

# 18

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## URBAN DEVELOPMENT

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This chapter discusses strategies for accelerating and improving urban development in the Western Region.

## Urban land management

Most land in cities is held in the form of very limited land use rights. Urban land cannot be freely transferred or mortgaged.

### URBAN PLANNING

#### Legislation

The City Planning Law of 1989 lays down the basic principles for city planning. The law provides for plans at two levels: a comprehensive city plan and detailed land use plan:

*Article 19.* City comprehensive plans should include the designated function of the city, the development goal and development size of the city, the standards, norms and criteria for the main constructions in the city and the land use structure, zoning, comprehensive arrangement for all types of development, comprehensive transportation system, water space, and green space system, planning for specific sectors and plans for short term construction thereof.

*Article 20.* The detailed plans... should include the land use for each construction project within the planned plot, control indexes for building density and building height, general layout, utilities engineering and site engineering.

Cities under the direct jurisdiction of the State Council (such as Chongqing), provincial capitals, and cities with a population of over 500,000 must submit their comprehensive plans to the State Council for approval.

The City Planning Law contains some basic provisions for public participation. Article 28 requires a city government to publicize a plan after its adoption, while Article 10 permits any individual to take action. These basic provisions are essential for the protection of historic and cultural sites, ethnic traditions, local characteristics, the traditional cityscape, and the natural landscape—values that Article 14 espouses.

The Construction Law of 1997 lays down the procedures for construction permits and assigns

responsibility for these to local Construction Bureaus.

#### Institutional responsibilities

There is an organizational separation between urban planning as a profession and the government bureaucracy. Professional planners work in planning institutes under the auspices of the China Academy of Urban Planning and Design. At the various levels of local government there are local planning bureaus under the Ministry of Construction with professional staff who are mainly municipal engineers. In practice, City Planning Bureaus exercise control over urban development proposals with little reference to the plans. In rapidly growing urban economies, plans quickly become out of date, especially as the approval process for plans is a lengthy one. Local governments are less concerned with the technical and rational basis of city plans than with accommodating the requirements of SOEs, urban collectives, and other government agencies, and promoting development. Illegal construction and land use are common; violators go unpunished.<sup>1</sup>

#### Challenges

With the transition to a market economy and the rapid expansion of cities, the system is facing severe challenges. These challenges include:

- Providing a mix of land use zonings and density controls that are consistent with market demand
- Matching infrastructure to the likely development of buildings
- Controlling the conversion of rural land to urban uses
- Accommodating the redevelopment of old industrial sites
- Coordinating and negotiating with different interest groups
- Managing the emergence of the informal sector (for example, the City Planning Act says that temporary constructions should be demolished)

## LAND TENURE

The State owns the land in urban areas. Land administration departments of local governments sell land use rights by means of public auction or tender, or by agreement. The law does not require that there be any term to the transfer of land use rights. The rights to use state land are transferable. The primary market transactions are almost entirely by agreement rather than auction or tender, although the Government is seeking to promote auctions.

## THE MARKET FOR THE TRANSFER OF LAND USE RIGHTS

The Ministry of Land Resources describes the secondary market for the transfer of land use rights as “totally competitive.” However, there are many obstacles to the operation of the market. The major defects in the local markets are as follows:

- The intervention of local government officers can cause delays and add uncertainty to the outcome of transactions.
- The registration of rights is imperfect.
- The ownership of land use rights is often unclear.

Evidence of the lack of development of the secondary market comes from the extremely low numbers of notarized documents relating to property transactions. Despite the low levels, these numbers do not show strong growth (Table 18-1).

Many urban property transactions take place without registration of title or notarized documents. Employees cannot sell the dwellings sold to them by their work units until after a specified period, and even then must first register the dwellings.

## CONVERSION OF AGRICULTURAL LAND

The Government has long recognized the importance of carefully controlling the conversion of agricultural land to urban uses. There have been uncertainties as to the respective responsibilities of the Ministry of Construction and the Ministry of Land Resources in this regard. The Land Administration Law of 1998 now specifies in some detail the procedures for this conversion, which are mainly the responsibility of local Land Administration Bureaus.

