

## CHAPTER 5

## URBANISATION: TOWARD A FUTURE OF BALANCED DEVELOPMENT AND AN ECOLOGICAL CIVILIZATION

## Key Messages

- The urban transformation in China is a transition in progress, with many opportunities for guiding its future.
- The complexity of this transformation urgently requires integrated policies and strategies that can simultaneously address emerging challenges.
- As China looks at its future, a compromise between the speed and quality of urbanisation appears to be the most desirable and viable option.
- Some challenges are more urgent than others; decisive actions on some can make a significant impact on human development.
- Without strong governance mechanisms and institutions for implementation, the policies needed to act on increasingly complex urban challenges will not be successful.
- In China's transition to more sustainable development, new perspectives and a comprehensive understanding of the interrelationships between economic, social and environmental costs and benefits are urgently required.

The year 2013 is auspicious for a report on China's cities and how its people are faring in the midst of an extraordinary urban transformation. Several factors coincide to make this examination timely and urgent.

First, Chinese authorities have declared their inten-

tion to place greater emphasis on the qualitative aspects of development, and to promote industrialization, informatization, urbanisation and agricultural modernization simultaneously. This requires a closer look at the role that cities—small, medium and large—will need to play in this new vision. As the report shows, cities, particularly large ones and

the clusters that they have formed, have contributed to thriving economic growth and development in recent decades. The urgency now is to ensure that all cities can continue to make a positive difference, rather than becoming a drag on efforts to attain more sustainable and balanced development. In this new phase, small and medium cities will need to play greater and more active and complementary roles than in the past. This suggests that China should scientifically plan for the scale and layout of cities and urban clusters.

Secondly, with more people now living in cities than in rural areas for the first time in history, the Government is fully aware of the need to turn its attention to making sure that cities are more liveable, humane and safer. This is a daunting task, with many facets and possible trajectories, as this report tries to highlight. It is directly linked to China's aspiration to switch to a more balanced model of growth, as expressed in its 12th Five-Year Plan. How China succeeds—or not—in advancing quality growth and human development in its cities will, in many ways, dictate the options and degree of success in its aspirations for more balanced growth and development.

Lastly, this report's reflections coincide with a number of ongoing global debates, including the post-2015 discussions around sustainable development, and the links between poverty, environment and inclusive green growth, as well as climate change negotiations. Because of the importance of China on the international stage, what happens here will certainly have an influence elsewhere. China has already strengthened international cooperation related to urbanisation. In May 2012, Li Keqiang, who was Vice Premier at that time, signed the "Joint Declaration on the EU-China Partnership on Urbanisation" with European Commission President Jose Manuel Barroso. Relevant State Council departments actively promote cooperation and exchanges with UN-HABITAT, the World Bank, the Asian Development Bank, the OECD and other similar agencies, and also engage with the BRICS countries (Brazil, the Russian Federation, India, China and South Africa).

## *Aiming for an Ecological Civilization*

The report takes a sweeping look at the urban transformation of the last few decades, and its drivers, impacts and growing challenges. One conclusion is that in addition to the speed of growth, the nature of the urbanisation process has altered and is still in transition. This provides an opportunity to guide the process as it continues to shape cities and their roles in the next two or three decades. The overall strategy to shift to a more balanced model of economic growth and development provides a new framework to inform this phase of urbanisation.

A transition is in progress from an urbanisation propelled by industrialization to one now influenced by a quest for inclusion and integration of all urban residents into city life—in other words, a process pushed by 'urban citizenization'. There are many implications for the future. The demand for unskilled and low-skilled labour attracted hundreds of millions of rural people to the cities as China's period of reform and opening up gained momentum. As China has entered the late stage of industrialization, the scope for additional physical expansion of the manufacturing sectors is diminishing. There must be new drivers to advance urbanisation and respond to sustained demand for urban services from the 260 million migrants already in cities. Conversion of more migrants from rural to urban settings will likely further stimulate investment in urban infrastructure, housing and industrial development.

