Over the past 30 years, rapid urbanization and economic growth have transformed the cities of the People’s Republic of China (PRC). But this unprecedented urbanization has highlighted challenges that demand significant changes to basic urban management and planning policies.

This report is based on a 2011–2012 policy study for the PRC’s forthcoming national urbanization plan that will set out urban development policies and guidelines over the coming decade. It examines the PRC’s urbanization challenges and suggests actions for improving the urban environment through changes in the design, financing, administration, and social integration of cities.

ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to two-thirds of the world’s poor: 1.7 billion people who live on less than $2 a day, with 828 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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Strategic Options for Urbanization in the People’s Republic of China

Key Findings

Asian Development Bank
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Foreword

Unprecedented urbanization has highlighted many challenges facing the development and operation of cities in the People's Republic of China (PRC). The magnitude of these challenges is likely to grow over the medium term, as the government's National Development and Reform Commission (NDRC) estimates that the country's urban population will grow by nearly 15 million people each year over the coming 15 years. Significant changes to basic urban management and planning policies are thus required if the future livability, urban form, and environment of these cities are to meet the expectations of urban residents with rapidly rising incomes. More broadly, as the world's second-largest economy, the direction of urban and environmental management in the PRC will have wide-ranging impacts at the global scale.

Since 2004, the Asian Development Bank (ADB) has supported the NDRC in carrying out urbanization strategy research. The policy study on which this report is based was prepared in 2011–2012 as an input to the PRC's forthcoming national urbanization plan, which will set out detailed policies and guidelines for urban development over the coming decade.

The research team that prepared the policy study conducted five theme studies focusing on problems relating to urbanization in the PRC. These studies included: (i) a Study on the Route and Pattern of the PRC's Urbanization, (ii) a Comparative Study on Urban Spatial Layout and Structure in the PRC, (iii) the Environmental Challenges to, and Countermeasures for Addressing the Challenges Confronting Urbanization in the PRC, (iv) a Study on Regional Transportation Development under the PRC's Urbanization Strategy, and (v) a Study on the Key Institutions Relating to Urbanization in the PRC.

The policy study's findings and recommendations were well received by the NDRC. On 17 August 2012, the NDRC and the China Center for Urban Development jointly presented the policy study to members of ADB's Urban Community of Practice, as well as other staff members at ADB headquarters in Manila.
While the PRC’s urbanization challenges are unique in terms of their scale, some of the policy proposals set out in this report are relevant to countries facing large-scale internal migration, former socialist economies that are reforming place-based public service delivery systems, and rapidly industrializing countries in general. In particular, broadening the definition of successful urban development to include not only economic performance, but also environmental and social outcomes would greatly benefit cities both in Asia and elsewhere.

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An internal review team led by ADB's Urban and Social Sectors Division of the East Asia Department and the Urban Community of Practice (CoP) provided feedback to the CCUD team throughout the study period. The internal review team reviewed various draft outputs as well as the final draft of the report, and the CoP provided comments on both. Members of the review team and the CoP included Diwesh Sharan (Director, East Asia Urban and Social Division [EASS]), Sangay Penjor (Lead Urban Development Specialist, EASS), Jingmin Huang (Senior Urban Development Specialist of the Regional and Sustainable Development Department's Sustainable Infrastructure Division [RSID]), and Alexandra Vogel (Urban Development Specialist, RSID).

Overall supervision of the technical assistance was initially provided by Fei Yue (Director, South Asia Urban Development and Water Division [SAUW]), and later by Jingmin Huang (RSID), and Sangay Penjor (Lead Urban Development Specialist, EASS). Final preparation of the report was managed by Kristina Katich (Urban Development Specialist, EASS).

The ADB Study Team would like to thank all People’s Republic of China participants at the inception meeting, the review workshop, and the presentations of the study results for their valuable contributions to the study.
Abbreviations

ADB – Asian Development Bank
CCUD – China Center for Urban Development
PRC – People’s Republic of China
KPI – key performance indicator
NDRC – National Development and Reform Commission
PME – performance monitoring and evaluation
Urbanization is a driving force in the development of the People’s Republic of China (PRC). In the past 30 years, economic growth based largely in cities has lifted hundreds of millions of people out of poverty. Having risen sharply year after year, the PRC’s level of national economic output is now the highest in Asia, and second worldwide only to that of the United States. Closely associated with industrialization in past decades, the development of cities is critical to meeting such major government policy objectives as increasing domestic demand, facilitating emergence of the service sector, and promoting balanced development and social harmony.