**Table 18-1 Number of Notarial Documents Relating to Property Transactions, 1996–2000**

Item	1996	1997	1998	1999	2000
<b>Business</b>					
Property leases	40,751	36,684	37,791	35,714	30,037
Transfer of land use rights		36,239	87,209	70,206	72,934
Mortgage registration		34,085	35,504	58,242	48,819
<b>Civil</b>					
Property rights	84,873	55,388	71,535	70,526	53,636
Purchase and sale of houses	231,537	322,660	435,934	451,864	503,505
House leases	61,525	41,997	42,064	57,287	37,848
Rights to housing site	53,782	82,917	37,174	66,066	87,073

Source: *China Statistical Yearbook*, various issues.

## DEVELOPMENT DENSITIES

The development densities of Western Region cities are lower than those of other regions, especially in the northwest (Table 18-2).

Gross densities in cities with nonagricultural populations over a million are quite low by the standards of India and Indonesia. This suggests that the use of land in cities in the PRC is not very efficient, and the attempt to control the conversion of agricultural land by administrative and regulatory means has not been effective. If urban planning has failed to make efficient use of land in the past, it will need the help of market forces to succeed in the

**Table 18-2 Population Per Hectare in Cities, 1999**

Region	Cities With Population > 1 Million	Other Cities	All Cities
<b>Eastern</b>			
Southeast	137.0	83.1	103.5
Northeast	129.1	98.0	116.7
<b>Central</b>	103.6	53.4	108.4
<b>Western</b>			
Southwest	125.4	90.7	105.1
Northwest	98.5	81.7	89.3
<b>PRC</b>	<b>128.7</b>	<b>91.1</b>	<b>107.1</b>

Source: Calculated by consultants from *Urban Statistical Yearbook of China 2000*.

Note: PRC statistics normally express population density with reference to administrative boundaries; for cities the statistics refer to the population within urban district boundaries. However, urban districts include rural areas and rural populations, so these density statistics are not meaningful for discussing the management of urban development. For this table, the nonagricultural population was divided by the developed area to calculate densities.

future. In a market economy, density would normally reflect per capita incomes (which affect ability to afford larger homes and the demand for nonresidential land uses) and land prices (which is the main influence on density). Land prices are normally higher in large cities; hence, the higher densities.

## Urban infrastructure

The urban areas of the Western Region have much poorer urban infrastructure than those of the Eastern Region. Urban infrastructure is indispensable for developing business and improving the welfare of residents. The challenge for planners is how to ensure that investment in infrastructure is consistent with local priorities for achieving economic growth.

## URBAN WATER SUPPLY

### Domestic supply

The level of service of urban water supply normally reflects income and the cost of supply. Per capita water consumption in the cities is thus highest in the southeast PRC, where water is relatively abundant and cities are rich. Being a necessity, water has an income elasticity of demand less than unity, and in the northwest the shortage of water rather than income differences largely explains the subregion's lower per capita water consumption (Tables 18-3 and 18-4).

The per capita consumption in the Western Region is relatively high for the living standards. The consumption figures probably include a high proportion of nonrevenue water and leakage.

### Industrial supply

Industry uses much more water than is normal in other countries. In fact, less than half of water consumption in cities is for personal use (Table 18-5).

The reduction in industrial consumption is partly offsetting the increase in domestic consumption. It would be good if this were because of more efficient use of water and more recycling by industry. Unfortunately, the numbers in Table 18-5 relate only to the largest cities; industrial restructuring probably explains part of the reduction, and water use by industry may be increasing in secondary towns and cities. At any rate, Table 18-5 indicates that reduced water use by industry could help meet much of the growth in domestic demand over the next few years.

## URBAN SANITATION

Each of the main components of urban sanitation systems—sanitation in dwellings, sewerage, wastewater treatment, and solid waste management—is much inferior to that in the Eastern Region.

### Household sanitation systems

The proportion of households with WCs is very much lower than the proportion with piped water supply (Table 18-6).

**Table 18-3 Urban Water Supply, by Region, 1999**

Region	No. of Cities <sup>a</sup>	Total Population (millions)	Nonfarm Population (millions)	Annual Water Consumption (m <sup>3</sup> per capita)
<b>Eastern</b>				
Southeast	55	55.9	37.2	110.5
Northeast	42	65.1	43.4	67.2
<b>Central</b>	85	79.8	49.0	77.0
<b>Western</b>				
Southwest	30	39.4	17.4	80.1
Northwest	24	20.0	12.6	65.8
<b>PRC</b>	<b>236</b>	<b>260.2</b>	<b>159.6</b>	<b>81.4</b>

Source: *Urban Statistical Yearbook of China 2000*.

