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Chinese go to town over growth

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China's top economic planning official said the country was in the process of rapid urbanisation that would drive growth over the next decade, but said manufacturing was having "huge difficulties" due to overcapacity.

National Development and Reform Commission chairman Zhang Ping said on Wednesday a rising number of heavy industries were making losses due to overinvestment in manufacturing.

But Mr Zhang surprised many by saying a much-anticipated government blueprint on moving rural Chinese to urban areas would be released in the second half of this year, far sooner than many had expected. The World Bank estimates nearly 18 million rural citizens will flock to towns each year until 2030, driving demand for raw materials like iron ore.

Last year Beijing commissioned the World Bank to provide a landmark report on how this migration should be managed and what infrastructure and services would be required.

Urban planning

Weekly new home sales in China ('000s sqm)



"We are in the process of rapid urbanisation," Mr Zhang told a press conference in Beijing.

"Urbanisation is the biggest potential force driving China's domestic demand in the years ahead."

It is estimated that this mass migration over the next decade will require \$US6.4 trillion worth of investment. Urban residents make up an estimated 53.4 per cent of China's population, and this will reach 66 per cent by 2030.

But UBS commodities analyst Tom Price said China's renewed urbanisation push would not change his negative view on iron ore prices.

"We're bearish on iron ore over the medium and long term because we are not just seeing an expansion in supply, we are also seeing supply diversify which is a bad outcome for a commodity's price," he said.

Incoming Premier Li Keqiang has singled out urbanisation as a top pol-

icy priority for China's new leadership and personally commissioned the World Bank report.

Mr Li said urbanisation is the key to consumer spending playing a dominant role in the economy. Consumption makes up just 35 per cent of China's economy, compared with 54 per cent in India. In the past 12 years Shanghai's population has grown by 7.4 million, while Beijing's has nearly doubled in just two decades. Many new residents are migrant workers.

While Mr Zhang said urbanisation would drive growth he lamented serious overcapacity problems in steel, aluminium, cement, glass making and coking coal. He said plants in these sectors were running at just 70 per cent to 75 per cent of capacity, while the once booming solar industry was at just 60 per cent.

"In a normal market these usage rates should be 80 to 85 per cent," he said.

"These industries are having huge difficulties."

Mr Zhang said the government would push to increase the pace of mergers in these sectors, but it has had little success doing this in recent years.

with Jonathan Shapiro