

# Urbanization in China

**Critical Issues  
in an Era  
of Rapid Growth**



EDITED BY

*Yan Song  
and  
Chengri Ding*





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# Introduction

YAN SONG

CHENGRI DING

**C**hina is one of the fastest urbanizing countries in the world in the first decade of the twenty-first century. Accompanied with a range of economic reforms since 1978, urbanization in China has increased at an astonishing rate. China's level of urbanization (the ratio of nonagricultural population to the total population) rose from 18 percent in 1978 to 30 percent in 1995 and to 39 percent in 2002. One can almost feel the pace of urbanization when wandering around a bustling Chinese city. New residential and business high-rise buildings, giant industrial parks, urban infrastructure projects, and urban renewal developments are taking place at an unprecedented pace and scale, drastically reshaping China's urban landscape.

Urbanization in China is a comprehensive process involving transformations in many areas, including the management of spatial expansion via modern urban planning, the administration of land use changes via land policy reforms, the process of rural-urban migration, and the development of public finance systems. All these transformations are part of China's transition from a centrally planned economy to a socialist market economy. Not surprisingly, this rapid urbanization process, along with ongoing social and economic transitions, has presented great challenges for Chinese urban planners and public policy makers. As the first step in tackling these challenges, it is essential to identify and interpret a range of issues that have emerged in China's urbanization process.

However, the issues accompanying China's urbanization have not yet been documented comprehensively. With the purpose of determining pertinent topics in the era of China's contemporary urban growth, the Lincoln Institute of Land Policy sponsored a symposium in May 2006, inviting speakers from both academia and the policy community to participate in the discourse. Based on the proceedings of the symposium, the results of research on China's urban planning, land use policies, rural-urban migration, and urban public finance are collected, edited, and updated in this book. This collection represents our efforts to uncover

and examine both accomplishments and flaws in the recent process of China's urban expansion.

With the purpose of "taking stock" of the issues, the chapters in this book are organized into four parts. Part I, "Urban Planning in the Face of Urbanization," collects three chapters with contents ranging from holistic categorization of physical urban landscape across Chinese cities to issues associated with China's urban, transportation, and land use planning. Part II, "Land Policy," presents three chapters on issues related to China's land acquisition and farmland protection policies and land resource management. Part III, "Rural-to-Urban Migration and Its Implications," assembles four chapters that unveil the scope and impacts of rural-urban migration on urban land, housing, and labor markets. Part IV, "Financing China's Urbanization," brings together three chapters that document the current structure and developing trends of China's urban public infrastructure system.

## **Urban Planning in the Face of Urbanization**

Tingwei Zhang (chapter 1) starts with an account of momentum, characteristics, and trends in China's urbanization and the evolution of the nation's urbanization policy. He demonstrates two of the most important features of China's urban growth: the rapidity and unevenness of its distribution, both socially and geographically. Using Shanghai as a case for illustration, Zhang categorizes the physical urban form of postreform Chinese cities into three sectors: the new urban space as the expansion of exciting urban areas into suburban districts; the renewed urban space as a result of gentrification; and the ignored urban space with concentrated low-income populations and rural-to-urban migrants. More importantly, chapter 1 discusses underlying factors contributing to the changes in physical urban form, including China's history and culture, national economic development, urbanization strategies and reforms, and globalization effects. In addition, the chapter calls attention to the implications of these changes in China's urban setting for urban planning.

Ming Zhang (chapter 2) identifies several challenges associated with the large scale of mass transit development across Chinese cities. The first challenge facing the cities is the extremely high cost of building the transit rail systems. Resource input from the government is not enough to pay the large bills for infrastructure construction and rolling stock purchases. Another challenge lies in the lack of sufficient technical (and institutional) capacity and experience for integrated land use-transit development. Zhang presents three examples from Hong Kong, Taipei, and Shanghai, which show successful experiences in financing infrastructure and integrating transit with land developments. These examples show that value capture through integrated land use-transit development is a desirable approach for Chinese cities to achieve the multiple objectives of rail transit investments. Zhang provides a great example of why learning international experiences is warranted in solving problems associated with China's urban growth and sprawl.