<sup>a</sup> Data relate to cities at prefecture level and above.

**Table 18-4 Per Capita Consumption of Potable Water in Cities, 1996 and 2000**

Region	1996 (L/d)	2000 (L/d)	Average Annual Increase (%)
<b>Eastern</b>	220	243	2.4
<b>Central</b>	203	202	-0.2
<b>Western</b>			
Southwest	194	207	1.6
Northwest	173	169	-0.5
<b>PRC</b>	<b>208</b>	<b>220</b>	<b>1.4</b>

Source: *China Statistical Yearbook 2001 and 1997*.

**Table 18-5 Consumption of Water in Cities, by Use, 1996 and 2000**

Region	1996		2000		Rate of Increase	
	Residential <sup>a</sup> (Mt)	Industrial (Mt)	Residential (Mt)	Industrial (Mt)	Residential %	Industrial %
<b>Eastern</b>	8,801	11,806	11,055	10,579	5.86	-2.71
<b>Central</b>	4,924	9,772	5,485	8,378	2.73	-3.77
<b>Western</b>						
Southwest	1,856	2,773	2,239	2,329	4.80	-4.26
Northwest	1,125	1,831	1,221	1,507	2.07	-4.76
<b>PRC</b>	<b>16,707</b>	<b>26,181</b>	<b>20,000</b>	<b>22,792</b>	<b>4.60</b>	<b>-3.41</b>

Source: *China Statistical Yearbook of China 2001*.

<sup>a</sup> Refers to the water consumption of households for daily life and the water consumption of public welfare facilities, including the consumption of restaurants, hotels, hospitals, barber shops, public bathhouses, laundries, swimming pools, shops, schools, institutions, army units, and other units.

Many households are dependent on public toilets. This is an indicator that the requirements for housing investment include upgrading or replacing existing housing stock as well as expanding the housing stock.

### Sewerage

On average, sewerage systems in the Western Region are less than half as extensive as water supply reticulation. Sewerage systems in both the Central and Eastern regions are much more extensive (Table 18-7).

### Wastewater treatment

Most of the wastewater that the sewerage systems collect does not receive any treatment. The capacity of sewage treatment plants in the northwest is equivalent to only 11.4 percent of the water supply volume (Table 18-7). The impact of the lack of treatment on water quality is especially serious in the northwest, where the treatment plants have least capacity and they discharge the wastewater into receiving waters that are much less in volume than those in the southwest.

### Solid waste management

The PRC disposes of its municipal solid waste through sanitary landfills, composting, and incineration. However, classified collection of solid

**Table 18-6 Households with Piped Water Supply and WCs, 1998 (%)**

Region <sup>a</sup>	Source of Water Supply (%)				WCs (%)
	Tap Water	Tubewell	Others	Total	
<b>PRC</b>	<b>46.5</b>	<b>22.5</b>	<b>31.0</b>	<b>100.0</b>	<b>23.1</b>
<b>Western</b>					
Provincial cities	92.2	6.6	1.2	100.0	63.2
Prefecture cities	85.3	10.8	3.9	100.0	58.4
Southwest counties	24.1	14.6	61.3	100.0	4.1
Northwest counties	20.0	19.0	61.0	100.0	3.7

Source: Calculated from Ministry of Health (1999).

<sup>a</sup> The survey covered particular localities only, and these may not be fully representative of each type of area.

**Table 18-7 Levels of Urban Sanitation Service, 1999**

Region	Length of Sewers/Length of Water Pipes <sup>a</sup> (%)	Capacity of Sewage Treatment Plants <sup>b</sup> (%)	Garbage Collection per Capita <sup>c</sup> (t/yr)
<b>Eastern</b>	58.9	24.8	0.33
<b>Central</b>	57.9	14.9	0.20
<b>Western</b>			
Southwest	47.7	18.2	0.26
Northwest	47.8	11.4	0.26
<b>PRC</b>	<b>56.5</b>	<b>19.9</b>	<b>0.28</b>

Source: Calculated from the *China Statistical Yearbook 2000*.

<sup>a</sup> Total length of sewers as a percentage of the total length of water pipes..

<sup>b</sup> As a percentage of water supply volume. The capacity refers to the design capacity of the sewage treatment works.

