

SECTOR ASSESSMENT (SUMMARY): URBAN AND URBAN-RURAL DEVELOPMENT

Sector Road Map

A. Sector Performance, Problems, and Opportunities

1. The achievements and benefits of urbanization in the People's Republic of China (PRC) are remarkable. Urbanization has been a key driver of development and the emerging urban and agglomeration economies have made major contributions to the PRC's growth miracle since the opening up and reform policy started in 1978. The PRC's urbanization ratio increased from 19.4% in 1978 to 53.7% in 2013 and the urban population rose to nearly 700 million in 2013.¹ The number of cities rose from 193 in 1978 to 658 in 2013, and the number of townships rose from 2,173 to 20,113 in the same period.² Continued rural–urban migration is expected to lead to a projected urban population of 816 million by 2020. Hundreds of millions of people have been lifted out of poverty and urban development has generated well-being for a growing middle class. However, severe challenges remain: (i) regional imbalances; (ii) urban–rural disparities; (iii) a growing urban–rural income gap (in 2014 at a factor of 2.75); and (iv) unequal access to education, training, jobs, health, and social security for rural people and rural–urban migrants. Environmental degradation; loss of natural land and farmland; pollution of air, water, and soil caused by urban sprawl; industrial pollution; and unsustainable transport have become very serious challenges to livability and human health in the large cities.

2. Achievements in urban infrastructure construction have been very significant between 2000 and 2012, with urban water supply increasing from 63.9% to 97.2%, the urban wastewater treatment rate increasing from 34.3% to 87.3%, and the urban per capita road area increasing from 6.1 square meters (m²) to 14.4 m². Still, the demand for urban infrastructure and services will remain high, especially in the less-developed northeast, central, and western regions. Further expansion of urban infrastructure and services into towns and villages and better integration to generate mutual benefits among these territories are much needed. The China Development Research Foundation estimates that the PRC needs to invest CNY24 trillion (\$3.8 trillion) in urban infrastructure by 2020 to meet the needs. Challenges for local governments include increased debt, a limited tax base, and limited options to finance infrastructure.

3. Urbanization and industrialization have also caused massive adverse environmental impacts that have gone beyond the limits of environmental carrying capacity in many areas. This increasingly limits the options for sustainable urbanization in the PRC. Air pollution has reached levels well beyond World Health Organization standards and caused increases in related diseases in many large cities. Water scarcity and pollution have worsened, with approximately 43% of surface water rated class IV or worse (unsuitable for human use). In urban areas, nearly 90% of surface water and 50% of groundwater resources are severely polluted. Long-term water shortage is a challenge for 30 of the 32 cities with more than 1 million residents. Inefficient land use models, oversupply of industrial land, and smaller households have caused massive loss of green land. Since 1978, the urban population has tripled while urban areas have increased in size by more than five times.³ Much-needed cross-sector integration for environmental protection is difficult because of government departmentalization.

¹ According to PRC Government figures, the urban population is about 749 million in 2014.

² World Bank. 2015. *East Asia's Changing Urban Landscape: Measuring a Decade of Spatial Growth*. Urban Development Series. Washington, DC: World Bank. doi: 10.1596/978-1-4648-0363-5. License: Creative Commons Attribution CC BY 3.0 IGO

³ From 2000 to 2011, urban built-up area increased by 76.4% while urban population increased by 50.5% and land use change from farmland to urban land increased from 66,000 square kilometers to 89,000 square kilometers.

4. One of the key social challenges is inequality of access to services and benefits for rural migrants holding a rural *hukou* (household registration) compared to those with an urban *hukou*. The urgent need for system reform remains. The urbanization ratio according to urban *hukou* holders in 2013 was only 36.0% compared to 53.7% of urban dwellers, leaving a gap of 17.3% or 234 million migrant workers without equal access to services and benefits. The PRC has made significant progress with affordable housing, with the government funding 20 million affordable housing units during 2011–2014 and 12 million more are under construction. In 2014 alone the government contributed \$32 billion to affordable housing and completed 5.11 million affordable housing units. However, the lack of affordable housing and the housing supply–demand mismatch between the market segments remains significant.

