
Special report:
China

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Building the dream

By 2030 Chinese cities will be home to about 1 billion people. Getting urban China to work properly is vital to the country's economic and political future, says James Miles

Apr 19th 2014 | From the print edition

SOME HISTORIANS BELIEVE that Marco Polo never went to China. But even if the 13th-century Venetian merchant did not lay eyes on the coastal city of Hangzhou himself, he certainly reflected the awe it inspired in other foreign traders when he described it as “beyond dispute the finest and the noblest in the world”. And, “incredible as it may seem”, he wrote, Hangzhou (which he called Kinsay) was but one of more than 1,200 “great and wealthy cities” in southern China. “Everything appertaining to this city is on so vast a scale... that it is not easy even to put it in writing.”

In Marco Polo's day it was the ornate palaces, paved roads and meticulously planned layouts of Chinese cities that impressed visitors; in today's megacities it is some of the world's tallest skyscrapers and largest shopping malls, interlinked by the world's longest bullet-train network. And if all goes according to the Communist Party's plan, the coming two decades will evoke a few more gasps.

GDP per person

Rural/Urban population

2012, \$'000

National average 6.1

1

16

Sources: Haver Analytics; *The Economist* estimates*Guangdong data exclude Hong Kong and Macau
†Registered as rural, living elsewhere

By 2020 the high-speed rail network will expand by nearly two-thirds, with the addition of another 7,000km (4,300 miles). By then almost every city with a population of half a million or more will be connected to it. Tens of millions more migrants will have poured in from the countryside. Between now and 2030, says the World Bank, the average rise in the number of city-dwellers each year is likely to be around 13m, roughly the population of Tokyo. In 2030 China's cities will be home to close to 1 billion people, or about 70% of the population, compared with 54% today. By some estimates the urban population will peak around 2040, still just shy of the 1 billion mark but close enough. As James McGregor, an American businessman, put it in his book, "One Billion Customers", published in 2005, the notion of a billion Chinese spenders has come to symbolise "the dream of staggering profits for those who get here first, the hype and hope that has mesmerised foreign merchants and traders for centuries".

After taking over as party chief in 2012, Xi Jinping (now also president) launched his expected decade in power with a catchphrase: "The Chinese dream". It was a striking break from the party's tradition of ideology-laden slogans. Now endlessly invoked in official

speeches and the subject of numerous books and songs, the phrase is clearly intended to appeal to upwardly mobile urban residents striving for the comforts of their rich-world counterparts.

Only 15 years ago such a middle class barely existed in China. In 2011, when the country reached 50% urbanisation, it had become obvious that the party's fate rested with the stability of cities and the contentedness of their middle-class residents. The largely rural country that Deng Xiaoping (himself of peasant stock) set out to “reform and open up” in the late 1970s had become overwhelmingly urban in its economic and political focus. Thanks mainly to a tide of migration, China's urban population had grown by more than 500m since Deng launched his reforms: the equivalent of all the people in the United States plus three Britains.



Li Keqiang, who took over as prime minister in 2013, sees further urbanisation as critical to China's economic success. He has called it a “gigantic engine” for growth. Mr Li and other officials are fond of quoting Joseph Stiglitz, a Nobel prize-winning American economist, who said that technological innovation in America and urbanisation in China would be “two keys” to mankind's development in the 21st century.

A new grand plan for China's cities, overseen by the prime minister and published last month, admits to a number of problems, such as worsening pollution, urban sprawl and congestion as well as growing social tensions. It also points out that China's urbanisation lags behind that of other countries at similar levels of development (typically around 60%), and that there remains “quite a lot of room” for further urban growth.