Urbanization on the scale the PRC is experiencing is unprecedented in human history. While the global population is now predominantly urban, and many developing countries are facing challenges associated with rapid urbanization, both the governance framework in the PRC and the sheer scale of its urbanization path make for a unique case. The country is thus faced with the challenge of charting a new course for growth and transformation of its urban system.

This report comprises four parts. Part I summarizes the history of urbanization in the PRC. Part II analyzes the problems associated with urbanization the country currently faces. Part III recommends strategies for promoting positive outcomes from urbanization, and Part VI puts forward some initial suggestions for implementing the strategies proposed.
I. The Pace and Scale of Urbanization in the People’s Republic of China

Approximately 670 million people were living in urban areas in the PRC in 2010. Since then, the percentage share of the urban population in the total population has surpassed the 50% mark. The average annual growth rate of the urban population over the period 2006–2010 was 5.5%. Very high by international standards, this rate will effectively double the urban population every 13 years (Figure 1).

Urban population growth is uneven across the PRC’s various geographic regions. This unevenness reflects variation in perceived economic opportunity. By the end of 2010, 45% of the country’s total urban population lived in the eastern region, with about one-quarter each in the center and the west. The Yangtze River Delta, the Pearl River Delta, and the Beijing-Tianjin-Hebei region experienced the largest increases in urban population

![Figure 1 Percentage Share of Urban Population in the PRC Total Population, 1949–2011](http://esa.un.org/unpd/wup/index.htm)

over the period 2000–2010. The urban population in some central and western cities also increased substantially. However, overall, the center and west experienced a net outflow of people to cities in other areas of the country.

Migrants in search of employment opportunities are driving urbanization in the PRC. Today, one in three people living in cities—about 210 million people in all—are migrants. Analysis of data from the 2000 census shows that a substantial amount of migration is relatively local. About 45% of migrants originated in the same prefecture-level municipality, while 25% came from other parts of the same province. Less than one-third of migrants were from other provinces. This suggests a high degree of seasonal and temporary migration, as some migrants return to their rural areas of origin to work the land during the farming season.

While the largest cities continue to absorb substantial numbers of migrants, medium-sized cities and towns are growing the fastest. In 2010, the municipalities of Beijing, Chongqing, Shanghai, and Tianjin together accounted for 9.4% of the PRC’s total urban population. The corresponding percentage shares were 14.5% for provincial capitals, 30.5% for prefecture-level cities, 16.1% for county-level cities, and 29.5% for towns.

The National Development and Reform Commission (NDRC) anticipates that the PRC’s total (urban + rural) population growth rate will fall from its current average annual rate of about 1.0% to somewhere in the range of 0.7%–0.8%, in keeping with the somewhat slower economic growth rates forecast for the coming 10 years. Despite the usual uncertainty associated with forecasting economic growth and therefore urban population growth rates, NDRC projections indicate that the PRC’s population will peak at approximately 1.4 billion in the next 15 years. The urban population is projected to increase to 900 million (230 million more than today) over the same period. While the national population will peak in 2025, the urban population will not reach its apex (of about 1 billion) until 2040, after which it will slowly decline. The fastest-growing cities over the coming decade are anticipated to be in the Beijing-Tianjin-Hebei region; Fujian and Guangdong provinces; central provinces such as Anhui, Henan, Hunan, and Jiangxi; and southwestern provinces, autonomous regions, and municipalities (Chongqing, Guangxi, Sichuan, and Yunnan).
II. Analysis of Key Urbanization Issues

Despite the many achievements of PRC cities over the past 30 years, there are a number of issues that continue to prevent the PRC from fully realizing its goal of efficient and equitable urban development.

