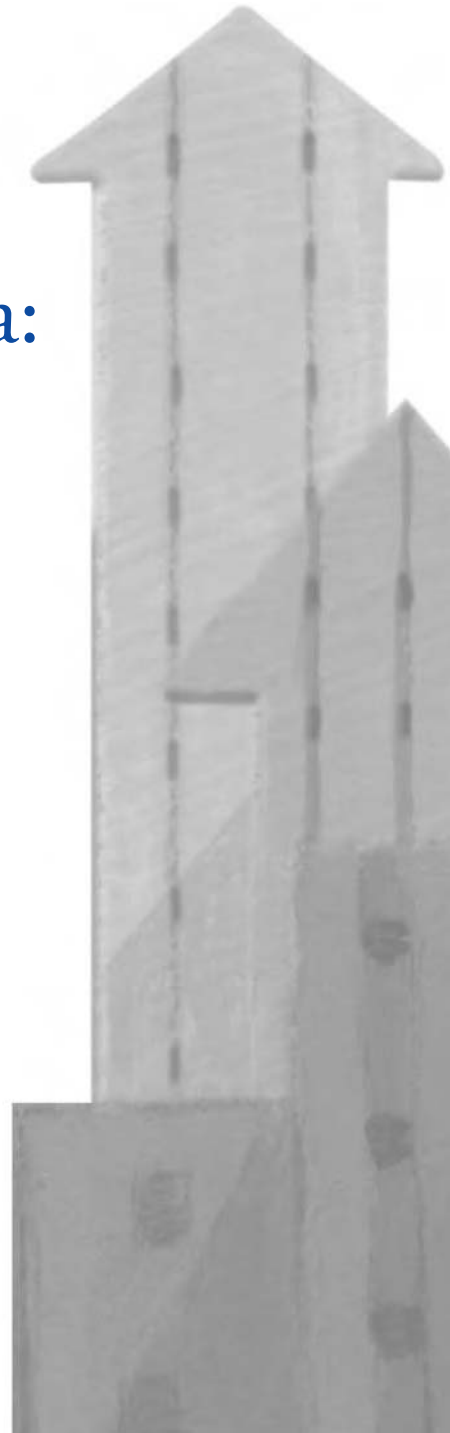


# Urban Development in the People's Republic of China and India: Some Key Observations

It is interesting to note that for a long time since the introduction of economic planning, both the PRC and India pursued a pro-rural economic development strategy in their national development. Recognizing that the 1949 Communist revolution was won by the peasantry, the PRC launched massive rural development by creating communes and collectives, and pursuing a rural industrialization campaign. The PRC also instituted a household registration (*hukou*) system that strictly controlled the migration of people to urban areas. However, after the launching of economic reforms and the adoption of the policy to open up to the outside world in 1978, the PRC supported concentrated investments in a limited number of coastal cities and regions.

Likewise, in India, the undivided commitment of Mahatma Gandhi to rural India inspired the government's integrated rural development



efforts and the mounting of a vigorous rural community development program. In 1992 the Government of India decentralized more powers to urban and rural local government bodies (ULBs) through the 73<sup>rd</sup> and 74<sup>th</sup> constitutional amendments. In terms of strategic support by the central Government to the urban centers, India's major push came almost two decades later than the PRC through the launching of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) in 2005. While both countries recognized the strategic importance of the urban sector in economic growth, the difference in approach was that the Government of India decided to support 63 major urban centers across the country as compared to the PRC's approach that focused on selected coastal cities with export potential.

## URBANIZATION AS THE ENGINE OF GROWTH

One of the key observations of the workshop was that a country's level of urbanization (percentage of population living in cities, towns, and settlements defined as urban) is directly correlated with its level of economic development (as measured by per capita gross domestic product [GDP]) (Figure 1). In view of such correlation, many development planners have advocated using urbanization as a developmental engine to spark nationwide economic growth. Instead of mainly reacting to observed urban development patterns and often using measures that inhibit urbanization by controlling internal migration or evicting urban poor residents and resettling them elsewhere, they recommend proactive planning strategies that rely on providing infrastructure and services to accelerate economic growth in urban areas.