Industrial expansion in the past has powered a nearly two-digit growth rate, but the quality of urbanisation in terms of liveability and sustainability is a major concern to the leadership of China, as expressed in recent statements. A shift to development characterized by a reduced rate of economic growth will make cities more liveable and sustainable for all urban citizens. A balance between urbanisation and economic growth was called an 'upgraded version' of the Chinese economy by Premier Li Keqiang in one of his recent statements.

## Pursuing Integrated Policies to Manage Emerging Challenges

The scale and speed of urbanisation in China is expected to continue for the next two decades. If the challenges are immense and the future full of uncertainties, one thing is clear: success depends on cities becoming liveable and sustainable. The forward trajectory will have distinct Chinese characteristics, differing from paths in both developed and other developing countries, but there may be experiences and lessons learned to be shared.

Public policies have a big role to play in shaping the future. As the report shows, the great waves of urbanisation in China have been driven largely by major policy reforms to guide urban development. There is an urgent need now for a new generation of integrated urban policy reforms that can cope with complex urban challenges. Because of the magnitude and speed of many changes, the window of opportunity for addressing many of these is relatively small. Making upfront investments and bold decisions today could mean lower costs in the future, with a last chance to avoid lost opportunities and higher costs.

Many recent reports on cities in China focus on resource pressures and constraints, climate change and environmental impacts. This report builds on these issues, but goes one step further to probe the interrelated consequences of urban transformation on people and human development. It maintains that addressing different dimensions separately rather than in an integrated manner may not bring desired effects, or could even be counterproductive. A portfolio of integrated policy approaches to simultaneously address some key emerging challenges is required to achieve multiple benefits.

A sample of challenges is presented here. Although not strictly urban in nature, they are magnified in cities, with serious implications for human development in China and beyond, and its aspirations for an ecological civilization.

- A slowdown in economic growth, which according to many analysts will most likely be the future trend, is bound to exert pressures for faster restructuring of the economy in order to counteract negative fallout. The current imbalances between primary, secondary and tertiary industries will need a closer look to determine a more balanced contribution by each sector.
- The demographic transition taking place will have great future impacts, positive and negative, and will pressure social services and economic productivity. Can measures be taken today to mitigate negative effects? Demographic transition has contributed greatly to economic growth and the savings rate in recent decades. Further unlocking human potential through increased investments in health and education, and reducing exclusion and discrimination through targeted support to vulnerable and poor populations could be important priorities. These measures will help enhance human development and sustain high growth.
- Growing inequalities emerging on many fronts through the transition to a market economy are a major concern to government authorities. Can more targeted and aggressive policies in cities be designed to ensure that there is equal access by all to opportunities and social services?
- Urban-rural links resulting from expanding city growth and emerging demands on the one hand, and the rush of the rural population to the cities on the other need to be studied in greater detail. Better understanding will help policies build on positive synergies between the two and reinforce mutual benefits. Adhering to the policies of industry nurturing agriculture; cities supporting rural areas; and giving more, taking less and loosening control would help promote rural-urban integration in planning, infrastructure and public services. Improving the conditions of the rural population and the integration of cities and the countryside would certainly be one of the best encouragements for more orderly and controlled migration to cities.
- The negative consequences of a deteriorating ur-

ban environment, with severe impacts on human and ecosystem health, need urgent attention. Measures to address these issues require a different metric of costs and benefits. Investing in environmental improvements could have payoffs and benefits for human and ecosystem health that are often not quantified. Better methods could help gauge their costs in a more realistic manner.

- A last consideration is the synergy of China's urban transformation with the global economy and environmental sustainability.

All of these complex trends need to be tackled by integrated policy packages and approaches that target multiple objectives and seek benefits across the spectrum of issues involved in urban sustainability and liveability.