<sup>c</sup> Per capita of the urban population.

waste is rare, technologies for collection and transport are often primitive, and landfill techniques substandard. The adoption of classified collection would enable cities to reduce the disposal volumes by up to 80 percent.

### URBAN ROADS

In the provision of urban roads the Western Region cities compare favorably with the rest of the country. This possibly reflects the smaller size and lower densities of Western Region cities (Table 18-8).

**Table 18-8 Urban Roads, by Region,<sup>a</sup> 1999**

Region	No. of Cities	Total Population (millions)	Nonfarm Population (millions)	Population Density <sup>b</sup> (persons/ha)	Average Road Space <sup>c</sup> (m <sup>2</sup> per capita)
<b>Eastern</b>					
Southeast	55	55.9	37.2	103.5	6.8
Northeast	42	65.1	43.4	116.7	5.6
<b>Central</b>	85	79.8	49.0	108.4	4.1
<b>Western</b>					
Southwest	30	39.4	17.4	105.1	10.3
Northwest	24	20.0	12.6	89.3	38.6
<b>PRC</b>	<b>236</b>	<b>260.2</b>	<b>159.6</b>	<b>107.0</b>	<b>5.9</b>

Source: *Urban Statistical Yearbook of China 2000*.

<sup>a</sup> Data relate to cities at prefecture level and above.

<sup>b</sup> Nonfarm population divided by the built-up area.

<sup>c</sup> Roads with a paved surface and wider than 3.5 m.

The derived numbers in Table 18-8 are indicative rather than precise measures. However, it does seem that urban road investment has been given too high a priority in the Western Region relative to the need for sewerage and wastewater infrastructure.

## Housing

In small cities and towns, most residents own their own homes, which they have built or otherwise acquired on their own. In the larger cities, the sale of SOE-owned apartments at subsidized prices, together with the sale of commercially priced commodity housing, is boosting homeownership.

### HOUSING SUPPLY AND DEMAND

In terms of total floor area constructed, urban housing construction has been expanding at an annual rate of between 5 percent and 18 percent since 1995. The main drivers of this increase are higher incomes, and expanding urban populations. Higher incomes lead to a demand for bigger homes. As homes are still quite small (an average of 9.8 m<sup>2</sup> net living space per person), the level of urbanization is still low, and housing expenditure is only 4.2 percent of total living expenditures, the expansion of the housing construction industry could run for many years yet. The industry is also making a significant contribution to creating new jobs, at the rate of one new construction job for every 10 m<sup>2</sup> of increase in output. An increase in demand for consumer durables accompanies the increase in new housing construction.

However, there are some longer-term threats to the continuation of these desirable trends. For various reasons, affordability will eventually start to decline. Downward pressures on wages, the removal of Government subsidies, the increasing cost of providing serviced sites as cities expand could all affect affordability. Sources of finance may become less available.

### HOUSING SUBSIDIES FOR LOW-INCOME GROUPS

The Ministry of Construction advocates housing subsidies for low-income groups.<sup>2</sup> Singapore and Hong Kong, China are commonly cited as examples of the successful application of subsidized housing for low-income groups. However, important factors that contributed to the success of public housing schemes in Hong Kong, China are not valid in the Western Region. Among the important differences are the following:

- Relatively high incomes made housing more affordable and provided the tax base for subsidies.
- High land prices necessitated high-rise forms of residential development.

Government investment in housing crowds out private investment. All income groups would be

willing and able to finance housing construction if the land rights and services were available. High-rise forms of residential development are not necessary in most of the cities of the Western Region. In some of the northern cities, the need for district heating systems may offer some advantages to the large-scale development of high-density housing schemes.

### HOME OWNERSHIP

Nearly half the homes in Western Region cities are in private ownership, similar to the national average (Table 18-9).

With a high level of private ownership, the private sector should be dominating the industry. In fact, however, housing providers are still predominantly public sector.

## Financing urban development

The cities of the Western Region have fewer financial resources than those of the Eastern Region. This is evident in terms of average household incomes, finances of city governments, and regional GDP.

### FISCAL REVENUES

City governments in the Western Region have very low fiscal revenues per capita in comparison with cities in the Eastern Region (Table 18-10).