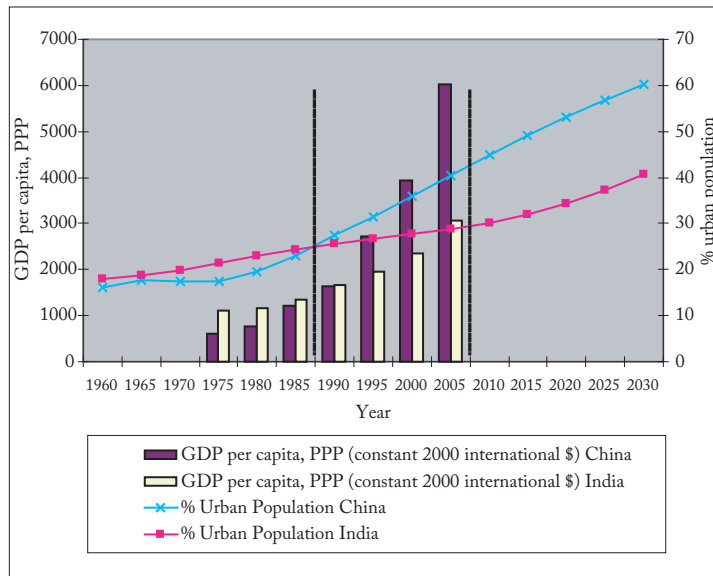
Pursuant to the approval of former paramount leader Deng Xiaoping of the notion that "it is all right for some areas to become richer faster than others," the PRC's urban infrastructure investments were selectively focused in coastal urban settlements that were easily accessible to investors in adjacent technologically advanced countries (the so-called East Asian tigers<sup>1</sup>). Thus, locating the Shenzhen special economic zone (SEZ) 20 kilometers (km) from Hong Kong and the Zhuhai SEZ next to Macau greatly

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<sup>1</sup> Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China are collectively known as the "East Asian tigers."

encouraged investments from those former colonial enclaves. Setting up a coastal development region in the Liaodong peninsula close to South Korea and Japan also attracted investments from those countries. Establishing the Xiamen SEZ and Hainan Island SEZ resulted in more investments from Singapore and Taipei, China. The massive investments in these selected urban centers triggered the take-off of the entire PRC economy. To provide urban infrastructure, the Government used all types of financing options, including domestic and foreign loans, foreign direct investments, bond issues, equity investments, and commercial bank credits. The PRC also supported infrastructure provision by unlocking economic benefits from state-owned and collectively-owned land. As the infrastructure and services became operational, the sources of financing shifted to user charges and income from operating the assets.

**Figure 1. Trends of Urbanization and Economic Growth—India and the PRC**



GDP = gross domestic product, PPP = purchasing power parity.

Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2004 Revision and World Urbanization Prospects: The 2005 Revision, <http://esa.un.org/unup>

A key feature of the PRC's urbanization strategy is the planned development of clusters of cities that comprise integrated city regions. This approach is markedly different from the strategy of India that focuses more on developments within the formally delineated territories of individual cities. In the PRC, the distinction between urban and rural areas has been effectively blurred. Urban development plans encompass city regions made up of the central city, small- and medium-sized cities on the metropolitan periphery, small towns, villages, and open green spaces. Trunk infrastructure (roads and transport systems, water, sewerage and sanitation, energy generation and distribution, information and communication, solid waste management) are used to link together the cities within the cluster. These development plans have also helped the absorption of rural-urban migrants, the so-called floating population that used to be barred from settling in cities by the hukou system. In Shenzhen municipality, for example, the rural hukou was abolished in 2004 and all city residents are now entitled to full economic and welfare benefits.

In India, the importance of unleashing the energy of cities as engines of economic and social development gained more emphasis in November 2005 in the form of the JNNURM. The main goals of the JNNURM are: (i) improving and expanding the economic and social infrastructure of cities; (ii) ensuring access to basic services at affordable prices on the part of the urban poor, including security of tenure in land and housing; (iii) initiating wide-ranging urban sector reforms; and (iv) strengthening municipal governments and their functions. As mentioned earlier, the JNNURM covers 63 cities nationwide and provides these cities with grants under two subprograms (support for urban infrastructure and governance and basic services to the urban poor). Under these subprograms, the JNNURM requires state and city governments to undertake reforms as a precondition to receiving grants. These reforms include the repeal of the Urban Land Ceiling and Regulation Act, reform of the Rent Control Act, enacting Public Disclosure Law, the introduction of double-entry accounting, property tax reform, levy of user charges, devolution of power based on the 74<sup>th</sup> Amendment, and reforms to improve the lives of the urban poor. The total budget for the infrastructure programs amounts to \$6.4 billion for the 7-year period up to 2012.

