

# Occasional Paper

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SEMINAR  
On  
**In-Depth Analysis - Chinese Economy:**  
**—The Urbanization and the Economic Growth—**

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This report serves as a documentary record of the second seminar hosted by the Institute for International Monetary Affairs (IIMA) on October 13th, 2016, in its Chinese economic series for this year. The title of the seminar was “In-depth Analysis - Chinese Economy: The Urbanization and the Economic Growth”, and the lecturer was Dr. Guoqing Li from the CASS.



## **Seminar**

*Dr. Guoqing Li, Professor of Sociology and Director, Institute of Urban Development and Environmental Studies, Chinese Academy of Social Sciences (CASS)*

### *The Present China Urbanization*

China was once a rural society with the ratio of the urban population only at 18% in 1978. But in 2011, the ratio of the urban population exceeded 50%, which means that the half of the population had moved to cities. In 2015, that rate rose to 56%, meaning that 770million people are now living in the city. So, China is now an urbanized country.

A very important conference was held in December 2015, named “The Central Urban Work Conference” and it was the second time since Chinese leaders had held the first conference 37 years before.

At this conference, the basic judgment of urban development was made. That was;

- (1) China’s urban development is in the new era.
- (2) Urban development has led to the whole economic and social development. And also, urban construction has become most important engine of modernization of economy.

### *Chinese Government’s five year plan*

The Chinese Government started the 13<sup>th</sup> five year plan (from 2016 to 2020). They recognized three trends which are described below.

- (1) To sprint to a high-income country, the government planned the national income to reach USD12, 000 per person by 2020 from current USD8, 000
- (2) The economic growth momentum will undergo significant changes. The government should pay attention not only to the urban development but also to innovation, consumption, and public services.
- (3) The proportion of service industry will rise rapidly, and the proportion of agriculture and industry will continue to decline.

China was in the rapid urbanization phase until two years ago. But now, the speed of urbanization will slow down, as the proportion of urbanization had reached 56%.

There are five characteristics in the middle and late urbanization development, which are;

- (1) The speed of urbanization growth shifts from high speed growth into middle, high speed.
- (2) The urban development will shift from scale expansion into quality equal stage. Now

China has 660 cities. As China has built a lot of new cities in the past 37 years and many people moved into the cities, the Chinese government is paying attention to the quality of the people's life.

- (3) Various urban diseases outbreak intensively. Now China is facing a lot of economic and social issues, like air pollution and income gap between migrant workers and urban citizens.
- (4) More social contradiction and small scale ignition have occurred in this period.
- (5) So, there is an urgent need to change the mode of city development.

China is facing so many social issues now, and one of them is the social difference. China now has 270 million migrant workers who have built new cities. But as they cannot access equal public service like urban citizens because China has a special household registration system, China has to change the system.

### *Five Development Strategies*

The Chinese government developed an important strategy named “Regional Development Strategy of China in the 13<sup>th</sup> Five Year Plan Period (2016-2020)”, which coordinates regional developments to achieve a balanced growth by improving infrastructure development. The Chinese government enlisted the three grand regional integration initiatives as strategic priorities for urban development in the next five years. They are;

- (1) The coordinated development for the Beijing (北京) -Tianjin (天津) -Hebei (河北省) region.
- (2) Building the Yangtze River (長江) economic belt.
- (3) The Belt and Road Initiative (一帶一路構想)

Also, there are two more regional strategies that are not written in the initiatives, so Dr. Li explained them one by one.

#### 1. Coordinated development for the Beijing-Tianjin-Hebei region

Dr. Li emphasized that this region is one of the three clusters of China, whose total population reached 111 million in 2014 (22million in Beijing, 15 million in Tianjin, and 74 million in Hebei province) and account for 8.1% of China's population with total area of 216,000 square km. This area has a very important strategic position, because it is the most dynamic region. It is the most open and the most innovative and attractive area, and the third biggest area in China's increasing economy. The total GDP reached six trillion yuan (about one

trillion USD), which accounted for 10.4% of the whole country and nine times bigger than the national average among provinces in 2014.

He pointed out that the new function orientation of this area will be;

- (1) To build the world-class city group, that is, to become a regional overall coordinated development and reform leading area.
- (2) To be national new engine of economic growth.
- (3) To be the ecological restoration demonstration area.
- (4) To be the market system rebuilding demonstration area.

China is now trying to transfer Beijing's non-core capital functions to the neighboring area by 2017, which include manufacturing, logistics, market and the partial functions of the public services. So, Beijing will be the national center of politics, culture, and international activities as well as a technological innovation center. And Tianjin municipal will be the center of national development and research of the advanced manufacturing industry, shipping, and a demonstration area for financial innovations. And, as Hebei province has 50% of rural population, this district will become the connected area for urban and rural development, and it will be an ecological buffer zone.