The big build-up

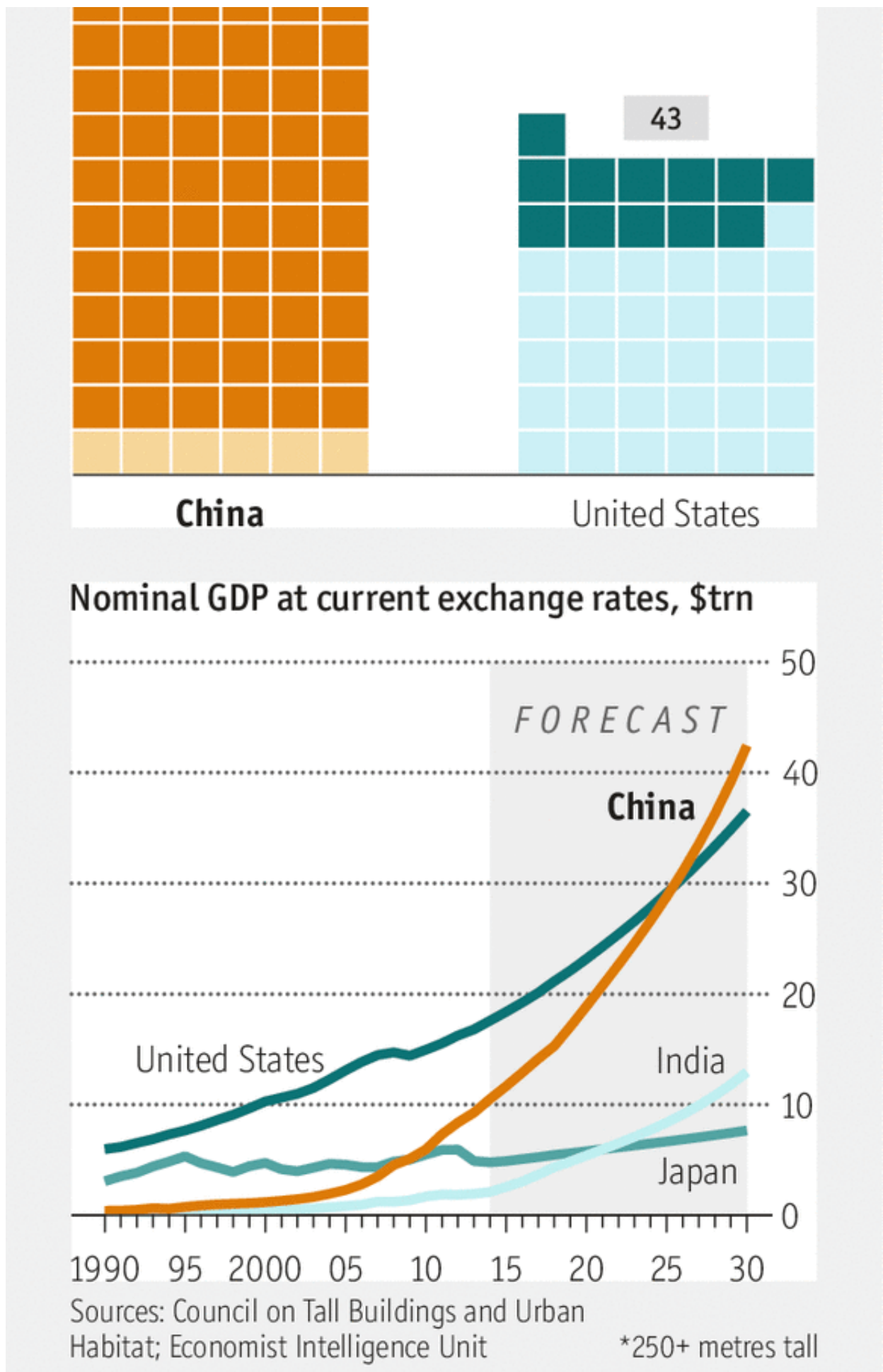
Number of skyscrapers*

Pre-2000
Completed 2000-14

72

Total, 2014





Getting cities right will help China to keep growing fast for years to come. Getting them wrong would be disastrous, bringing worsening inequality (which the World Bank says has

approached “Latin American levels”, although Chinese officials insist it has recently been improving), the spread of slums, the acceleration of global climate change (cities consume three-quarters of China’s energy, which comes mainly from coal) and increasing social unrest.

After more than a decade of spectacular growth in China, much of it in double digits, doubts are setting in both at home and abroad about the sustainability of the “Chinese model”. Growth is slowing. Lavish spending by local governments has piled up huge debts. Increasing numbers of middle-class Chinese are looking for boltholes abroad for themselves, their families and their assets. Scandals involving senior officials have revealed corruption on a gargantuan scale. Censors generally succeed in preventing anti-party messages from spreading widely, but microbloggers with thousands of followers still boldly relay damning critiques.

