Discussion of Henderson, Vernon
“Urbanization in China: Policy Issues and Options”

Nathan Schiff
Shanghai University of Finance and Economics

Graduate Urban Economics
Background of Report

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2. Empiricists: what data is being used for empirical evidence? What opportunities are there for better measurement?

3. Theorists: what are main policy instruments being suggested? Consistent with Chinese setting? Can you think of better mechanisms?
Cities in Development

Urbanization important driver of growth
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2. Virtuous cycle: increasing city population may lead to further productivity increases
3. Agglomeration: learning, matching, sharing; empirical evidence that doubling of individual industry scale leads to 2-10% growth in productivity
4. Cities have “knowledge accumulation”—part of learning mechanism in Duranton and Puga
City production hierarchies

General patterns in urban specialization as countries develop
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1) greater production specialization across cities with development
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What model would lead to this type of hierarchy?
Inequality and Favored Cities

Many urbanizing countries go through period of growing rural-urban inequality
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Urban management lags population growth, resulting in excessive negative externalities (pollution, congestion, food/building safety, crime)
Urban-rural inequality: international experience

Figure 1. Urban-rural inequality by degree of urbanization. WDR (World Bank, 2009)
Urbanization in China: Urban-rural gap

1. Slower urbanization rate: Chinese urban population growth 3.5%, more typical is 5-6% for urbanizing country. Level of urbanization is lower than other countries with similar per-capita GDP (46% as of article, 53% now)
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3. Growing urban-rural income gap: suggests that hukou system slows urban-rural mobility, leading to higher inequality

4. Too many low-population cities: much urbanization results from rural to urban migration *within* same prefecture, perhaps as result of hukou system. Most countries have more long-distance migration, leading to more efficient allocation
Asian Countries: urban-rural inequality

Philippines, 2000

China 1999 & 2006

India, 1983 & 1994

Figure 2. Within country urban-rural differences by regional degree of urbanization
WDR (World Bank, 2009)
Urbanization: Comparison of China with Other Countries

Policy Recommendations

Discussion

China: too few middle-sized cities

Figure 3. Share in Urban Population of Each City Size Category: World vs. China, 2000. Covers metropolitan areas over 100,000. China’s Census numbers are courtesy of Du Yang of CASS.
Urbanization in China: Industry Concentration

1. “Urban hierarchy”: excessive favoritism of top cities (think tiering system, which is unique to China). From 2002-2007 fixed asset investment (per-capita) was 4-5 times higher in top 30 cities than county cities, despite smaller cities having more manufacturing intensity (which requires larger fixed investment than services)

2. Insufficient industry concentration and specialization: suggests overly diversified cities is a legacy of planning system. Economic growth would increase with more specialization (more productive industries in fewer locations).

3. Poor living conditions of migrant workers: lack access to city services, face discrimination, lower wages and exploitation.

4. Notes that children of migrant workers now allowed to go to city schools—is this true?
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<tbody>
<tr>
<td>Provincial level cities (4)</td>
<td>3850</td>
<td>122,500</td>
<td>42%</td>
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<tr>
<td>Provincial capital (26)</td>
<td>2060</td>
<td>98,900</td>
<td>44%</td>
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<tr>
<td>Other prefecture level cities (238)</td>
<td>1570</td>
<td>64,000</td>
<td>56%</td>
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<tr>
<td>County-level cities (367)</td>
<td>980</td>
<td>24,400</td>
<td>54%</td>
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Table 2. Where capital investment goes. Urban Year Books (China: Data Online). Numbers for prefecture and above level cities are for urban districts.
Suggested Policy

Two main ideas:

1) "Unification" of land, labor, and capital markets: strengthening property rights, relaxing barriers to migration, removing political allocations of resources and barriers to resource flow

2) Changing administrative structure: suggests decentralizing government so that local policy-makers can better respond to local conditions
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Combining system of cities model with spatial equilibrium condition (Roback-Rosen)
Migrant Conditions

Improving mobility should have large benefits but brings issues:

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4. Improve housing rental market: remove tax on rental income (interesting!)
Land Sales, Property Rights, Taxes

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Suggests local governments should raise revenue through property and sales taxes (VAT)
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Note: this article was written before implementation of congestion policies in top tier cities (odd-even, license plate auctions, other driving restrictions, gas price floor)
Main Issues Central to Urban Economics

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4. Transportation costs key to spatial distribution; smart policies can limit sprawl
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4. Transportation costs key to spatial distribution; smart policies can limit sprawl
5. Advocating property taxes to redistribute urbanization gains
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Greater detail on urban cost: pollution much more relevant now than in 2009
Research Questions

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2. Quantifying agglomeration economies in China
3. Policy simulations on migration flows
4. Quantifying knowledge accumulation in Chinese cities
5. Understanding zoning—creating of Chinese regulatory index (like WRI)
6. Recommended tax policy
2014 National Urbanization Plan

Quoting from Xinhua English press release:

- “proportion of permanent urban residents to China’s total population stands at 53.7 percent, lower than developed nations’ average of 80 percent, and 60 percent for developing countries with similar per capita income levels as China”
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- “will also bring about large demands for investment in urban infrastructure, public service facilities and housing construction, thus providing continuous impetus for economic development”
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- “China will also optimize city layouts by enhancing the leading role of major cities, increasing the number of small and medium-sized cities and improving the service functions of small towns, the plan showed.”
- “By 2020, China’s ratio of permanent urban residents to total population should reach about 60 percent, while residents with city hukou should account for about 45 percent of total population”