The three key fields will be connected by traffic integration and coordinated industrial development. On the other hand, the very serious problem now is the air pollution which has become an urban disease, especially in Beijing. But, he insisted that if China wants to solve this problem, you have to help neighboring areas to develop because now China produces 600 million ton of steel of which Hebei province produces 200 million ton. So, if you don't change the industrial structure in Hebei province, you can't solve the air pollution in Beijing.

The goal of this coordinated development is to ease Beijing non-core function, limiting the permanent population of Beijing to about 23 million people, forming the foundations of a regional transportation network, and improving the ecological environment by 2020. And it will complete the regional integration of Beijing, Tianjin and Hebei by 2030 so that the region can become a globally competitive and globally influential area that can lead and support national economic and social development.

China had already started to construct these three areas. Some major projects had already been revealed including building a new airport in southern Beijing on the border with Hebei. Priority will be given to traffic management, environmental protection, energy security and industrial upgrades.

## 2. Yangtze River Economic Belt Plan

Dr. Li explained that the Yangtze River Economic Zone is a significant axis band crossing east middle and western parts of China and connecting the northern and southern China, likely to be “China’s economic backbone”. It covers nine provinces and two municipalities as Shanghai (上海) and Chongqing (重慶) municipality, Jiangsu province (江蘇省), Zhejiang province (浙江省), Anhui province (安徽省), Jiangxi province (江西省), Hubei province (湖北省), Hunan province (湖南省), Sichuan province (四川省), Yunnan province (雲南省), and Guizhou province (貴州省). Their total population and GDP both accounts for around 40% of China.

Chinese Academy of Social Sciences joined to make this national strategy plan. This economic belt involves 600 million people and accounts for 45% of the national GDP. Also, this belt is a new support for China’s economy. Notably, the belt will awaken China from the economic depression.

Its aim is to accelerate the upgrading of traditional industries in middle and western China, continue to transfer the industries in coastal areas, and to expand the Shanghai, Chongqing and Wuhan (武漢) shipping centers by relying on the developed city clusters in the Yangtze River belt.

As the Chinese economy is facing downward pressure at present, the government is paying much attention to the development and opening-up of the landlocked regions. Coastal area is like a bow, and the Yangtze River is like an arrow. That is a new concept of the regional development. If you develop the Yangtze River, you can transfer the industrial capacity from the coastal area into the river’s middle areas. And also to reinforce this area, China is planning to make five major high-speed railways in the Yangtze River delta economic zone, some of which are already under construction.

## 3. Northeast Area Revitalization Plan

Dr. Li explained that Northeast region is the old base of Chinese industries, and it covers three provinces (Heilongjiang (黑龍江省), Jilin (吉林省) and Liaoning (遼寧省)) as well as the five eastern prefectures of Inner Mongolia.

He also explained that in August 2016, the Chinese government announced that 1.6 trillion RMB would be used to continue to revitalize the economy because these areas are in a serious depression as more than two million people, especially young people, left these areas into the southern areas.

The reason of the depression is that the exhaustion of coal reserves starting in the 1980’s and

the industrial reformation of 1993 had driven. Most factories were closed and workers lost their employment, and the workers' dormitories turned into shantytown. Following the loss of employment and the collapse of coal-mining industry, the residents lost the ability to improve their living situation.

So, the goal of the revitalization of the Northeast industries is;

- (1) Innovation with focus on reform of state-owned enterprises. But, as many people have mentioned, changing the structure of the state-owned enterprise is very difficult and takes much time.
- (2) Introduction of the economic system with diversified ownership structure, because they don't have private enterprises in this area.
- (3) Strengthening of independent innovation ability.

And to achieve the goal, the core program of this area includes;

- (1) To optimize economic structure and build a modern industrial system.
- (2) To make great efforts to facilitate non-public economy and small and medium sized enterprises.
- (3) To improve pillar industries and revitalize key industries.
- (4) To take initiatives to nurture industries with potentials. As north-eastern areas have strong equipment manufacturing ability, they have to develop industries like processing tools and special raw materials.
- (5) At the same time, they have to speed up the development of modern service industry.

Dr. Li emphasized that these areas have to speed up the technological advancement of enterprises and fully improve their independent innovation capability.

#### 4. Belt and Road Initiative

“Vision and Actions on Jointly Building the Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road” was issued on March 28<sup>th</sup> 2015. The strategy was launched by the Chinese government with the intention of promoting economic cooperation among countries along the proposed Belt and Road routes. The Belt and Road Initiatives aim to connect Asia, Europe and Africa along six economic corridors.