**Table 18-10 Fiscal Revenue Per Capita in Cities, 1999**

Region	No. of Cities	Provincial Capitals (yuan)	Other Cities (yuan)
<b>Eastern</b>	97	2,570	851
<b>Central</b>	85	1,041	604
<b>Western</b>			
Northwest	30	1,025	524
Southwest	24	821	391
<b>PRC</b>	<b>236</b>	<b>1,806</b>	<b>657</b>

Source: Calculated from *Urban Statistical Yearbook of China 2000*.

Most Western Region cities will therefore not be able to grow at nearly the same pace as Eastern Region cities. In the short term, fiscal transfers can provide the necessary funds for infrastructure investment. Fiscal transfers will be especially necessary in those cities that are not provincial capitals.

### UTILITY REVENUES

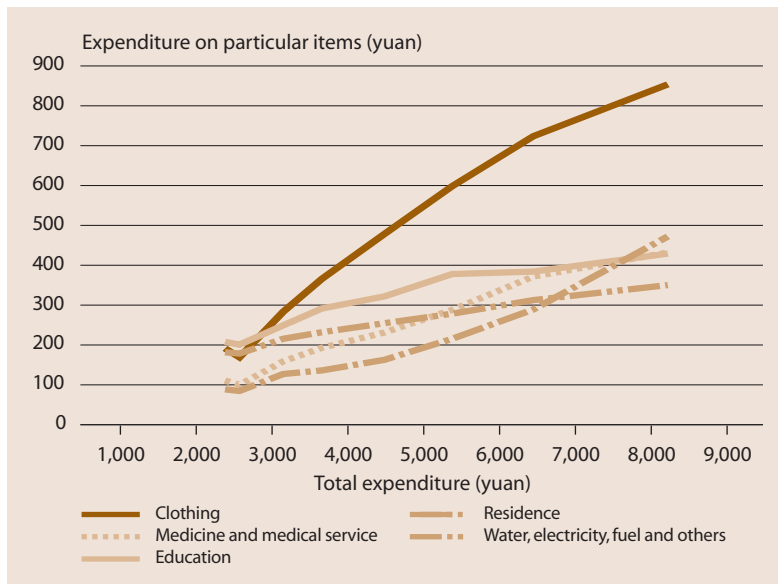
In 1998 SDPC and the Ministry of Construction issued a notice laying down the principles for charging for urban water supply and wastewater treatment.<sup>3</sup> However, local governments have been very slow to act. In October 2000, SDPC issued a further notice that referred to the need to implement the 1998 notice.<sup>4</sup> In November 2000, the State Council issued an advice that again called for speeding up reforms of water prices. Finally, in August 2001, the Ministry of Construction's Advice on Construction in the Western Region advocated accelerating tariff reforms in urban

**Table 18-9 Home Ownership in Cities, 1999**

Region	Floor Area per Person			Private Ownership		
	All Cities (m <sup>2</sup> )	Provincial Cities (m <sup>2</sup> )	Other Cities (m <sup>2</sup> )	All Cities (%)	Provincial Cities (%)	Other Cities (%)
<b>Eastern</b>	21.8	21.0	18.7	49.7	47.8	54.7
<b>Central</b>	18.5	18.9	18.3	47.3	34.9	50.9
<b>Western</b>						
Southwest	20.7	20.8	20.5	46.3	39.9	50.6
Northwest	17.8	19.2	17.0	47.3	27.8	60.4
<b>PRC</b>	<b>20.3</b>	<b>20.0</b>	<b>18.6</b>	<b>48.5</b>	<b>39.3</b>	<b>53.5</b>

Source: *Urban Construction Yearbook 2000*.

**Figure 18-1 Urban Household Expenditure, 1999**



Source: China Statistical Yearbook, 2000

**Table 18-11 Average Annual Expenditures of Urban Households, 1999**

Region	Total Household Expenditure (yuan)	Utilities Expenditure		Utilities/Total	
		Water (yuan)	Electricity (yuan)	Water (%)	Electricity (%)
<b>Southwest</b>					
Chongqing	5,444	37	140	0.68	2.6
Sichuan	4,499	35	124	0.78	2.8
Guizhou	3,964	34	111	0.85	2.8
Yunnan	4,941	28	101	0.56	2.0
Tibet	5,309	10	63	0.19	1.2
Guangxi	4,587	43	128	0.94	2.8
<b>Northwest</b>					
Shaanxi	3,953	21	72	0.52	1.8
Gansu	3,682	11	44	0.31	1.2
Qinghai	3,904	16	51	0.42	1.3
Ningxia	3,548	18	65	0.51	1.8
Xinjiang	4,164	16	54	0.39	1.3
Inner Mongolia	3,469	14	71	0.41	2.0

Source: China Statistical Yearbook of Prices and Urban Household Survey 2000

infrastructure systems.<sup>5</sup> It recognized the importance of raising water tariffs to water conservation.