## *Compromising between the Speed and Quality of Urbanisation*

As China looks at the future, it is clear that it needs to make an urgent choice of which paths and scenarios it will pursue.

The uniqueness of China's urban transformation simply means that there are no obvious lessons or best practices to adopt, no simple precedents to examine, no set examples for replication. In many ways, China is on its own when looking for solutions and ways to implement them. The superlatives abound in every aspect of its urban transformation. As one journal recently declared, "Perhaps Rome cannot be built in a day. But at China's current rate of construction, it would take roughly two weeks."<sup>1</sup> As this report points out, under the baseline scenario described in chapter 3, the expected growth of the urban population in the next 20 years is by approximately 310 million people, more or less the whole current population of United States of America.

China's distinct case calls for a certain degree of cau-

tion by those tempted to quickly criticize, and express frustration and impatience with the immense problems of many Chinese cities. But it also points to the stark reality that unless bold, creative and decisive action is promptly taken, cities may turn into major obstacles to China's development aspirations, instead of acting as the engines for progress. One important step may be to consciously choose the type of urbanisation China will embrace. This report offers some alternative scenarios, not as predictions, but rather as trajectories for what could happen under various circumstances.

The most desirable pathway may be achieved through strategies and policies that respond to human development concerns while allowing cities to thrive and contribute to economic growth. The report suggests that such a pathway is not only feasible, but with potential payoffs and benefits that could offset some of the costs of pursuing it. According to the scenarios, considerable investments will be required, but these could yield significant results across all fronts—including environmental protection, social services and appropriate infrastructure. As the report also argues and repeatedly illustrates, getting urbanisation right calls for cities to be socially equitable, economically dynamic and environmentally friendly.

Given the sheer scale of urbanisation in China, natural resources and ecological systems will have difficulties supporting industrialization and mass consumption for up to 1 billion urban Chinese—the expected city population by 2030 if the urbanisation rate reaches 70 percent. The Chinese leadership has called for the construction of an ecological civilization to minimize or avoid the negative impacts of industrialization and urbanisation. Under this concept, 'respect' for nature instead of 'conquest' of nature forms the ethical basis for man and nature in harmony. Industrial production, for example, needs to give greater importance to a circular process from raw materials to products and recyclable materials, instead of a linear process of raw material to products to waste.

## Taking Decisive Action to Improve China's Human Development

Being able to provide adequate social services; ensuring equal access to them by all urban residents, including migrants; forecasting and preparing for the impacts of changing urban demographics; tackling growing divides and inequalities; and addressing the major environmental degradation that has come with fast-paced urbanisation are some critical areas in urgent need of attention.

Aware of the urgency, Chinese authorities are already taking decisive actions across many fronts, introducing new policies and experimenting with innovative ideas, and beginning to compile a new national plan to guide urbanisation.<sup>2</sup> But given the rate of growth and change, it has been difficult to match the demand for services. And escalating challenges are expected to exert ever more pressure.

The system of public social services in particular has been strained by growing demand due to the massive influx of migrants. This growth is expected to continue for the next two decades, posing even heavier demands. Will the system be able to close current gaps and provide universal access, as essential to integrating people within cities? One important contributor to growing inequality—the unequal treatment of the migrant population—can be eased by tackling this problem. But large investments will be required.

The household registration system has been the key policy instrument to adjust the process of urbanisation since the establishment of the People's Republic of China. Before the late 1970s, when the reform and opening-up policy was initiated, urbanisation was under strict control by the Government through top-down planning. All newcomers to cities were provided with urban registration for access to services, but at that time, the growth of cities was slow. Starting in the mid-1980s, rural migrants were allowed to work in cities, yet were not granted urban citizenship sta-

tus. Despite being cut-off from social services as a result, rural people still moved to cities for higher salaries and other economic benefits. Today, to promote urban citizenization for migrants, the nation has begun to consider the full liberalization of restrictions in small towns and cities, the orderly release of limits in medium-sized cities, a gradual relaxation and reasonable requirements for settling in large cities, and over time the acceptance of qualified agricultural residents as registered urban citizens.<sup>3</sup>

Additional pressures from demographic changes include a quickly ageing population, implying greater demands and obligations for health care and social security, and perhaps other social services. The growth in people looking for employment, including migrants, will be immense. It is not very clear how to meet their needs in the short term, but in the medium and long term, a restructuring of the economy and policies to help match competencies with the supply of jobs will be the only solution.