A. Impact of Urban Development on the Natural Environment

In many regions, particularly along the eastern seaboard and the Yangtze and Pearl rivers, cities are generating more pollution than the natural environment can process. In eastern megacities, there are between 100 and 180 days of pollution haze each year. In 2009, acid rain was observed in 258 of 488 monitored cities. Nationwide, approximately 43% of surface water—rated Grade IV out of Grade V on the quality scale—is unsuitable for human use. In urban areas, nearly 90% of surface water and 50% of groundwater is severely polluted. Long-term water shortages plague 30 of the 32 cities with over 1 million residents.

The central government recognizes the need to strike a better balance between economic development and environmental protection than previously. Official responses to the problem of urban environmental degradation include the national liang xing she hui (society with two orientations) policy, which calls for resource conservation and a small developmental footprint. Other measures include national carbon and energy-intensity reduction targets, promotion of wastewater treatment facilities, and eco-city initiatives. While some eco-cities have made substantial progress in promoting energy-efficient construction and use of renewable sources of energy, most take a superficial approach to environmental protection that mainly focuses on public open-spaces and landscaping. Few cities employ integrated, comprehensive approaches to conserving resources, minimizing greenhouse gas emissions, and protecting public health.

Degradation of the natural environment is in part due to rapid urbanization. The urban population has tripled, and the total national urbanized area has increased more than five-fold since the onset of economic reforms in the 1980s. Both the country's energy-intensive economic base, which includes extensive heavy industry and transport contribute to degradation of the environment in the PRC. Coal-fired plants produce three-quarters of the PRC’s electrical power. Many older buildings are energy-inefficient. Despite significant improvements in subway and bus networks, urban transport systems favor the use of private cars through construction of large intra-city highways and arterial roads.
B. Real Estate Prices and Affordability of Housing

Land and housing prices are high relative to economic production levels and household incomes. Many experts believe that these high prices are unsustainable, and may fall substantially in the future. Overextended urban real estate markets pose a real threat to the stability of the financial sector and the national economy.

Average house prices in many PRC cities are equivalent to 15–20 times annual household income. By way of comparison, the global average house price–annual income ratio is approximately eight. As a result, many middle-income and most low-income households cannot afford to purchase a dwelling unit. This problem is particularly acute for migrant workers.

Prices are high because demand for real estate is currently outstripping supply in many PRC cities. Factors boosting demand include strong economic growth, increasing average household income, and a perception that housing is a good investment. This perception is supported by lack of a property tax in PRC cities, which artificially deflates the cost of owning real estate. Further, the costs of developing and maintaining housing support services are borne by the entire population, rather than solely by the owners of buildings and land.

On the supply side, in many cities there is not enough land on the market to satisfy residential demand. Local governments, which enjoy a monopoly on land, are keen to develop and sell it to increase revenues. But relative to effective demand, too much industrial land and too little residential land is developed. The residential land that is developed is often geared toward high-income housing, leaving low- and middle-income households with too little supply and few choices.

The supply of land suitable for constructing dwelling units is further constrained by the inability of farmers to develop their collective land at the urban periphery for urban uses. Currently, farmers do not have the right to develop new, higher-density rental housing.

Box 1  The Environmental Impacts of Changes in Household Size

Changes in the demographic structure of urban households in the People’s Republic of China are significantly impacting pollution levels. In particular, household size is shrinking over time. A recent survey on sewage pollutants generated by middle-income families in Beijing, Guangzhou, Kunming, Lanzhou, and Shanghai reported that smaller households generate more pollution per capita than larger ones. Further, for a given population size, a smaller average household size translates into additional households, which in turn requires construction of additional dwelling units. The production and transport of building materials used in constructing these additional dwelling units likewise raises greenhouse gas emissions per capita.

Source: XU Zhencheng, WANG Junneng, PENG Xiaochun. “Relating emission characteristics for domestic sewage of household scale and structure.” (See Theme Report 2.2. No institution is identified in the footnote on page 9 of the English version.)
on their existing collective land, nor do they have the right to convert their land into state land, and then to develop it alone or in partnership with real estate developers. Instead, local governments tend to expropriate land at the urban periphery from farmers, who then receive only a small share of the benefits of the ensuing real estate development projects.

