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EDITORIAL

China: Development, Change and Engagement

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Western elites have understood the importance of engaging with China ever since Richard Nixon's historic visit of 1972. The present and previous UK governments have both emphasised the importance of stronger links with China – the former with its *Framework for Engagement* (FCO 2009) and the latter with the largest ever UK trade mission to China in November 2010. But a number of recent developments have made many more people realise that they need to know far more about the country. These include China's continuing phenomenal economic growth and its major contribution to heading off world recession following the Western financial crash of September 2008. China became the world's second largest economy during 2010 and is already the largest manufacturer. It is also making an increasing impact worldwide, buying up companies in the west and building extensive ties with other countries, particularly the other members of the BRIC group and Africa. It now lends more to other developing countries than does the World Bank (*Financial Times*, 17 January 2011). And in 2006, China became the leading emitter of carbon dioxide (Yusuf & Saich 2008, p.11).

This special issue of *Local Economy* has several aims: to promote understanding of current Chinese issues in local economic and social change, to identify areas of potential mutual learning and exchange in local economic development and related fields, to promote networking between local economic development specialists in the UK and China, and to help UK local economic development specialists engage appropriately with China. We are fortunate in being able to print articles by both Chinese and western authors, with the former located both in China and in the West. The purpose of this introduction is to situate these articles in the context of China's overall development and of the issues it throws up. Some of these issues arise out of China's unique history, although they may have resonances here. Others are remarkably similar to those which dominate European debate.

In this introduction, the overall character and pattern of China's growth is first outlined, focusing particularly on urbanization and the associated problems of rural to urban migration, which are discussed particularly in the article by Yu Chen. The discussion moves on to the issues involved in planning the country's physical development, in terms of urban structure and infrastructure. On this we have an article by authors from the Paris Institute of Urban Planning on the impact of high speed rail, and an overview by Christian Ploberger of the issues of sustainable development. The introduction goes on to consider the problems of urban regeneration and renewal thrown up by the rapid changes in the nature as well as the size of the country's economy. Several aspects of these problems are examined in articles in

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this issue. Authors from Ningbo look at the strategic issues raised by the shift from an industrial to a service economy, while authors from Nanjing consider the re-use of industrial land. Christian Wuttke outlines the issues involved in changing single-use industrial 'development zones' in Guangdong province into mixed-use areas integrated with the city, while Zhiming Cheng discusses the impact of regeneration of a large former industrial area in Xi'an on its residents. Lin Ye explains current efforts to reform the regeneration process to make it more consultative and soften its impact on residents. The introduction moves on to discuss the process of marketization in industry and housing, which has had major consequences in its own right. Zan Yang's article considers the specific impact of housing privatization on housing affordability. Finally there is a consideration of how economic development specialists in the UK can relate to China. There are two articles on this, one describing Liverpool's experience as an exhibitor at the Shanghai Expo 2010, and another from Greater Manchester looking more broadly at the need to engage with China and how to do it.

Economic growth, urbanization and migration

China is unique in combining a polity controlled by the Communist Party, which tolerates no challenge to its rule, with a market economy. This market economy, which has emerged since Deng Xiaoping's 'reform and opening up' of 1978, is very different from a western economy, however. While the major strategic sectors, such as telecommunications, electronics and transport, have interfirm competition, all the key Chinese players are under state control, and where private capital – often foreign – shares in joint ownership, it is kept in a minority. It is only in less important sectors, such as restaurants and hotels, and particularly property development, that private ownership dominates. While overseas firms are allowed to run operations in China, they are subject to a great deal of control. In a very real sense, China has a type of 'socialist market economy', with its 'commanding heights' in the hands of the state.