5. The new slower growth offers opportunities for improved development models based on social inclusion, environmental sustainability, and economic competitiveness with local financial soundness and sustainability. The PRC’s mega agglomerations continue to lead modernization with an increasingly diverse and sophisticated services sector.⁴ In recent years, industry relocation from high-priced coastal first-tier cities benefited secondary cities within existing supply chains, and increasingly cities in central and western regions. However, small and medium-sized cities in particular urgently need infrastructure to attract and retain businesses and qualified labor for more balanced development.⁵ The 11th and 12th plans addressed some of the challenges, and improvements have been achieved in developing western and northeastern regions and small and medium-sized cities, and in urban–rural development.

B. Government’s Sector Strategy

6. Recent PRC policies promote a paradigm shift from gross domestic product (GDP) growth-oriented development to development centered on quality. Both the Communiqué of the Third Plenary Session of the 18th Central Committee of the Communist Party of China (November 2013) and the PRC’s National New-Type Urbanization Plan (2014–2020) (NUP) highlight that continued urbanization along with industrialization, information and communications technology (ICT) development, and agricultural modernization will be the PRC’s main pillars for economic and social progress. The NUP calls for (i) environmental protection and management, building an “ecological civilization” to promote sustainable development and reduce costs from resource depletion and environmental damage; (ii) increased energy conservation, emissions reduction, and low-carbon development to help mitigate climate change;⁶ (iii) socially inclusive urban and urban–rural development reducing income inequality, strengthening social protection, and improving rural incomes; (iv) reform of the *hukou* system and increasing the number of urban *hukou* holders from 36% in 2013 to 45% by 2020; and (v) institutional reform, fiscal and tax reform, and private sector participation.

7. The NUP aims for 60% of the population to be residing in urban areas in 2020.⁷ Significant investments in infrastructure and services are planned to expand urban green space, increase coverage of water supply from 82% in 2012 to 90% in 2020, increase wastewater treatment from 87% to 95% between 2012 and 2020, and increase solid-waste treatment from

⁴ The three mega agglomerations are Beijing–Tianjin–Hebei, the Yangtze River Delta, and the Pearl River Delta with a combined population of 18% generating 36% of the PRC’s total GDP.

⁵ Current observations show migrant workers from coastal cities returning to rural towns starting businesses and contributing to value-added rural production and development of a service sector using skills from their urban lives.

⁶ The new Environmental Protection Law (2014) also supports this, calling for rigorous environmental planning, management, education, pollution reduction, and enforcement.

⁷ Selected national pilot cities including the Tongzhou district in Beijing have started handing out *hukous* to applicants based on a point system including duration of permanent residence and employment.

85% to 95% in the same period. Environmental protection includes reducing per capita urban land to less than 100 m², increasing the share of energy efficient buildings in new buildings to 50%, and increasing the share of cities above prefecture level that meet national air quality standards to 60% in 2020 from 41% in 2012. Social welfare systems are to increase coverage significantly, i.e., compulsory education for migrant workers is to increase to more than 99%, and social housing is to increase from 13% in 2012 to more than 23% in 2020.

8. The NUP promotes a more regionally balanced economic and population distribution and the fostering of coordinated city clusters development, including a national urban system of 18 city clusters organized along three north–south and two east–west regional corridors and a national layout of four main zones ranging from prohibited activity no-build zone to intense urban development zone.⁸ The NUP identifies urbanization as a key thrust for continued and sustained economic and GDP growth, and for achieving increased domestic demand. These policies along with programs by the Ministry of Housing, Urban and Rural Development such as the Low-Carbon Eco-City and Sponge City development programs adequately address many of the challenges typical of an upper middle-income economy, and ADB will be a partner to the PRC in implementing and developing these concepts further.

C. ADB Sector Experience and Assistance Program

9. The Asian Development Bank (ADB) started lending to the PRC's urban development sector in 1992, and in recent years the focus has been on developing livable, green, and inclusive small and medium-sized cities in the less-developed central, western, and northeastern regions of the PRC.⁹ As of December 2015, ADB had approved 56 loans amounting to \$6.65 billion, and 88 technical assistance projects (TA) totaling \$60 million.¹⁰ The loans financed infrastructure and capacity development within urban master plans for water supply, wastewater management, solid-waste management, central heating, urban transport, river and lake rehabilitation and flood risk management, wetlands, and open space protection. The TA projects contributed to knowledge and policies on urban poverty reduction, urbanization strategies, industrial relocation, small city and town development, land use efficiency, urban–rural environmental protection, urban environment indicators, storm water management, water and wastewater tariffs, sludge treatment, solid-waste management, and public participation. ADB implemented good practices that can be replicated. As examples, project benefits include significant reduction of flood risk and pollution in the Songhua River Basin in Heilongjiang and Jilin. The Xinjiang Integrated Urban Development Project significantly reduced nonrevenue water and the reuse of treated wastewater has been resulting in water conservation in a region where water is scarce. In Guangxi Wuzhou more than 6,500 people benefitted from moving from a landslide-prone area to a safe residence of their choice, and the geo-hazard-prone area was transformed into a hazard-free zone through structural measures.