For the environment, decisive action is urgently required to mitigate negative impacts on human health, ecosystems and the services they provide, economic competitiveness and other issues.

Imbalances in urban expansion and lack of appropriate planning constitute the major sources of urban 'diseases', such as poor air quality, polluted water and soil, disorderly development of urban spaces, excessive agglomerations of people, traffic congestion, high housing prices, frequent incidents of compromised food and drug safety, poor social management and inadequate social services, and degraded environments in villages near cities and urban-rural fringes where most migrants live. Divides are widening between the eastern and western regions of China, and between large and small/medium cities in terms of geographical and size distribution. Most rural migrants go to the east and/or to large cities, in particular municipalities and provincial capitals where the political power is based and determines resource allocation. To reduce these imbalances, urban services must be evenly distributed among regions and cities, and within cities. For instance,

top-quality universities and medical services could be located outside municipalities and provincial capitals. In many cities, as illustrated throughout the report, there are already excellent examples of corrective and innovative actions. But these need to be significantly scaled up to make a difference to the future of China's cities. Some are highlighted here.

Best practices in promoting low-carbon development and ecological cities are already found in many places in China. Solar water heating devices are widely installed in residential and public buildings in almost all Chinese cities. Electricity is progressively priced to discourage wasteful consumption. Public transport has priority in urban infrastructure construction. Twenty years ago, metro services were very limited in Chinese cities. Now all large cities have developed underground transport. The networks in Beijing and Shanghai, for instance, are among the most complex and longest in the world. Fast rails connect cities, effectively reducing road and air transport.

The challenge is that these and other best practices need additional heavy investments and most likely concomitant institutional and governance requirements for massive scale up. Despite achievements in mass transit, for example, many Chinese cities regularly experience heavy traffic congestion.

## *Urbanisation Depends on Effective Governance*

In setting out on a path of transformation, cities should aim for top performance in scientific and technological development, participation in high-end competition in the global economy, and liveability that rivals that of urban areas in the most advanced countries in the world. Achieving this will require a renewed and urgent effort to strengthen institutions and governance, including in key areas such as population administration, land management, finance and taxation, urban housing systems, public administration and environmental management.

institutions and decision-making processes, leading to adjustments and experimentation in city management and governance. There have been trends towards more decentralization, multilevel governance schemes, experimentation with popular participation and many other solutions. As the pressures continue to increase, a close look at the adequacy of current governance structures is essential, as these structures must be equipped to make it possible for China to steer urban transformation towards liveability and sustainability.

The report cites various areas in need of reform. They include city management, and the incentives and performance monitoring of public officials. For the former, more open and transparent decision-making processes could benefit from citizen participation and ownership. In terms of the latter, the performance of public officials is curtailed by both the lack of financing options for much needed public services and an absence of incentive structures putting a premium on human development improvements. The lack of financing options results in an overdependence on income from land transference transactions, which impedes the formulation of well-planned budgets with strategies designed to meet certain goals and objectives. Incentive structures, particularly for city public officials, need a thorough evaluation to determine whether the current system is really enhancing the capacity of the decision-making process to find appropriate solutions, or exacerbating current problems. Incentives for policy implementation, both by government officials as well as by private citizens, with a focus on resource efficiency, in particular need to be strengthened. Performance monitoring of urban governance could move from its emphasis on economic growth to incorporate indicators for resource conservation, environmental protection and social development.