This formula has proved highly successful. Since 1978, China has had GDP growth of some 9.5 per cent per year, compounding to a twenty-fold increase over 33 years. This rapid growth has had huge implications for the country's spatial structure and for the nature of its local communities. Most fundamentally, China is undergoing rapid urbanization. In 1978, only 18 per cent of the population lived in urban areas (Chen et al. 2004, p.1). The 2010 Census showed that this had reached 49.7 per cent (*Guardian*, 28 April 2011), and it is projected to rise to 64 per cent by 2025. Urbanization is seen as intrinsic to economic growth: the proportion of China's GDP generated by cities is already 75 per cent and is projected to rise to 95 per cent by 2025 (MGI 2009, p.15, 52, 100). It has been said that 'the industrialisation of China's coast was history's single greatest poverty-reducing phenomenon' (*Financial Times*, 29 June 2010). Nevertheless, China remains relatively poor overall, with GDP per capita in 2009 of US\$3,744 compared to the UK's \$35,165 (World Bank, <http://data.worldbank.org/>). One in five Chinese still live in extreme poverty on the UN's measure of \$1.25 per day (*Financial Times*, 21 April 2011). In the early 1980s, Deng Xiaoping famously said that the nation would have to let 'some of the people and some regions of the country get rich first' (Hewitt 2007, p.xvii), and this has indeed been the pattern. There is a huge disparity in incomes between urban and rural areas, the ratio being about 3.23:1. Development has also been uneven between regions. Areas near the coast have seen the greatest development, with western regions of China lagging behind. In 2003, the

average GDP in the eastern region was 2.38 times that in the western region (Shao & Shi 2008, p.175).

Urbanization has involved an enormous migration of people from the countryside to hugely expanded cities and towns, mainly from the interior to coastal areas and particularly to the province of Guangdong, which has the largest concentration of manufacturing and is the subject of one of the books reviewed here. Between 1990 and 2005, the McKinsey Global Institute (MGI) estimates that 103m people² moved from rural to urban areas, and another 120m rural residents were incorporated in cities through the latter's expansion (MGI, pp.18-19). The same authors project that a further 240m people will move from rural to urban areas in the next 20 years.

Yu Chen's article looks at the character, causes and human consequences of the movement of population from the countryside to the city. She includes a discussion of the *hukou* or household registration system, which is central to an understanding of modern China. Under this system, which dates from the Mao era, each person is considered to belong at a particular location and, crucially, to have the entitlements associated with that location. Entitlements to social security, housing, education and health services are generally far better for urban than for rural residents, and this means that rural migrants living in cities are treated as second-class citizens, and suffer from labour market discrimination and poor quality housing. The system has had some positive consequences. In particular it has limited the flow of migrants to what the cities can absorb, so that China's level of urbanization is lower than that of other countries at similar levels of income, and the slums and shanty towns seen elsewhere have largely been avoided. But there is widespread acceptance in China that *hukou* must be reformed. This is often argued publicly (e.g. Shao & Shi 2008, p.180). However, reform entails resolution of many issues of administration and resources, and will take time even if vigorously pursued.

The weak position of migrant workers has given rise to labour unrest in Guangdong, particularly in the past few years as the new generation of migrants with higher expectations described by Yu Chen has come to predominate. Eric Florence's review of a significant new book by Chris King-Chi Chan gives a useful account of the development of organization by these workers. Interestingly, their success in raising wages is now having the effect of helping to push industrial development into the interior, in line with Chinese official objectives, and this may be one reason for the relatively soft governmental response to these protests.

Planning the country's physical development

China's rapid urban development involves dramatically important and historic decisions on urban form and infrastructure. From its Soviet advisers of the 1950s, the country inherited a scientific and quantitative engineering-based approach to physical planning, and although this has been diluted in more recent decades by market influences and, as Yannan Ding points out, by the example of Hong Kong, it remains very influential. It is of course particularly relevant where so much development is greenfield. Strong planning is reinforced by the fact that the most powerful tier of local government is at the city-region level; what the Chinese

² This is a lower estimate of rural to urban migration than that given here by Yu Chen and by many other authors. An uncontested figure cannot be obtained due to issues of data and definition.