Financial and economic reforms at the center might work better than the fiat approach. It seems clear that it is practicable to raise tariffs, but local governments have been slow to do so. As is normal for a necessity, household expenditure on utilities does not increase much with income (Figure 18-1).

However, this also suggests that there is scope for raising tariffs for consumption above a minimum level of, say, 50 L/d. Supporting this conclusion is the fact that household expenditure on water is actually much less in the water-short provinces than in the water-abundant provinces (Table 18-11).

The difference in expenditure is much greater than the difference in per capita consumption (Table 18-3).

### PRIVATE SECTOR INVESTMENT IN INFRASTRUCTURE

The Ministry of Construction advocates an expansion of private investment in urban infrastructure in the Western Region through build-operate-transfer (BOT) arrangements.<sup>6</sup> The BOT model involves a company or consortium bidding for a concession from a local government to build and operate a water facility for a concession period, and transferring ownership to the local government at the end of the concession period. The first BOT scheme for water supply in the PRC is in Chengdu (Sichuan), the largest city in the Western Region after Chongqing. The scheme is complex, involving agreements between many different parties (Figure 18-2).

There is no comprehensive BOT law in the PRC, so the legal arrangements can be difficult to complete and expensive. It is likely that BOT will only be practicable in the larger cities, and there are very few of these in the Western Region.

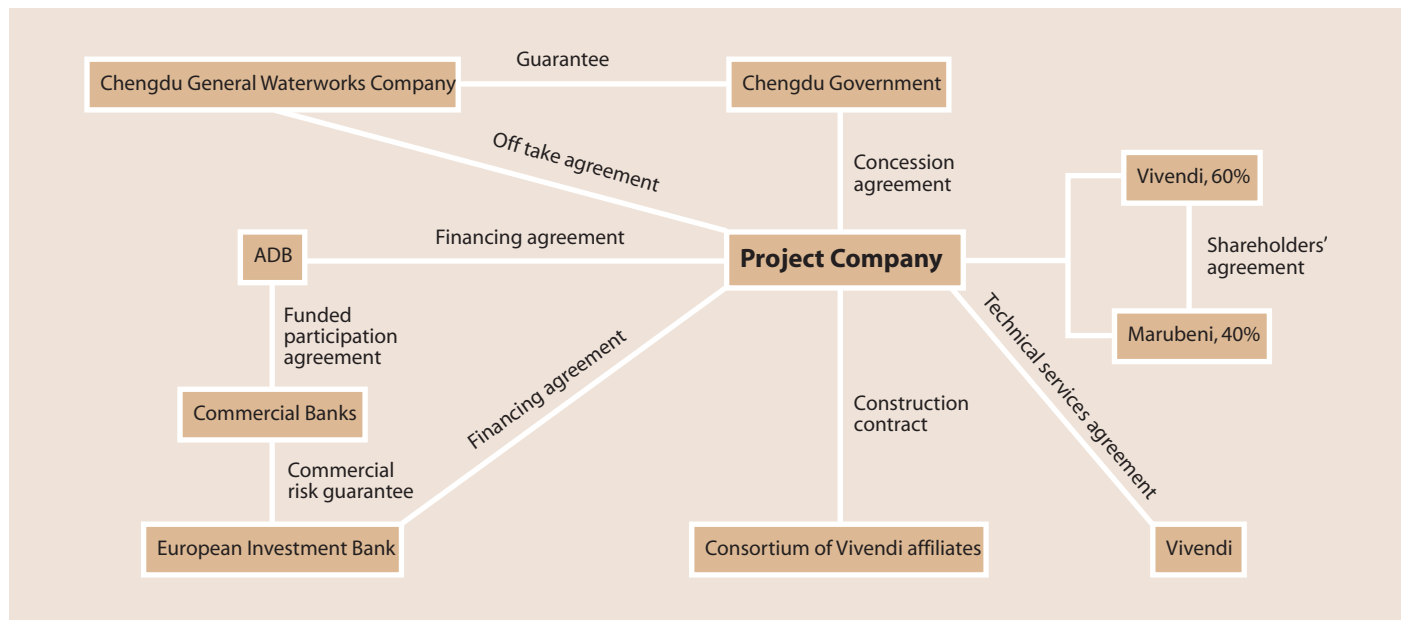
For smaller cities, there are alternatives for securing private sector involvement in water supply, namely, service contracts and management contracts. Service contracts, whereby the local government contracts out discrete functions such as meter reading and billing and collection, are common internationally. In India, contracts for the management of specific facilities are common, and provide significant gains in efficiency.