There are other areas with great potential for renewed efforts and reform. There is, for example, substantial potential to increase corporate social responsibility and transform consumer behaviour to support urban liveability and sustainability. While large-scale enterprises in general operate at international standards with respect to employer-employee relations and

environmental awareness, many medium and small-scale companies do not always provide a decent working environment and pay to their employees, and often violate environmental regulations. Many consumers in cities are driven to pursue standards of living found in more industrialized cities, generating environmental and other consequences that China would like to avoid. Wasteful, unsustainable consumption patterns include the use of vehicles that squander fuel, unnecessarily large houses, and excessive heating or air-conditioning. Extra packaging wastes natural resources and damages the environment. In some cases, packing is more expensive than the actual goods. There are many such examples.

The shift in emphasis to a more balanced model of development, one concerned with ensuring improvements in the quality of life, may require new skills and competencies for public officials. Greater attention to urban form and open and green spaces requires stronger skills in urban design, for example. There is increasing interest in preserving the tradition and culture of cities and preventing their homogenization, while at the same time promoting an innovative and creative society. This may call for new leadership skills and values. Similarly, strong skills in city management and public relations could help maintain economic dynamism so cities can compete and contribute to the growing web of urban clusters.

### *Understanding Social, Economic and Environmental Interactions*

China confronts economic, social and environmental challenges to making cities more sustainable and liveable. Addressing emerging needs requires immense upfront investments based on some objec-

tive criteria. Arriving at the right decisions will require careful assessments of costs and benefits to account for both positive and negative consequences. The establishment of a sustainable urban public finance system and an investment and financing mechanism would be one step towards the financial security that would permit all residents to be covered by basic public services and encourage construction of appropriate urban infrastructure.

Making the right investments to promote economic development, such as upgrading and restructuring industry and promoting technological innovation, can result in high payoffs through additional jobs, greater competitiveness and complementarities with other cities and within urban clusters. In the social area, investments to make social services more reliable and of higher quality, and available to all citizens could yield benefits through better health and well-being. And making well-targeted investments in the environmental area could lead to huge payoffs in increased life expectancy, lower health care costs and a more pleasant living environment. There are hundreds if not thousands of other measures that could be part of a balanced mix to enhance the benefits of investments and mitigate any costs.

Lastly, one word of caution. The topic of urban transformation in China is immensely complicated and multifaceted. This report addresses only a handful of the issues at stake, and highlights others as crucial for further research and analysis. One relates to China's cultural heritage— specifically its architectural heritage. More and more, culture is being recognized as essential not only for sustainability, but also for liveability and even societal success. Strategies to protect and nurture culture and creativity can contribute positively to a wide range of social, cultural and economic development objectives.

1. Economist Intelligence Unit, 2011, "Building Rome in Day: The Sustainability of China's Housing Boom," a report from the Economist Intelligence Unit's Access China Service (available at [http://www.eurosinoinvest.com/fileadmin/downloads/esi\\_vt/eiu\\_buildingromeday.pdf](http://www.eurosinoinvest.com/fileadmin/downloads/esi_vt/eiu_buildingromeday.pdf), last accessed June 2013).
2. From the end of 2010, the National Development and Reform Commission, the Ministry of Finance, and the Ministry of Land and Resources, Ministry of Housing and Urban-Rural Development and 14 other government departments started the urbanisation planning work, and drafted a planning document based on a large number of preliminary studies, field research and thematic seminars. It is currently undergoing a process of extensive review and revision.
3. "Report on the Urbanisation Construction Work by State Council," released by Xu Shaoshi, chairman of the National Development and Reform Commission, at the third meeting of the 12th National People's Congress Standing Committee, 26th June 2013 (available at [http://www.npc.gov.cn/npc/xinwen/jdgz/bgjy/2013-06/27/content\\_1798658.htm](http://www.npc.gov.cn/npc/xinwen/jdgz/bgjy/2013-06/27/content_1798658.htm), last accessed July 2013).