The Chinese government will facilitate the connectivity, like advancing the construction of port infrastructure facilities, clearing land-water intermodal transport passages, and develop the connectivity of infrastructure of facilities, including railways, highways, air routes, telecommunications, oil and natural gas pipelines and ports.

Dr. Li insisted that the purpose of Belt and Road construction is to lower trade and investment costs, to broaden the scope of trade, propel trade development through investment, and strengthen co-operation in the industry chain with all related countries. And AIIB (Asian Infrastructure Investment Bank) will focus on the development of infrastructure and other productive sectors in Asia.

## 5. Western Development

This policy covers six provinces (Gansu (甘肅省), Guizhou (貴州省), Qinghai (青海省), Shanxi (山西省), Sichuan (四川省), and Yunnan (雲南省)), five autonomous regions (Guangxi (広西チワン族自治区), Inner Mongolia (内モンゴル自治区), Ningxia (寧夏回族自治区), Tibet (チベット自治区), and Xinjiang (新疆ウイグル自治区)) and one municipality (Chongqing (重慶)). Although this region contains 71.4% of mainland China's area, its population accounts for only 28.8%, and its total economic output occupies only 19.9%.

The strategy of the development of these areas, called the "Western Development Plan", started in 2000. The Qinghai-Tibet Railway began operation in 2006. Also, the Chinese government formed the "West Triangle Economic Zone" in this area in 2009.

Its main component is to develop infrastructure like transport, hydropower plants, energy and telecommunications, increase efforts on ecological protection, and promote education in these areas. And China has launched the number of major projects involving multipurpose of transportation systems, energy, water conservancy, the environment, and living standards to speed up the development of these areas.

### *New Normal*

Dr. Li said that there is also a new concept in action parallel to the five regional development strategies described above, which is called the "New Normal". The new type of urbanization program is designed to add new momentum to speed up the economic growth.

As China now is in an urbanization phase and the migrant from rural area has reached 270 million, urbanization is a fundamental way to narrow the gap between urban and rural areas and provides the largest source of domestic demand. But, as the rate of urban population had already reached 56%, China cannot continue to keep the high speed of urbanization construction. So, China has to create new momentum of economic growth. That means to make urbanization people-oriented, and fully leverage the role of urbanization in underpinning modernization.

In 2013, China produced almost half of crude steel and 60% of concrete in the world, because China had to build many cities.

Over the past 25 years, Chinese steel production has expanded hugely with output growing by more than 12 times. Also, China produced more than 822 million ton of steel in 2014, but the projected demand for its steel in 2016 is only 672 million ton because of the economic slowdown. The production capacity exceeded very much as a result.

Accordingly, the Chinese government issued the new urbanization plan. This plan is very important for understanding Chinese urbanization.

Dr. Li insisted that the plan targets a slower urbanization rate and focuses on building a better quality of life. According to the “National New-type Urbanization Plan (2014-2020)”, domestic demand is the fundamental impetus for China’s development, and the greatest potential for expanding domestic demand lies in urbanization. So, not just building cities, the government is paying attention to the better quality of life to change the workers’ social status.

The urban population ratio is, as explained, reached 56%, but still lower than that of developed countries which have average proportion rate of 80%, and 60% for developing countries with similar per capita income level as China. So the goal of the urbanization is to reach 60% within 2020.

And registered urban population, or those who hold urban “Hukou (户籍)” under China’s household registration system, accounted for only 35.7% in total population. This means there are many people who live in cities without “urban hukou (= Hukou for urban registration)”.

Dr. Li said that though China had 268million rural migrant workers at the end of 2015, which account for almost 20% of the country’s total population, they cannot have the access to the same public services as other urban citizens have because they do not have the “urban hukou”.

Dr. Li emphasized that “Hukou” is a very important system in China. As of “urban hukou”, it can be divided into four types.

The first tier is “Beijing”, “Shanghai”, “Guangzhou (广州)” and “Shenzhen” (深セン). The government is rather limiting the inflow of the people to those cities. If you don’t have the “urban hukou”, you cannot enroll your child in high school. So the migrant workers are now transferring to the second, third and fourth tier cities (small-middle class cities). But the capacity of employment of these cities is not enough to absorb the inflow. Every one of them can not have opportunity to have a job there.

Dr. Li explained that the Chinese government has three tasks concerning 100 million peoples;

- (1) To help about 100 million eligible rural residents to relocate in towns and cities in order to create new consumption and maintain the economy.
- (2) To rebuild the rundown city areas, especially in the northeastern region where coal-mining industry collapsed, and urban villages where around 100 million people live to improve the living conditions.
- (3) To guide the urbanization of around 100 million rural residents of the central and western



regions in cities there rather than moving to big cities or coastal areas.

