Guangzhou, are two good examples of such small cities. If China is populated with thousands of these small cities, the Chinese economy will become much stronger and urbanization will accelerate.
3. **Establish incentive systems that will encourage local government officials to overcome their short-sightedness on urbanization and instill a sense of accountability.**
4. **Set up mechanisms to facilitate the education of the farmers residing in cities.** Establish education programs to teach farmers about urbanization and help them develop work skills, so that they can adapt more quickly to city life and find jobs more easily. In addition, a system to track their situation in the city would help them to settle down.
5. **Accelerate the pace of international employment.** Find ways to export Chinese labor to work in other countries. This is a good way to solve rural unemployment problems, and a good way for farmers to get rich. Farmers can broaden their views and improve their work skills abroad, which will equip them with the material wealth and spiritual foundations to settle down in cities upon their return from overseas.



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