### REAL ESTATE INVESTMENT

#### Legal framework

The Administration of the Urban Real Estate Law of 1994 provides a comprehensive legal framework for

**Figure 18-2** Agreements for the Chengdu No.6 B Water Treatment Plant



Source: Silk and Black (2000).

the real estate industry. In particular, it provides for transactions in real estate and for the mortgage of real estate.

**Level of investment**

The PRC defines real estate investment as comprising buildings and associated site preparation and infrastructure, but excluding the cost of land. By this seemingly broad definition, real estate investment accounted for only 0.8 percent of total investment in fixed assets in 2000. Residential buildings account for over 80 percent of real estate investment in the PRC. While it is difficult to find exact international comparisons, it is sufficient to point out that in Australia buildings and structures account for over 25 percent of all capital investment.

Even adding “construction” to the “real estate” category still brings the PRC figure to only 1.9 percent.

**Enterprises undertaking real estate investment**

SOEs and COEs account for a declining proportion of real estate investment—only 37.1 percent in 2000. Increasingly, real estate investment is by “other domestic funded enterprises,” a category that includes shareholding units, joint-ownership units, and individuals (in each case, other than enterprises or individuals from Hong Kong, China, Taipei, China, or foreign countries). In the Western Region, “other domestic funded enterprises” account for about 60 percent of real estate investment (Table 18-12).

**Table 18-12** Real Estate Investment, by Ownership of Enterprise, 2000

	SOE (%)	COE (%)	Other Domestic-funded Enterprises (%)	Funded by Entrepreneurs from Hong Kong, China, Macau, and Taipei, China (%)	FIE (%)	Total (%)
<b>Eastern</b>	23.3	15.0	44.5	12.7	4.6	100.0
<b>Central</b>	31.9	9.8	45.9	8.9	3.5	100.0
<b>Western</b>						
Southwest	18.5	9.2	61.3	7.5	3.4	100.0
Northwest	24.8	9.4	59.7	3.3	2.9	100.0
<b>PRC</b>	<b>24.3</b>	<b>12.8</b>	<b>48.1</b>	<b>10.6</b>	<b>4.1</b>	<b>100.0</b>

Source: Statistical Yearbook of China 2001.

### Sources of funds

The Eastern Region accounts for 75 percent of the PRC's real estate investment. In the Western Region, real estate investment is stronger (relative to urban population) in the southwest than in the northwest (Table 18-13).

Domestic loans account for only 23 percent of the funds invested in real estate. Since property is an obvious form of collateral, and since real estate investment is relatively weak in the PRC, it seems that noncommercial or nonmarket factors are directing investment in other directions (see Chapter 3). However, reforms to change this may not benefit the Western Region because most real estate investment is in the Eastern Region.

## Implications for policies for urban development

While the level of urbanization is low, not all parts of the Western Region are equally suitable for urban development (the City Planning Law does not permit new urban development except in areas where there are ample water resources). The low level of urbanization is a consequence of past macroeconomic policies, not failures in urban development policies. However, good urban management can promote sustainable urban development and improve the quality of urban environments.

