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STATE OF THE WORLD'S CITIES 2006/7



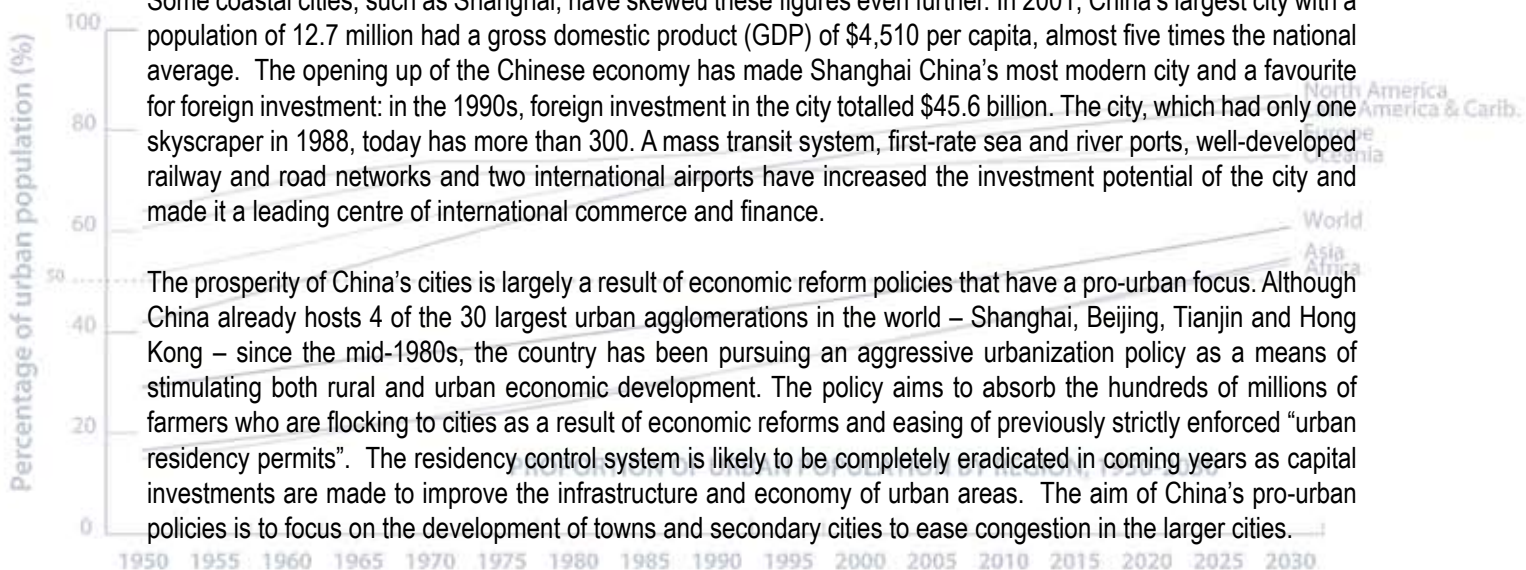
## China's rising cities

Recent economic reforms coupled with modernization policies have improved the living conditions of millions of people in China. In the last two decades, the world's most populous country has witnessed annual economic growth rates of more than 9 per cent while the proportion of people living on less than \$1 a day dropped dramatically from 634 million in 1981 to 212 million in 2001.

The impact of economic growth is most evident in urban areas. China's cities are not only doing better than its rural areas but are largely responsible for the country's economic boom, the effects of which are concentrated in the larger cities. In 2001, per capita disposable income for urban residents was \$829 compared to \$278 for rural residents. In 1987, the income of the average urban household was almost twice that of the average rural household; today it is almost three times higher.

Some coastal cities, such as Shanghai, have skewed these figures even further. In 2001, China's largest city with a population of 12.7 million had a gross domestic product (GDP) of \$4,510 per capita, almost five times the national average. The opening up of the Chinese economy has made Shanghai China's most modern city and a favourite for foreign investment: in the 1990s, foreign investment in the city totalled \$45.6 billion. The city, which had only one skyscraper in 1988, today has more than 300. A mass transit system, first-rate sea and river ports, well-developed railway and road networks and two international airports have increased the investment potential of the city and made it a leading centre of international commerce and finance.