C. Municipal Finances as a Determinant of the Pattern of Urban Growth

Under current municipal finance and urban administration systems, it is difficult for cities to meet local demand for infrastructure and public services. This is primarily because municipalities transfer such a large share (often more than two-thirds) of the revenue they collect to higher levels of government. Second, municipalities lack some of the basic revenue-generating mechanisms that local governments often use to finance the public-sector share of urban development costs. For example, municipalities lack the authority to levy property taxes, issue bonds, or borrow directly from banks and other financial institutions. Since receipts are insufficient to finance infrastructure development, municipalities develop and lease land at the urban periphery to close this financing gap. This creates an incentive for cities to expand horizontally, rather than to redevelop central urban areas. Further, the primary focus is on short-term revenue streams rather than long-term urban development considerations. As a result, in some cases, too much industrial land is developed and marketed. In the absence of robust property taxes, the unearned component of profit from rising real estate prices—the share that results from public infrastructure investment—remains uncaptured by the municipality concerned.

Lack of local self-generated financing not only constrains infrastructure development, it also makes it more difficult for local governments to provide social services and social protection to migrant workers.

D. Social Services and Protection for Migrant Workers

Accommodating the needs of rural–urban migrants is one of the greatest urbanization challenges facing the PRC. In 2009, migrants made up 34%, 30%, and 24% of the populations of Beijing, Shanghai, and Tianjin, respectively. Migrant workers, who by definition are registered in rural areas, do not have access to the same urban health and education services as do people with urban household registration, the latter being referred to as "hukou." In many cases, children of migrant workers have no access to public schools. While migrant workers employed in the formal sector have access to social insurance programs such as pension insurance, work-related injury insurance, medical insurance, unemployment insurance, and maternity insurance, many other migrants working informally do not benefit from these programs. Government monitoring and enforcement of social protection programs is uneven. Working conditions for many migrant workers are also unhealthy. The employment status of migrant workers likewise tends to be more precarious than that of formal urban sector workers; for example, only 42% of migrant workers had labor contracts in 2010. While the gap between social services and benefits available to "hukou" and migrants has narrowed in recent years, it still remains a potential source of social conflict in the PRC’s urban areas.
III. Urbanization Strategy Proposals

To address the PRC’s massive urbanization challenge, the country should adopt an integrated, cross-sectoral approach to urban development that includes rationalizing the urban management framework; improving the performance of land and real estate markets; improving access to social services; and promoting environmentally sound, people-friendly urban development.

A. Achieving Environmentally Sustainable, People-Friendly Urban Development

Urban growth in the PRC cannot continue to come at the cost of environmental health. Local governments should guide the growth of urban settlements in a manner that is consistent with the carrying-capacity of the natural environment. The overall urban pollution load should be in keeping with the natural absorptive capacity of the land, water, and air. Where the carrying-capacity has been reached, the local government should take steps to reduce pollution by improving infrastructure and/or by changing the character and impacts of ongoing development.

The government should promote integrated and holistic urban development that can help achieve resource conservation and reduction of greenhouse gas emissions. To this end, a systems-based approach should be used to coordinate land, transport, energy, and water planning and management. Nonmotorized transport should be promoted through co-location of residential and employment areas, and through design of pedestrian-friendly neighborhoods. To increase ridership on public transit systems and decrease use of private vehicles in urban areas, the government should (1) cluster buildings along transit lines, (2) build narrower streets and accept some congestion, (3) limit parking in retail and employment areas, and (4) use road-pricing schemes in city centers. Human-scale urban environments that promote walking and bicycling should be developed to improve the quality of life and reduce dependency on automobile travel.

Mechanisms for promoting development of low-carbon cities should be strengthened. These should include water reuse, and greater use of energy from renewable sources, energy-efficient buildings, and neighborhood-level heat and power systems. To make more efficient use of existing infrastructure, infill development (i.e., development of vacant plots within urbanized areas) should be given priority over the horizontal expansion of cities.
Strategic Options for Urbanization in the People’s Republic of China

Recommendations relating to urbanization strategies necessarily vary by region. In the east, settlements need to be made more consistent with the carrying-capacity of the local natural environment, and a transition away from the current emphasis on heavy industry facilitated. This will require that over time, industrial facilities and some of the population of large cities be transferred to areas with greater environmental carrying-capacity, including nearby smaller cities and the country’s more land-abundant central region. This will in turn require continued development of regional transport infrastructure that links these central regions with the coast.