However, comprehensive development planning of city regions beyond the formal boundaries of cities is not yet practiced under the JNNURM. It remains to be seen if the reforms under the JNNURM would indeed deliver effective and efficient urban governance or bring forth financial viability of urban projects through its cost

recovery mechanisms. The total budget of the program is deemed insufficient in view of the magnitude of the urban infrastructure demand in India. Estimates of the cost of urban infrastructure and services in India range from \$100 billion by 2010 by Morgan Stanley to \$320 billion by the Infrastructure Conference held in Delhi in October 2006. Currently, annual spending for all types of infrastructure in India amounts to \$21 billion, which is estimated to be only about 3.6% of GDP. About 2.8% of GDP devoted to infrastructure comes from the Government and only 0.8% from the private sector (R.K. Vats 2007). In contrast, it is estimated that the PRC spends about \$150 billion for infrastructure annually, or roughly 10.6% of GDP. **The biggest challenge of the JNNURM is therefore how to create a cycle of sustained investment and economic growth initiated by a one-time grant allocation to meet the backlog demand in 63 cities. The success of the program hinges on the successful generation of economic growth in these cities.**

## CITY CLUSTER DEVELOPMENT IN THE PRC

Since its opening-up in 1978, the PRC has pursued an urbanization strategy that does not rely solely on spatial and/or physical master plans but proactively creates an environment that encourages entrepreneurial investments in urban infrastructure and services. A national urban strategy that advocated limiting the growth of very large cities, rationally planning the development of medium-sized cities, and encouraging the development of small cities and towns has been revised and replaced with a city cluster development (CCD) approach. This new strategy fosters the development of urban regions composed of a number of urban and rural settlements of varying sizes. Such comprehensive plans also cover villages, small towns, green field sites, and open spaces.

A good example of the CCD planning approach is the strategic plan for Chongqing that seeks to “drive economic growth through urbanization.” The plan conforms to the “one hour economic circle” concept, with the planning area defined by the space covered in an hour by a traveler in a car that starts from the city center. The circle includes the central city and 23 adjacent districts. It encompasses 28,700 square kilometers (km<sup>2</sup>) and a population of 22 million that would make the city region the largest in the PRC. By 2015, the plan envisions Chongqing to be an “all around well-off society,” where per capita GDP would reach CNY77,300 (\$10,647). This objective would be achieved by using urban development as a spark that would accelerate the growth of the whole city region. The planners hope

to revive Chongqing's industrial base and tourism potential with power from the famed Three Gorges Dam project. The districts in the northeastern part of the region would be developed as parts of an ecological zone devoted to urban agriculture. The southeastern districts within the Wuling Mountain area would be devoted to ecological tourism. Within these ecological zones, more than 50% of the land would be covered by forests (Zhao 2007).

Another example of the CCD approach is special economic zones that are not confined to the city's formal boundaries but encompass a much wider region. In August 1980, the National People's Congress passed Regulations for the Special Economic Zone of Guangdong Province and officially designated a portion of Shenzhen as the Shenzhen Special Economic Zone (SSEZ). In 1984, the PRC further opened 14 coastal cities to overseas investment: Beihai, Dalian, Fuzhou, Guangzhou, Lianyungang, Nantong, Ningbo, Qingdao, Qinhuangdao, Shanghai, Tianjin, Wenzhou, Yantai, and Zhanjiang. Similarly, the comprehensive plan for the city of Shenzhen effectively links the PRC's most rapidly growing city with the Hong Kong and Macau special administrative regions, the special economic zone of Zhuhai, the city of Guangzhou, and small- and intermediate-sized cities like Bao'an, Dongguan, Longgang, and Zhongshan, in the Pearl River delta. Such area-wide city cluster development schemes avoid the spatial and political fragmentation that inhibits cooperative and coordinated action among local government bodies. They also effectively deliver development benefits to rural hinterlands.