call a 'city' is not an urban core like Manchester or Birmingham, but a much bigger area comprising the city itself, its satellite towns, and a large rural hinterland. Land ownership arrangements also reinforce strong planning. Legally, all urban land belongs to the state, and users of land only have 'land-use rights' or leases (40 years for commercial; 50 for industrial and social; 70 for residential). Rural land belongs collectively to the village, with individual farmers mostly having 30-year land-use contracts. Sales of land-use rights are a major source of income for local authorities, particularly since they have been able to acquire land from farmers on the periphery of their areas at agricultural value and then sell it at development value; this has given local authorities a strong incentive to promote development, simplified land assembly for major projects, and made infrastructure investment such as road and rail relatively cheap. Often, land sales have been on a barter basis, for instance land might be granted to a company in exchange for building a road. Over the past decade in China, there has been a vigorous public debate about the need for a more comprehensive and transparent land market, and this has been gradually introduced through administrative changes. In spite of objections from socialist critics, the move towards a full land market has been consolidated by the Property Law of 2007.

The country has a strategy of emphasising the continued growth of large cities, but is uncomfortable about the further growth of the largest, such as Beijing, Shanghai and Chongqing. Less than 5 per cent of China's urban population lives in cities of more than 10m, compared to 16 per cent in India, 18.5 per cent in Brazil, and 22 per cent in Mexico (BCG 2010, p.9). By contrast, many western economists stress the importance of agglomeration economies and argue that congestion and other economic and social costs need not increase with city size if the city has a polycentric design, good transport and well-planned neighbourhoods. The MGI team (2009) have urged the advantages of concentrating growth in 'supercities' with average populations of 25m, or in urban 'networks' of cities, like the Shanghai-Hangzhou-Nanjing 'golden triangle' and the Pearl River Delta, with average combined populations of 60-plus million each. Because so much development in China is completely new, and levels of investment in infrastructure – ports, airports, motorways, rail, mass transit, water management and supply – are so high, there are unparalleled opportunities to make choices of this kind.

One of the largest streams of infrastructure investment is in high speed rail (HSR), with new lines recently connecting Beijing with Tianjin, and Guangzhou with Wuhan. 7,000km of 300kph-plus line are already open, and the network is planned to double to 16,500km by 2020, although there have been some signs of doubt recently, with a reduction in top operating speed from 350 to 300kph. The paper by authors from the Paris Institute of Urban Planning considers the likely impact of HSR on regional and urban structure. They argue that because HSR has fewer stops than conventional rail, the main effect will be to reinforce growth in the largest urban areas. This is exactly what has been called for by MGI. At the level of the individual city, our contributors point out that HSR often involves a new location for the main rail interchange, and using the examples of Nanjing and Shanghai they argue that good integrated planning can take advantage of this to improve urban structure by developing new centres within an overall polycentric framework.

It is not just Western observers such as Jonathan Watts (2010) who perceive that the world could not sustain the environmental impact of a China with western standards of living delivered through consumption patterns of the current western type. With around one fifth of the world's population, Chinese politicians and officials are acutely aware that on that scenario, the country would itself bear much of the adverse environmental impact. Although

most existing urban development in China has reflected East Asian precedents and has not followed sustainable development principles, finding a more sustainable growth path has become a major official concern. China's outlook is also affected by a strong tradition of self-sufficiency, going back to the Imperial era - the country remains committed to self-sufficiency in food; and by the deeply-embedded concept of 'harmony'. Christian Ploberger reviews various aspects of China's approach to sustainability. He highlights the very substantial potential for wind and solar power, with the latter much better distributed in relation to demand, and looks at two different locally-driven experiments in sustainable development: Rizhao's participative approach to the adoption of solar power, and Tianjin's development of a new Eco-city. These offer potential alternative models for the future, along with others such as the attempt to develop viable electric cars.

