

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

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Graduate Urban Economics

Background of Report

Prof. Henderson asked to prepare report for China Economic Research and Advisory Programme (think tank)

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Ideas seem to have been incorporated into March 2014 "National New-Type Urbanization Plan (2014-2020)" from Central Committee of Communist Party

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

Cities in Development

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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

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What model would lead to this type of hierarchy?

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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

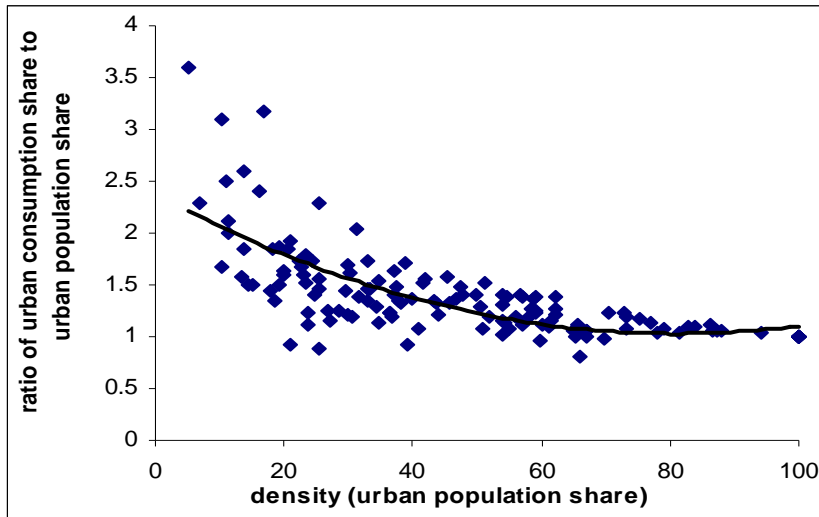


Figure 1. Urban-rural inequality by degree of urbanization. WDR (World Bank, 2009)

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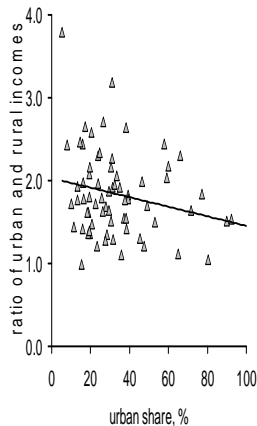
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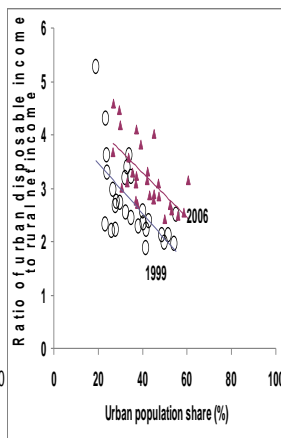
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4. Too many low-population cities: much urbanization results from rural to urban migration *within* same prefecture, perhaps as result of hukou system. Most countries have more long-distance migration, leading to more efficient allocation

Asian Countries: urban-rural inequality

Philippines, 2000



China 1999&2006



India, 1983 & 1994

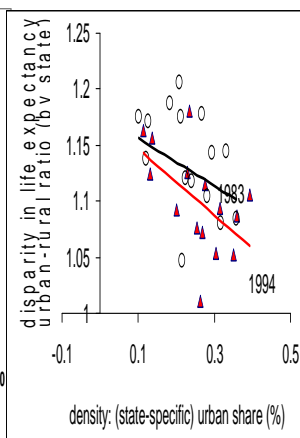


Figure 2. Within country urban-rural differences by regional degree of urbanization
WDR (World Bank, 2009)

China: too few middle-sized cities

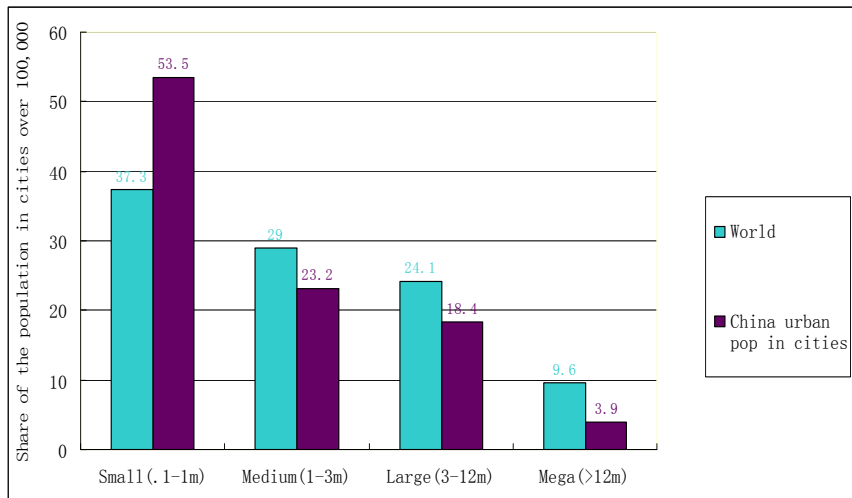


Figure 3. Share in Urban Population of Each City Size Category: World vs. China, 2000. Covers metropolitan areas over 100,000. China's Census numbers are courtesy of Du Yang of CASS.

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)

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4. Notes that children of migrant workers now allowed to go to city schools—is this true?

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	Total FDI (US\$) per capita (hukou population): 2002-2007	Total investment in fixed assets (¥) per capita: 2002-2007	Share of second sector in GDP 2007
Provincial level cities (4)	3850	122,500	42%
Provincial capital (26)	2060	98,900	44%
Other prefecture level cities (238)	1570	64,000	56%
County-level cities (367)	980	24,400	54%

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

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- 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)

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3. Allow migrants to easily sell rural assets
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)

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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

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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

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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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- “An increasing urbanization ratio will help raise the income of rural residents through employment in cities and unleash the consumption potential”
- “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”