### *Concluding Remarks*

Urbanization has a very important meaning for economic growth and income growth. Urbanization raises income of rural residents through improvement of cities. If you stay in a rural area, the working time and revenue for harvesting is limited. But, if you work at cities, you can work for 12 months and income will grow very rapidly. And also, it will create a larger demand for investment in urban infrastructure, public service, and housing construction.

Beijing and other first tier cities had started “Household Registration System”, but as this system is too strict, not so many people can get the household registration in big cities. On the other hand, in the second or lower tier, especially in the small town, people can easily get the “urban hukou”.

After Mr. Xi Jinping became new president in 2012, the government changed the rule under which rural people can keep and continue to use the household right, while contracting the land in the village. So, the value of the rural area increased very much. Now, there is a new trend. The migrant workers do not want to give up the land of rural area because its value has increased. Nowadays it is very difficult to transform migrant workers to the urban citizens.

But, Dr. Li insisted, with the goal of 2020, China’s ratio of permanent urban residents should reach about 60%, while residents with “urban hukou” should account for about 45% of total population. That means around 100 million migrant workers will get “urban hukou” and settle down with equal access to public services in cities.

### **Question & Answer Session**

<Question from Attendee 1>

You are a typical urban upper-middle class with high academic records. And you think and feel many things in a similar way as I do.

But, if I imagine I was living your life in China, the first thing that comes up to my mind is that my life and my properties may not be protected by law and it is very scary. So, speaking as a whole, are you happy to be in the upper-middle class in China?

<Response from Dr. Li>

If you have an “urban hukou”, your life will be protected by law because the Chinese government provides public services, public insurances, and medical insurances to you. And old people have a lot of protection, a lot of insurance from the government.

That is why “urban hukou” is very important for urban residents, especially for the first tier

big cities' residents. These people, including me, are conservative. They don't want any change.

Although these cities have 250 million migrant workers who are not under the same protection, I think they are still feeling very happy because they can make money in the cities. Even if their consumption is very low, they are not poor people. They can make money as much as professors do and they make a very beautiful house at the hometown near the village by using the savings. They do not want radical change, either.

<Question from Attendee 2>

How would the government achieve the object of urbanization? That means that "Can the government enforce people to move to the cities?", or "Is it up to the people?"

<Response from Dr. Li>

First of all, the Chinese government made a lot of original development strategy and planning. Their aim was to build better quality environment for the people. But there was little willingness for the migrants to move to cities, because they do not want to give up the rights in the rural area. So, it is a very difficult issue.

Last month, Chinese State Council issued a new policy that states they need not to give up the right in the rural area, but at the same time, they can be stable residents in the city.

So the answer is, "The people at the rural area go to cities by their own will in order to make money, because the income from the agriculture is very low as the land property is only 0.1 ha. But as they cannot stay at the cities permanently, they go back to the homeland periodically".

<Question from Attendee 3>

You've mentioned about urbanization ratio of about 56%. Does this figure include people who do not have the "urban hukou"?

<Response from Dr. Li>

That's right. Just 35% of the population has the "urban hukou", and 270 million migrant workers who live in the cities do not have it. But, when counting the urban people numbers, the statistics includes the migrant workers.

So in order to achieve the plan (60% by 2020), they need to increase the ratio of the population who has the "urban hukou".

<Question from Attendee 4>

I have a question about “The Belt and Road Initiative”. Is this a strategy only for China to overcome the excess of the supply, or is it a cooperation project with related countries?

<Response from Dr. Li>

This Initiative is basically the economic policy to create a new investment area and make a new engine for the economic growth. China will lend money to the related countries for the infrastructure construction.

Of course this Initiative will not only benefit China, but also the influence will spread to the related countries. It must be “Win-Win” relationship among countries.

<Question from Attendee 5>

What is the role of “Hukou” in present China?

When the Communist party built China 70 years ago, I understand that the government needed strict “Hukou” system because of the condition in those days.

Now, China has become relatively rich, and the urban population had exceeded rural population, and the relationship between the urban and the rural had been dramatically changed. But Chinese government still maintains the “Hukou” system.

Since there is a gap between the ratio of the population of the cities (56%) and the population who has the “urban hukou” (35%), why doesn't the Chinese government abolish this system?

As for Japan, we also have a same kind of “Hukou” system, but it is just a nominal matter. It does not have any meaning other than population census or knowing ancestors.

<Response from Dr. Li>

The system of “Hukou” became more and more important in the present day. The control of transfer of people became stricter. For the population of the first tier cities like Beijing (22 million) and Shanghai (25million) is almost full of capacity. But as the big cities described above are culture centers and they have big and famous colleges, there are a lot of needs for the people who live in the rural areas to move to big cities.

So, in order to balance the population, the “Hukou” system must be maintained. Otherwise, in Beijing, the air pollution issue will never be solved.

<End>



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