Paul Cheshire (chapter 3) provides insightful evidence on the substantial costs of planning for imposed constrictions and other regulatory constraints in the housing market in Shanghai in the context of rapid urban growth. Using Shenzhen as an

example, he illustrates how, in the land use planning process, population growth is projected into a total urban constructed space without taking account of changes in income per capita, the price of land, or the income elasticity of demand for land. He then suggests that, learning from the British experience, it is the income elasticity of demand for the space attributes of housing, interacting with rising incomes, which drives demand. Cheshire concludes with a warning message about China's current land use planning process, in which no attention is being given to price information, and he proposes that China's embryonic land planning system should respond systematically to price signals to improve the efficiency of decision making.

## Land Policy

Chengri Ding (chapter 4) reviews the institutional structure governing land acquisition, the primary means used by governments to meet increasing demand for land, which is driven by rapid economic and urban growth in China. He details how urban development has occurred beyond the city core and expanded into rural areas; how a combination of land acquisition and public land leasing generate much needed financial resources for urban expansion; and how myopic behaviors of local government officials have encouraged land acquisition for the purpose of revenue collection in the short term. He then examines the consequences of land acquisition, such as increasing social tension and injustice, which can impose a long-term threat to stability and sustainable development. As a remedy, Ding proposes increasing transparency and public participation in land transactions, improving legal procedures in the land acquisition process, and radical and fundamental reforms in property rights.

Erik Lichtenberg and Chengri Ding (chapter 5) assess the performance of China's farmland protection policies in light of its food security goals. They examine the extent to which the policies address actual losses in food production capacity. With an intention to answer the question of whether farmland protection is the most efficient, or even a necessary, means of meeting China's food security goals, they provocatively suggest that, paradoxically, China's farmland protection policies may contribute to insufficient farmland retention, excessive farmland conversion, and urban sprawl. They conclude that the unintentional effects of the farmland protection policies include inhibiting rationalization of landholdings and agricultural production units, preventing the development of contiguous urban areas, and pushing economic activities into undesirable locations without any locational advantages.

Robert Ash (chapter 6) deciphers the State Council's recent urbanization policy, which emphasizes sustainability and social harmony in the face of a number of problems associated with Chinese-style urbanization. These problems include persistent rural poverty; severe pressure on urban and social infrastructures imposed by rural migrants; environmental impacts of unplanned, large-scale inflows of people to urban areas; and unintentional effects associated with disrupted social order, urban unemployment, and increasing crime. Ash concludes that the process of urbanization will continue due to the massive surplus of farm labor and low level of agricul-

tural labor productivity. Nevertheless, he suggests that implementation of the “new socialist countryside” initiative would result in an adjustment of targets in favor of a slower rate of urbanization in order to accommodate the imperatives of sustainability and harmony.

## Rural-to-Urban Migration and Its Implications

Yan Song, Yves Zenou, and Chengri Ding (chapter 7) evaluate the impact of a recent product of China’s urbanization: demolition and redevelopment strategies for urbanizing villages (or villages within cities). The authors begin with an explanation of why native farmers in urbanizing villages are able to construct substandard and inexpensive housing units to lease to new rural migrants. Then, in order to explain the ineffectiveness of current redevelopment programs, they explore why rural migrants choose to live in urbanizing villages. Using data from a survey carried out in Shenzhen, they employ a model of housing type choice and learn that there is a gap between what is supplied in the urban housing market for the rural migrants and what can be accessed by the migrants. The results indicate that rural migrants must seek ways to bypass their financial constraints, as well as the institutional restraints set on urban housing provision, in order to reside in urban areas.