Urban regeneration and renewal

At the same time as Chinese cities have been growing, they have also been changing their functions. In the Mao era, industrial development took place primarily within cities. During 'reform and opening up', exurban 'development zones' and industrial parks became the main locus of industrial development, supported by strategic road investment, tax privileges and new seaport infrastructure, and often specialising in a single industrial sector. The large-scale closure or privatization of state industries since the 1990s has also produced massive urban industrial decline, and the outward movement of industry has often been reinforced by planning controls aimed at improving the living and working environment in cities. These processes have left derelict industrial sites and labour market dislocation within the formerly industrial core cities. Continued economic growth has shifted the focus to the service sector, whose optimum location is usually the central city, which has consequently also changed its functions and character, with former industrial sites increasingly used for services. In turn, many development zones have outlasted their usefulness as single-function locations for industry and have themselves begun to undergo renewal as mixed use areas; Chinese planners now think that there are too many development zones.

Drawing on examples from around the world, Yejun Huang and Weike Bao discuss the problem of adjustment from an industrial to a service-oriented economy at the broadest strategic level in relation to their port city of Ningbo. They explain the city's threefold strategic objectives: to develop services and high-tech sectors; to strengthen regional linkages with other cities, including the Shanghai-Hangzhou-Nanjing 'golden triangle' and the Hixi economic zone centred on Xiamen opposite Taiwan; and to promote further high-quality urbanization.

In a paper developed as part of the recent UK-China Sustainable Development Dialogue, Wang Jianguo and his co-authors describe the spatial processes of industrialisation and deindustrialisation in one city, the former capital Nanjing, together with the opportunities that have been created, and the problems, particularly in the labour market and in transportation. The picture they present will be recognisable to readers familiar with former industrial cities in Britain, Europe and the USA, and many will identify with the authors' enthusiasm for finding imaginative new uses for former industrial buildings.

Christian Wuttke looks at the issues involved in the transmutation of development zones, hitherto purely focused on industry, into mature mixed-use neighbourhoods that are truly part of the city. He compares examples from Guangdong province - the Guangzhou Development

District and the Guangming and Pingshan New Special Districts in Shenzhen - focusing particularly on issues of governance. A later issue of *Local Economy* will feature a parallel analysis for other Chinese cities, with the emphasis on the issues of urban design raised by this type of transformation.

Zhiming Cheng's paper on Xi'an gives an overview of the process of closure of state industries and subsequent urban renewal from the point of view of the residents of the city's former textile area. His emphasis is on the pain they have experienced as a result of the loss of their jobs and of the benefits which were so closely associated with them, the difficulty they have in competing in the labour market against younger workers with lower expectations, and their lack of confidence in what has been an unconsultative regeneration process. Their doubts and fears contrast with the enthusiasm of the local 'growth coalition' of city government, property developers and investors.

Lin Ye presents a more optimistic view of the regeneration process, describing how the Guangdong provincial government is attempting to address some of the problems described by Zhiming Cheng, through its *New Urban Regeneration Master Plan*. In particular, there is an attempt to separate the roles of local government and developers more clearly, and in relation to residential renewal, to codify householders' rights and to make formal provision for their consultation at defined stages of the process. This is paralleled at national level by new regulations on state land acquisition and compensation adopted in January this year. On the basis of early feedback, Lin Ye stresses that these measures will have to be followed through vigorously if they are to win public confidence.

Consequences of dismantling the socialist order in housing and industry

Zan Yang's paper explores the consequences of the privatization of socially rented housing which took place in the 1990s in parallel with closure of state industries, at roughly the same time as in the former USSR and eastern Europe. During the Mao era, most people in cities lived in houses provided by the state enterprises which employed them, and most of the remainder in houses owned by the local authority. Rents were very low. But from 1988 onwards, these houses were sold to their tenants at heavily discounted prices. This has left China with only a small social rented housing sector – around 10 per cent of homes, not much more than half the UK proportion. Meanwhile, continuing urban development has been accompanied by rapid house price inflation due to increased household demand and speculative investment, and the result has been a big increase in the share of net wealth accounted for by housing, together with a crisis of housing affordability in China's cities. In a study of Beijing, Zan Yang shows that housing privatization is the most important cause of current housing inequality in China. People who occupied rental housing as a benefit of their job and were able to acquire it cheaply now have a huge advantage in the housing market. Their existing house may be substandard, but they can sell it or rent it out and use the money to help finance the purchase of a better home, while people without this advantage struggle to access housing at all. Zan Yang concludes that existing policies promoting 'affordable' or 'economic' housing will not be sufficient to address the affordability problems of middle and lower income groups.