Urbanization strategy has indeed enabled the PRC to achieve double-digit rates of economic growth over the past 30 years. But the strategy was not exempt from its own share of problems. First, the rapid growth of the highly urbanized coastal provinces of Fujian, Guangdong, Jiangsu, and Zhejiang, has left interior provinces like Anhui, Sichuan, Xinjiang, and the Guangxi Zhuang Autonomous Region far behind. Second, despite the PRC's egalitarian socialist ideals, the gap between the rural poor and the urban rich has been rapidly widening. Third, while the hukou system has been abolished in Shenzhen, it is still enforced in other cities where it has failed to control rural-urban migration. About 20% of residents in large cities at present are temporary migrants denied access to welfare and social benefits. Fourth, rapid urbanization has eaten up vast tracts of rich agricultural land in general, especially in the Pearl River and Yangtze River deltas, endangering the PRC's food self-sufficiency. Fifth and finally, the PRC's urban-led development strategy has caused massive environmental pollution. The PRC currently consumes more coal than Europe, Japan, and the United States combined. While

the country is the fifth largest petroleum producer in the world, it is the second highest consumer of petroleum products and has to import 145 million tons of oil per year. It is estimated that the PRC emits more than five billion tons of greenhouse gases per year, and in 2007 it surpassed the United States as the world's largest emitter of such gases. **Air pollution in Beijing is one of the key issues** in the 2008 summer Olympics. In Guangzhou, the air pollution exceeds World Health Organization's standards on particulates 226 days of the year; on sulfur dioxide, 45 days; and on nitrous oxide, 23 days. This leaves only 71 days in a year where residents can breathe relatively clean air (Bradsher 2007).

## PRIVATE SECTOR PARTICIPATION IN URBAN INFRASTRUCTURE

Private sector participation (PSP) refers to all cooperative ventures between the private and public sectors in carrying out governmental functions without any financial risks on the government's side, while public-private partnership (PPP) involves collaboration between public and private sectors, where the public sector shares financial risks. PSP modalities, therefore, can be viewed as a continuum depending on where authority and responsibility are vested. At one end of the band is simple contracting, where the government contracts out a specific service to private enterprise. At the other end are privatization concessions where private firms are authorized to design, finance, build, operate, own, and manage a project. In between these two approaches are design, build or operate contracts, build-operate-manage contracts, build-operate-transfer (BOT) contracts, build-own-operate contracts, and buy-build-operate contracts. The reputed advantage of using PSP is the ability of private entrepreneurs to operate under open competitive market conditions that enable them to be more efficient in delivering public services. PSP can also tap financial resources like private savings, foreign loans, foreign direct investments, and others not usually available to governments. There are some drawbacks to PSP operations, of course, such as higher costs to consumers because of the need of entrepreneurs to be compensated for the risks taken. Evaluations of PSP projects also show that these tend to have an in-built bias towards middle- and higher-income consumers, as **entrepreneurs find it more profitable** to target their products to people who can afford to pay for them.

The "private" and "public" sectors are not defined in the same way in the PRC and India because of cultural and ideological

differences. In India, private and public are clearly stipulated in laws, traditions, social norms, and practices. Land, for example, can be owned privately in fee simple<sup>2</sup> and all benefits accruing to the land go to the owner. If the state is to acquire land for public purposes, it has to purchase it at fair market value or resort to the exercise of “eminent domain” that may require some litigation. In the PRC, after the success of the Communist revolution in 1949, the state confiscated private land and other properties. According to the constitution of the PRC, all urban lands belong to the state while rural lands are collectively owned. Private individuals and corporate bodies are not allowed to own land. They can only have limited rights to “the use of the land” and to reap the benefits from that use within the period specified in a lease agreement.

Because of the unique nature of ownership in the PRC, the use of PSP in the country needs further clarification. For example, some so-called “private sector enterprises” that act as developers, contractors, and builders of urban infrastructure and services in the PRC were originally established by communes or collectives under the “production responsibility system.” When economic reforms were launched in 1978, state-owned enterprises (SOEs) and collectives were made responsible for the productivity and welfare of their workers and members. With the abolition of communes, farmers were allowed to produce crops on lands allotted to them and to sell their products in open markets. Collectives were encouraged to set up profit-making township and village enterprises that initially sparked the PRC’s rapid rate of economic development. In urban areas, community and district committees set up enterprises such as hotels, grocery stores, construction companies, and housing projects. Although these enterprises were initially capitalized from the “public” funds of the collectives, they eventually became “private” in the sense that they developed their own institutional identity. From these early beginnings, the “private sector” has become a major factor in the economic growth of the PRC. The use of PSP became so widespread that in 2005, the National People’s Congress approved Opinions to Promoting and Guiding Private Sector Development that clarified how PSP could be used for development projects. PSP has become so widespread that, at present, more than 40% of total GDP, 60% of economic growth, and 75% of new employment in the PRC is contributed by the private sector.

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<sup>2</sup> An estate in land without limitation to any class of heirs or restrictions on transfer of ownership.