Michael Leaf (chapter 8) continues the discussion of urbanizing villages by disclosing the complexity of the phenomenon. He proposes four interlinked interpretations of urbanizing villages: a land use issue (“the vision question”), migrant enclaves (“the social identity question”), “self-help” housing (“the urban housing question”), and negotiated power (“the governance question”). Using this framework, Leaf then provides policy implications as a step toward thinking about the potential for policy responses to these problems. Innovatively, he articulates the root problem of these phenomena and indicates the policy directions in each different manner.

Roberto Quercia and Yan Song (chapter 9) seek policies to address the affordable housing needs of rural migrants in urban China. They begin with an evaluation of the efficacy of current policy strategies in addressing the housing needs of low- and moderate-income families, and find that these strategies are not particularly well suited to address the needs of rural migrants. The authors then describe affordable housing strategies that have evolved in the United States with the intention of identifying lessons that can be borrowed from the U.S. experiences. They conclude with some general lessons that can be useful in the Chinese context, including both short-term and long-term development of effective strategies.

Jeffrey Zax (chapter 10) focuses on the effects that market forces formed during China’s transition from a centrally planned economy to a socialist market economy have had on Chinese urban labor markets. He argues that emerging “problems,” such as increasing inequality and increasing rural migration, represent more efficiency during the reform period. He states that the issue of failure to transition out of urban unemployment indicates market distortions such as ineffective human resource management practices, the absence of independent collective worker voices, and continued enterprise responsibility for social welfare programs. He also demonstrates

other market distortions such as incomplete marketization, inadequate investment in infrastructure, and inflexible urban spatial structure. To correct for the distortions, Zax insightfully prescribes appropriate policy areas for the government to engage or disengage, respectively.

## Financing China's Urbanization

Randall Crane (chapter 11) profiles a number of broad municipal finance trends and prospects by discussing factors unique to municipal China, reviewing recent fiscal decentralization reforms, and offering a possible reform agenda for the local public finance sector. He suggests that although China's investment in infrastructure has been quite forward-looking, the sustainability of the current system remains in some doubt for three main reasons: the lack of transparency and predictability of local income sources; the lack of stimulation of local resources, such as property taxes; and a less-disciplined budget system at the local level. Crane then argues that the problems are attributed to the central-local revenue transfer system, and he offers directions for reforms in rectifying the problems.

Weiping Wu (chapter 12) discusses urban infrastructure finance in more detail, beginning with an assessment of China's record of performance in providing urban infrastructure since the 1990s. She then provides a helpful analysis on a range of mechanisms in financing urban infrastructure by evaluating the extent of using budgetary funds outside of the budget process and the associated problems. She also explores the developing trend of private participation in urban infrastructure. Wu reveals a range of problems with current infrastructure provision and financing systems: lack of attention to providing ecological and technological services that are required in a globally competitive economy, lack of a lasting source of funding in its current practice of local budgetary system, lack of transparency of public spending, and lack of a coordinated plan for more efficient land use and urban growth.

Bing Wang and Richard Peiser (chapter 13) investigate a very specific issue in China's finance system: the resolution of non-performing loans (NPLs), which are rooted in China's legacy of 30 years as a planned economy. Their discussion echoes the point made by Jeffrey Zax that the distorted market of underpriced credit in China is rife with NPLs made to poorly performing state-owned enterprises. The authors examine the efforts and effects of resolving NPLs during the transition to a socialist market economy. They find that the NPL resolution process in China follows the country's abiding principle of a gradualist and pragmatic approach to devising methods and strategies that reflect Chinese characteristics. They conclude by proposing a need for comprehensive social reforms, such as development of a pension plan to free the obligations of creditors and to enhance the recovery rate of NPLs.

In summary, these chapters offer extensive insights into the complexities of the challenges in the era of China's contemporary urbanization and reveal both accomplishments and imperfections in the process. The imperfections, if unattended, could have inadvertent effects on the sustainability and stability of China's future urban

growth. This book makes its novel contribution by providing an exploratory identification and diagnosis of issues and problems. It also seeks to discover research areas that need immediate responsiveness and to stimulate discussions in seeking international examples and experiences of approaches to remedying the problems associated with China's current urbanization.