In spite of the disadvantages of migrant workers, they are not the poorest group in urban China. The important recent book by Fulong Wu et al. on *Urban Poverty in China*, reviewed here by Eric Florence, shows that it is laid-off former workers in state industries, and the

urban unemployed, who are the poorest and who live in the neighbourhoods with the most concentrated poverty. It is ‘the interaction of the legacy of socialist development with the dynamics of market transition’ which has determined the nature and scale of urban poverty in China.

Relating to China

China’s rapidly growing importance calls for the development of stronger links across a whole range of topics. In this issue the focus is on how UK cities and towns can benefit from engagement with China to help develop their own local economies. Contributions from Manchester and Liverpool give some valuable indications of how this can be done. Baron Frankal and Li-Hsia Chan, respectively from Greater Manchester’s New Economy development agency and its MIDAS inward investment agency, urge UK cities to take the initiative. They point out that UK local authorities are used to a highly centralised state. By contrast, in spite of the tight grip of the Communist Party, Chinese governance is quite decentralised. Yu Chen describes the pioneering efforts in Chengdu and Chongqing to phase out *hukou*, and Christian Ploberger describes the experiments in sustainable development of Rizhao and Tianjin. Similarly, Chongqing and Shanghai are currently introducing property taxes of their own design, aimed at curbing property speculation and reducing local government reliance on sales of land-use rights. Chinese cities also differ quite markedly in their degree of economic sophistication and in the quality of their commercial, administrative and legal arrangements (Ni 2006). This local variation and autonomy means that it is worth cultivating links with China at city level; this is the message of the Boston Consulting Group in their recent study (2010) of emerging markets generally. Frankal and Chan stress the need for UK cities to understand the Chinese economy and its geography, to make a realistic assessment of their own competitive advantages, to co-ordinate the efforts of different local players to achieve scale and diversity of offering, and to take a strategic approach.

One of the most obvious opportunities to strengthen economic links with China has been the Shanghai World Expo, which ran from April to October 2010 and attracted 73m visitors, with 250 countries and international organizations represented. At national level, the UK made a good showing, winning the top pavilion award, but in spite of the Expo’s theme of ‘Better City, Better Life’, there was relatively little UK representation at city level – perhaps not surprisingly, in the present context of budget cutbacks. The great exception was Liverpool, which grasped the Expo with unrestrained enthusiasm. Authors from Liverpool Vision give a lively account of the background to Liverpool’s decision to run its own pavilion, explain its approach, and make an upbeat early assessment of the benefits. This detailed and practical account should be very useful, and encouraging, to any town or city planning to undertake a similar exercise in China.

Conclusion

Predictions about China’s future are hazardous. Chinese people themselves are constantly amazed at the scale and speed of change, and there are so many instances where the unthinkable has become reality. But however it changes, the country will certainly have an increasing impact on the rest of the world. The choice is not between engagement and non-engagement, but between intelligent engagement and passivity in the face of China’s growing influence. Moreover, China is shaping its own future at great speed. There are great

opportunities to help the country make good decisions, and Chinese people in all areas of life welcome views and contributions from abroad. China is not difficult to engage with: there is a high level of communication and interchange of academics, students, officials, businessmen and tourists between China and the rest of the world, and there are few restrictions on travel within China. It is hoped that this special issue of *Local Economy* will help many more people to engage with this fascinating country in an informed and useful way.

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