The economic base of the northeast should be diversified by promoting development of the service sector, including tourism and logistics; existing industry should likewise be upgraded. Following development of regional transport networks, the country’s central region should become the focus of new industrial development. Further, industrial development in the central region should make maximum use of sustainable development principles such as energy efficiency, resource conservation, and the circular economy. As for development of the country’s western region, protection of environmentally sensitive areas should be given high priority. Finally, urban development should be undertaken in a manner that extracts and processes strategic natural resources in an environmentally responsible manner.

B. Urban Land and Housing Markets

A number of specific measures are proposed for increasing availability of affordable housing. Improving the performance of land and housing markets can lead to better housing outcomes for urban residents, and support stable development of urban economies. As the supply side of the housing market is currently constrained, one priority is to open up land and housing markets by allowing a broader range of participants in economic activities that expand the supply of serviced land, as well as housing for sale or for rent. Thus, holders of collective land rights in urban areas should be allowed to develop real estate on their properties.

First, the government should recognize existing rental housing developed on collective land. Second, collective landowners should be given the right to develop additional rental housing on their properties, particularly since such housing is likely to help meet the housing needs of migrant workers and low-income families. In some cases, creation of new collectively owned urban land that could be made available for new construction can be tied to conversion of collectively owned construction land into agricultural land in rural areas, as is currently the case in the Chongqing pilot project.

Third, holders of collective land-use rights in urban areas should be allowed to convert their collective land to state land for purposes of developing it. Equitable mechanisms should be developed to allow collectives to plan and execute such a conversion, with due consideration being given to the rights of individual members of the collective. Farmers owning collective land in urban areas should be permitted to enter into partnerships with real estate developers for the purpose of formulating and implementing such development projects.
In the future, local governments should assume the role of “wholesaler” in the urban land market. In keeping with local development plans, the municipality should sell lease rights to developers of large parcels of land. These developers should then in turn subdivide these large parcels and sell land rights to the subdivided parcels to smaller developers, businesses, households, and other entities. This would increase the number and type of suppliers of land, and the amount of land available for meeting demand. This shift would put municipal land departments into a more strategic land management role, while at the same time delegating development rights and responsibilities to a broader range of actors. The resulting competition between land retailers would improve the level of efficiency with which the land market operates.

Similarly, a broader range of housing producers should be allowed to enter local housing markets. New regulations should allow non-profit agencies to develop, and then to sell or lease housing units to low-income households. Further, farmers should be allowed to form associations that develop and market housing units constructed on lands owned collectively by them.

The government should adopt a multipronged approach to increasing access to social housing by low-income families. In addition to the current policy of direct housing construction, local governments should have a broad range of policy measures relating to housing at their disposal. These might include stimulating housing demand through housing vouchers, and/or mandating that a share of housing units in all new developments target the social housing market. The measures discussed above such as those relating to reform of the land market and allowing new types of housing developers to enter the market might also form a part of social housing policy.

C. Expanding and Rationalizing Municipal Finances

To help cities shoulder the substantial financial costs of extending social services and social protection to migrant workers, rationalizing the intergovernmental fiscal transfer system and developing new local-government own-source revenue streams will be necessary. The basis for transfers should be the number of people living in a particular city, not the size of the hukou population. Making this change would effectively strengthen municipal financial capacity and increase funding available for developing urban infrastructure. Further, transfers should be made on the basis of need rather than administrative rank. The methodology for calculating need should be simplified, clarified, and unified across provinces and regions. Formulas for calculating transfers should be rationalized to remove distortions that currently favor large- and medium-sized cities.

The current property-taxation pilot projects in Chongqing and Shanghai should be rolled-out and implemented at the national level. Local governments should be given the authority to levy and collect property taxes on land and improvements throughout their respective jurisdictions. This would (1) help rationalize real estate investments, as developers and owners would then have to pay taxes on their properties each year, rather than just when they develop or purchase them; (2) remove the current distortion that discourages development of land at the urban periphery; and (3) give cities a new source
of funding for infrastructure and social services, thereby increasing municipal financial capacity in welcoming migrant workers. Cities would also be able to use future property tax revenue as collateral against the issuance of municipal bonds, thus easing the current reliance on revenue from land sales. The incremental approach adopted in the current pilot projects in Chongqing and Shanghai can be continued into the next phase. Taxes can first be levied on second dwelling units (including investment properties), and on high-cost units. Taxes can also be levied on all newly purchased units. However, it will eventually be appropriate for all property owners to pay some property taxes in order to finance part or all of a city’s costs of providing services to property owners. To address the affordability issue, local research is required to assess the extent to which residents—including retired people—can afford to pay taxes on their housing units. Rates will need to be set accordingly.

