

# China's "National Plan on New Urbanization"

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*China is undergoing a historically unprecedented wave of rapid urbanization generated by the liberation of labor forces and by a commitment to state-led capitalism — China's blend of central planning and a market economy.*



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Newly elected Prime Minister Li Keqiang has ordered implementation of the "National Plan on New Urbanization," which aims to have over 60 percent of the entire population living in cities by 2020 and to initiate a new round of economic growth. [See the figure.] In 2013, China had 712 million people living in cities, with around 600 million still living in rural areas. The main aim of the urbanization plan is to coordinate development of cities and small towns, based on major city clusters, to accommodate 100 million new urban residents by 2020.

**China's Urbanization Philosophy.** In the past, economic growth in China was led by heavy industry, manufacturing goods for export. Today, China's new urbanization plan could be considered a sign of the central government's intent to develop a consumption-based market economy. In 2013, according to World Bank data, China's consumption spending accounted for 34 percent of gross domestic product (GDP). By contrast, consumption in Japan and America accounts for 61 percent and 68 percent of GDP, respectively. China's urbanization plan aims to boost consumption to 45 percent to 50 percent of GDP by 2020.

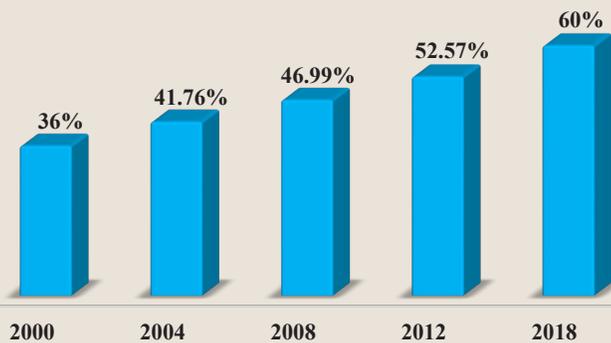
According to China's National Bureau of Statistics, people living in cities earn 3.23 times as much as those living in rural areas. Thus, the primary vision of the new urbanization plan is to unleash a great volume of consumption by new urban residents. If the plan goes smoothly, China's economy will remain competitive in coming years.

**Potential Challenges of China's Urbanization.** China's economy is complicated; it includes aspects of both central planning and free markets. In the field of energy and banking, for instance, the central government and local administrations enjoy a dominating market share over small private firms. In the field of high technology, however, private companies like Alibaba and Huawei dominate Chinese e-commerce, and they have already expanded their territory to overseas markets.

In the field of real estate — the most popular industry in contemporary China — public power and private capital are tightly intertwined. As China's urbanization accelerates, the scarcity of land is becoming more and more significant, especially in the major cities. Developers lease land from the government, which sets premiums (leasing fees) for land conversion. After receiving land-use rights, private real estate companies develop the land into residential areas, central business districts and major shopping districts. Over the last decade, the

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Percentage of China's Population Living in Urban Areas



Source: Urban population of China, World Bank, 2013.

increasing size and prosperity of Chinese cities has been driven largely by commercial land development; but, in an era of technological innovation, economic growth will be driven mainly by technology and consumer demand.

Over the last three decades, two policy changes — labor release and land conversion — have been major factors in China's urbanization. Both have been important in ensuring rapid, long-term economic growth and a dominant position for mass production. Arguably, however, these policies have also created problems.

**Ghost Towns.** Ordos, once a thriving city in Inner Mongolia, built over 100,000 apartments supported by local government and investors, but over 90 percent of these buildings were never occupied and remain empty. The government apparently overestimated the potential demand, and developers invested excessively. A report by the World Bank and China's Development Research Center says the government has to reconsider its administrative control over the allocation of labor, land and capital.

### Megacities.

Cities with more than 10 million residents are thriving with economic opportunity. For example, Beijing plans to build a seventh ring of roads connecting two middle-sized towns around the city. This transportation project will demarcate a metropolitan area for Beijing almost as large as the State

of Oklahoma. This unprecedentedly broad area is pushing the government to build more and more roads, metros, intercity railways and other infrastructure. Such large public construction projects can only be accomplished by a highly central and powerful government, which will play an important role in the new round of urbanization. However, an overly dominant government could hinder the development of a consumption-based economy.

**Labor Mobility, Rights and Welfare.** Economies that need labor need labor mobility. China once had a strict system that discouraged rural citizens from moving to the cities, called hukou. The system has been relaxed since the "Reform and Opening-up Policy" in 1978, but many restrictions remain on migrant workers living in cities. Migrant workers from rural areas can go to the cities with no restriction, but they cannot easily settle there. Since individual rights to basic services — such as health care, education and employment — are hukou-based, a migrant worker living and working in a city does not have equal

opportunities and benefits compared to other urban residents.

It is gratifying that the government of China issued a proposal on July 30, 2014, to break down the household registration barrier between rural and urban residents. This proposal is actually a follow-up policy to the National Plan on New Urbanization and is considered a significant step toward free migration and free-market urbanization.

The migration of more people to the cities has important ramifications for China's future development. Consider:

- Cities in East China are more developed than those in vast regions of Midwest and West China.
- East China cities' population will explode if there is no restriction on mobility.
- Growth will increase the demand for government investment and development.

**Conclusion.** China, with its large population and unique political situation, needs much more time to finish the new urbanization plan. Having been exposed to the technology revolution, China surely must devote itself to large-scale public construction, but government should also relieve excessive restrictions and let the free market work. Beijing should find new ways to revitalize West China, by attracting more human and investment capital from East China, while limiting government restrictions and excessive spending.

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