The prosperity of China's cities is largely a result of economic reform policies that have a pro-urban focus. Although China already hosts 4 of the 30 largest urban agglomerations in the world – Shanghai, Beijing, Tianjin and Hong Kong – since the mid-1980s, the country has been pursuing an aggressive urbanization policy as a means of stimulating both rural and urban economic development. The policy aims to absorb the hundreds of millions of farmers who are flocking to cities as a result of economic reforms and easing of previously strictly enforced "urban residency permits". The residency control system is likely to be completely eradicated in coming years as capital investments are made to improve the infrastructure and economy of urban areas. The aim of China's pro-urban policies is to focus on the development of towns and secondary cities to ease congestion in the larger cities.



## Equity grants

Economic growth has also led to growing urban disparities. Prior to the economic reforms, the system made it difficult for villagers to migrate to cities, with the result that slum formation was controlled, whenever possible. But economic reforms saw a significant increase in migration of unemployed workers and farmers to cities, with the result that some inner-city and peri-urban areas have been suffering from a gradual deterioration of living conditions. In 2000, for instance, an estimated one-third of the urban population in the country lacked adequate sanitation. While the economic boom experienced by Chinese cities induced investment in high and middle segments of the housing market, it posed problems of affordability and accessibility for families with limited income and savings.

Until the early 1980s, China's urban housing market was almost entirely the purview of state-owned enterprises that were responsible for investing in and allocating housing within a strict command-and-control economy. High rates of urbanization and economic growth in the last two decades led to major macroeconomic reforms geared towards a "socialist economy based on market principles" and to the liberalization of the urban housing market in the late 1990s.

To facilitate low-income people's access to the housing market, Chinese cities have been practising a policy of stimulating supply and demand through the use of equity grants for people living in sub-standard housing. While land remains the property of the state, leases are auctioned to developers to supply housing on a home ownership basis. Low-income families living in slums or substandard housing are thus provided with once-in-a-lifetime equity grants based on the market value of their existing housing, which enables them to access mortgage instruments. Developers, on the other hand, are provided incentives in the form of tax reductions or exemptions.

The use of equity grants, combined with incentives for housing developers to provide affordable housing, led to the production of more than 20 million housing units in the last five years. Chinese cities are hoping to avert the proliferation of urban ghettos and slums by providing more affordable housing. In large housing estate developments, many of which attract foreign direct investment, a new level of self-governance has also emerged, with residents electing committees to oversee and manage urban safety and security, environmental conservation and the needs of youth and the elderly.

## Prosperity and pollution

China's recent gains in economic growth and industrialization have in many cases exacerbated environmental problems in its cities. Economic growth has increased consumer purchasing power, with the result that Chinese cities, such as Beijing – once the bicycle capital of the world – are now teeming with motor vehicles, a leading cause of air pollution. There are 1.3 million private cars in Beijing alone, an increase of 140 per cent since 1997. Experts believe that China's skyrocketing private car ownership and lax implementation of industrial emission regulations could threaten the recent gains it has achieved on the economic front. China's manufacturing-based economy has made it one of the world's largest consumers: in 2005, the country used 26 per cent of the world's crude steel, 32 per cent of its rice and 47 per cent of its cement.

According to the World Bank, China is home to 16 of the 20 most polluted cities on the planet. China is also the second largest producer of greenhouse gases, after the United States. Environmental degradation robs the nation of up to 12 per cent of its GDP, and every year some 400,000 Chinese die prematurely of respiratory illnesses and some 30,000 children die from diarrhoea caused by drinking unclean water. Towns and villages along China's most polluted rivers are also reporting more cases of cancer and miscarriages. According to the Yellow River Conservancy Commission, river pollution costs the country \$.1.9 million annually. If China is to sustain its remarkable economic growth, it must also ensure that its cities are sustainable.

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