### UPDATING URBAN PLANNING

Reform of urban planning cannot take place other than as part of the wider process of economic and political reform.<sup>7</sup> Within this broad constraint

improvements in urban planning practice are nevertheless practicable. Important practicable reforms include the following:

- More public participation so that there is a wider appreciation of the contents of plans and so that public support can strengthen plans (the City Planning Law provides for this, but unfortunately local governments do not adequately follow the law)
- Rationalization of the law on change of use (the City Planning Law does not cover change of use)
- Separation of regulatory functions of local governments from management and development functions

### PROMOTING THE URBAN LAND MARKET

The Government recognizes the deficiencies in the operation of the urban land market. Among the reforms that it intends to make are the following:

- Introducing regulations and technical codes for land information collection and use
- Introducing a land registration system in large and medium cities
- Bringing transparency to the primary market for land use rights by increasing sale of rights by auction or tender and reducing disposals by agreement
- Strengthening the secondary market for land use rights in urban areas by simplifying transfer procedures, clarifying ownership, disposing of government property rights, and expanding registration of land use rights

While these reforms are important, the most important reform of all is for local governments to become regulators of the market rather than active participants in real estate development.

**Table 18-13 Real Estate Investment, by Source of Funds, 2000**

Region	State (million yuan)	Domestic Loans (million yuan)	Bonds (million yuan)	Foreign Investment (million yuan)	Fundraising (million yuan)	Others (million yuan)	Total (million yuan)
Eastern	495	108,080	217	14,929	112,480	215,895	452,097
Central	109	11,790	80	1,019	23,332	26,834	63,164
Southwest	37	13,834	43	780	17,543	27,205	59,442
Northwest	46	4,803	8	142	8,066	11,995	25,060
<b>PRC</b>	<b>687</b>	<b>138,508</b>	<b>348</b>	<b>16,870</b>	<b>161,421</b>	<b>281,929</b>	<b>599,763</b>

Source: China Yearbook of Statistics 2001.

### IMPROVING URBAN INFRASTRUCTURE

The Western Region cities suffer from inadequate fiscal revenues and poor infrastructure. These twin problems indicate a need to promote the role of the private sector in urban development. Measures consistent with this approach include the following:

- Confining government investment to infrastructure rather than buildings
- Progressively increasing user charges (for water supply, sewerage, heating supply, solid waste collection, and public transport); higher user charges would encourage efficient use of infrastructure, discourage wasteful consumption, and reduce subsidies to higher-income groups and to nondomestic users

### ENCOURAGING THE HOUSING MARKET

To stimulate the real estate industry, there must be real, strong, and effective demand for housing. While incomes will always put a ceiling on this demand, the availability of housing finance is also crucial. Even high-income people must normally borrow to buy a house. Since the legal framework for the real estate transactions, including mortgages, has been in place since 1994, the main impediment holding back the housing market appears to be lack of competition in the financial sector (Chapter 3).

Local governments should provide a steady supply of serviced sites in cities and towns for private sector and self-build development. If necessary, local governments can subsidize the sale prices of housing plots for low-cost housing on the basis of the future revenue streams from taxes following the construction of dwellings. This could minimize illegal construction. In the short term, there will be a place for public housing. However, the Government should consolidate its provision under Municipal Housing Bureaus, and allow SOEs to concentrate on their core business activities.

### PROMOTING URBAN DEVELOPMENT

Under the Tenth FYP, the Government intends to push urbanization as a major task facilitating the

development of the national economy.<sup>8</sup> There are two distinct strategies:

- Developing small cities and towns<sup>9</sup>
- Developing major cities in key economic zones of the Western Region (identified as the economic zones along the Tongguan-Lanzhou-Urumqi line, the upper reaches of the Yangtze River, and the Nanning-Guiyang-Kunming line) to promote the development of the surrounding areas

In both cases, caution is appropriate. International experience in accelerating the construction of inland cities to promote economic development is overwhelmingly negative. More importantly, the evidence in this chapter is that Western Region cities already lack adequate infrastructure and adequate fiscal resources. Additionally, in the northwest water shortages already constrain urban development. Investment in urban infrastructure should be demand-led rather than attempt to lead demand. It should also be consistent with the available water resources (as indeed the City Planning Law requires).

The level of urbanization in the PRC is low for its stage of economic development. The best way to rectify this is to gradually remove the preferential access to investment funds that SOEs in the secondary sector enjoy, and allow private enterprises in the tertiary sector to expand faster.

## Notes

- 1 Wang Jingxia (1999).
- 2 Ministry of Construction (2001a).
- 3 State Development Planning Commission and Ministry of Construction (1998).
- 4 State Development Planning Commission (2000b).
- 5 State Development Planning Commission (2000b).
- 6 State Development Planning Commission (2000b).
- 7 See Tang (2000).
- 8 Ministry of Construction (2001b).
- 9 State Council (2000).