10. **Partnership for integrated inclusive, green, and competitive urban development.** ADB will be partner and collaborator with the PRC in implementing priorities of the 13th plan; the NUP; and the Low-Carbon Eco-City, Sponge City, and other innovative programs. This support will include TA and loan projects that help develop demonstration projects as livable, socially inclusive, environmentally sustainable, and economically competitive towns, cities, and city clusters, contributing to integrated urban and rural development and to regional cooperation

⁸ National Main Function Area Plan: (i) intensive urban development regions, (ii) balanced urban and environment areas, (iii) protected sensitive areas and farmland (food security), and (iv) protected natural and cultural areas.

⁹ Support of the western and central regions has been aligned with State Council of the PRC. 2000/2011. *The National Strategy to Develop the Western Region*. Beijing.

¹⁰ Inclusive of urban development sector loan and TA projects from ADB's East Asia Department.

and integration.¹¹ Support includes environmental protection, pollution reduction, and climate change mitigation and adaptation. Competitive city clusters support includes financial coordination, enabling industrial transformation, education, vocational training, and technology incubators. Inclusive development support includes targeting disadvantaged regions, providing services to migrants including *hukou* reform, and making cities fit for the needs of elderly citizens. TA projects will be aligned to support operations and project innovation addressing environmental pollution, inclusive economic transformation, integrated regional corridor development, and smart-city development. In addition to sovereign support, leveraging and enabling private sector engagement will be a key objective for this partnership strategy.

11. Inclusive small and medium-sized cities and urban–rural integration. ADB will continue to support development of green, inclusive, competitive, and smart small and medium-sized cities in less-developed regions and integrate services and links to their rural hinterlands. ADB will continue to support gender mainstreaming and ensure participation in decision making, urban management, public awareness campaigns, and employment. Increasingly, ADB will aim at longer term engagement with selected cities, providing comprehensive development to demonstrate synergies from collaboration across disciplines and jurisdictions in spatial planning and infrastructure development. Projects will promote compact, mixed-use, pedestrian-friendly cities and sustainable urban multimodal transport, and consider the needs of the elderly for adapted infrastructure and public space to ensure access.

12. Knowledge partnerships and innovation in promoting an “ecological civilization”. ADB will support knowledge partnerships promoting institutional cooperation leading to innovative projects focusing on priority subsectors. This will include TA and loan projects on urban climate change adaptation; advanced solid-waste and organic waste management and tariff-setting mechanisms; innovative wastewater management and wastewater tariff setting for small cities; environmental protection and management; advanced storm water, flood, and climate risk management; and city-cluster coordination in areas of finance, taxation, and industrial transformation. ADB will support smart-city ICT innovations integrating various infrastructure services benefitting from linking information of supply and demand in real time.

13. Regional and city network cooperation and integration. To address challenges of regional imbalance within the PRC and to harness the potential of linking resources, people, supply chains, and markets, ADB will assist with cross-sector integrated regional urban, economic, environmental, and transport corridor development, which will improve the competitiveness of corridors and city networks. ADB support may include city cluster development and industrial transformation within the PRC and across borders through urban development support and assistance with supply chain integration analysis, logistics, and transport development.

14. ADB urban lending. ADB projects will support small and medium-sized cities in less-developed regions, and cross-sector programs in the Beijing–Tianjin–Hebei and Yangtze River Economic Belt regions, and in border regions for regional cooperation and integration. Projects include demonstrations in low-carbon sponge cities, smart circular-economy zero-waste cities development, advanced solid-waste management, comprehensive assistance to resource-depleted cities, and elderly care and barrier-free urban environments.

¹¹ ADB. 2013. *Urban Operational Plan, 2012–2020*. Manila; ADB. 2011. *Water Operational Plan, 2011–2020*. Manila; ADB. 2010. *Sustainable Transport Initiative Operational Plan*. Manila.

Problem Tree for WATER AND OTHER URBAN INFRASTRUCTURE AND SERVICES