Mr Xi describes the country’s problems and his approach to solving them in colourful terms. Reforms, he says, have entered a “deep-water area”. China must “venture along dangerous paths to break through barriers to reform”. In tackling corruption it will need the resolve of a man who must “cut off his own snake-bitten hand to save his life”. At a plenum of the Central Committee in November the party declared that market forces must play a “decisive role”, the strongest support it has ever expressed for the market. This seems all the more stirring after years of vacillation under Mr Xi’s predecessor, Hu Jintao, who retreated from reform in the face of powerful resistance by vested interests, above all local governments, huge state-owned enterprises and, ironically, the new middle class, which would rather not share the fruits of growth with rural migrants.

Why cities matter

All the most important reforms that Mr Xi needs to tackle involve the movement to China’s cities. He must give farmers the same property rights as urban residents so they can sell their homes (which is currently all but impossible) and leave the land with cash in hand. He must sort out the mess of local-government finances, which depend heavily on grabbing land from farmers and selling it to developers. He must loosen the grip of state-owned enterprises on the commanding heights of the economy and make them hand over more of their profits to the government. He must move faster to clean up the urban environment, especially its noxious air, and prevent the growth of China’s cities from exacerbating climate change. And he must start giving urban residents a say in how their cities are run.

This list is both daunting and urgent. The recent growth of China’s cities has created two new social forces whose concerns Mr Xi cannot afford to ignore. One is a vast migrant population (including the urban-born children of recent migrants from the countryside) that now makes up more than one-third of the urban total of 730m. It is far harder for a member of this group to gain official recognition as a city-dweller in his own country, with all the welfare

benefits and access to public services that status confers, than to gain citizenship in America or Europe if he were to migrate there. The harsh treatment of China's internal migrants is creating huge social divisions that could erupt in serious unrest.

The other new force is the urban middle class, now thought to be roughly the same size as the migrant population, which numbers around 260m. It has been kept reasonably content by the rapid growth of the past few years, but that may not last. China's middle classes, like those elsewhere, worry about property: how to protect it from the whims of urban planners and party officials, what is happening to prices, and what to do if the bubble bursts. Increasingly unaffordable house prices, or conversely a steep drop, might prompt different ends of the middle-class spectrum to protest. So too might the party's many sins and blunders: a food-safety scandal, perhaps, linked to official corruption.

Like his predecessors, Mr Xi is nipping signs of unrest in the bud. Dissidents who have done little more than briefly raise protest banners in tiny groups are being thrown into jail. But there are also some positive signs. He has taken charge of a new party organ, a small group of officials with a wide range of portfolios, who are working to improve policy co-ordination and overcome bureaucratic resistance to change. It even has a task force dedicated to building "democracy and the legal system", although that may not get very far. Mr Xi has also launched a fierce campaign against high-level corruption which, though unlikely to offer a lasting cure to the endemic problem of graft, could scare officials into compliance with his reform plans.

A dwindling labour supply

As economic growth slows and the pool of surplus labour in the countryside shrinks, the speed of urbanisation will diminish. For the past few years about 9m people have been moving into cities every year. The number will fall to 7m in the second half of this decade and 5m in the 2020s, according to Jin Sanlin of the Development Research Centre, a government think-tank. By 2017, he writes, that supply of surplus labour in the countryside will have all but disappeared.

Chinese officials note that the speed of urbanisation in China has been far faster than in Western countries during their industrial transformations. It took China only 30 years to climb from 20% urbanisation to today's 54%. In Britain the equivalent journey took 100 years and in America 60. However, in more recent times population growth in urban China has been slower than in countries such as South Korea and Indonesia during their period of rapid economic development, mainly because of China's discriminatory policies against migrants and its state monopoly on rural-land sales.

By any measure, the country's urbanisation has been impressive. Shanghai is about to finish a 121-storey American-designed skyscraper that will be the world's second-tallest building (after Dubai's Burj Khalifa). Whole new urban districts, underground railways, modern

airports and intercity expressways have been built on a scale and at a pace most countries would be proud of. But China has failed to reap the full benefits of city growth. This is becoming a pressing problem in the face of diminishing returns from pouring ever more concrete.

From the print edition: Special report