Cities should apply market principles in identifying revenue streams for financing infrastructure and services. The option of private sector participation in the financing and delivery of such services should be systematically explored. Private sector involvement should be pursued where it brings benefits such as lower service costs, lower costs to the public sector, and/or higher quality of service. Private sector participation in housing, education, and health care should also be a tool for financing expansion of services to migrant workers and their families.

D. Reforming the Urban Administration System

The current system of urban administration limits municipal management capacity. As a result, the criteria used for establishing cities should be redefined, with population size being the major criterion. Towns that meet the criteria established would be able

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**Box 2  Reform of the Household Registration System**

In 2004, the Nanjing municipal government issued Interim Measures on Household Registration for Nanjing, which became effective on 1 July 2004. The measures stipulated that a unified rural–urban household registration system was to be established in the city. The former system of classifying households as agricultural, nonagricultural, or township was thus to be replaced by the new system, which registered households on the basis of actual residence, this new system being referred to as the “resident household system.” As a result, by 2007, a number of subnational jurisdictions including Chongqing City, Guangxi Autonomous Region, Hebei Province, Jiangsu Province, Liaoning Province, Shandong Province, and Sichuan Province had eliminated the former dichotomy between agricultural households and nonagricultural households. While a step in the right direction, the new system is not supported by regulations that ensure provision of social benefits and services to vulnerable groups such as the elderly.

to incorporate themselves as cities, with corresponding administrative structures, staffing, financial authorities, and responsibilities for service delivery. To strengthen local administrative capacity, economic and social administration authorities should be decentralized to lower levels of government.

Further, improved administration of rural counties would lead to more balanced development and management. To eliminate the current urban bias in local government administration, municipal jurisdictions should be redrawn to include only urbanized and newly urbanizing areas. Rural counties should be managed separately from urban areas, and should report directly to provincial governments rather than to the next highest-level city government. In addition to other benefits, this would flatten the administrative hierarchy, and remove some intermediary layers of administration.

E. Integrating Migrant Workers into Urban Society

Providing public services and social protection on the basis of physical residence would greatly improve the well-being of all urban residents. To achieve this, public services and social protection must first be disconnected from the population registration system. Thus, health care, compulsory education, vocational training, employment services, and social services should be provided on the basis on one’s presence in a specific locality, not on one’s place of origin.

Second, access to public services and social protection programs should be made universal. All PRC citizens in urban areas should progressively be given access to all services and programs, with the exception of programs that target the poor or other disadvantaged groups. Cities should enable extension of services to city natives and migrant workers alike.

The challenges in this regard will be financial and organizational in nature. Extending services to existing underserved migrant workers will require a massive increase in financial resources and service-delivery capacity. This issue is closely related to the urban administrative and municipal finance reforms discussed above. Cities cannot accomplish all of these transformations alone. It will be necessary to allocate financing and service-delivery responsibilities to appropriate levels of government, with national, provincial, and local governments all making a contribution. The private sector also has a major role to play in service delivery, and in some cases, in the financing of expanded services.

Third, a new residence-based population registration system that does not distinguish between residents of urban areas and residents of rural areas should be implemented. This reform should be conducted on a voluntary basis at the level of the individual. Thus, migrants in urban areas who wish to do so should have the opportunity to replace their temporary residence permits with permanent residence permits, the latter also being permitted to cash out their collective land-based assets in their rural communities of origin. Conversely, migrants that wish to retain registration in their former rural community should have the right to do so.
Given the current large-scale movement of migrant workers and their families between cities and between provinces, the new registration system will require participation of agencies at various levels of government. It is proposed that provincial government offices facilitate registration changes for people moving between locations within a given province, while central government offices be made responsible for recording residence changes between provinces.

F. Redefining “Successful Urban Development”

Overall, to better address the key challenges facing PRC cities today, the definition of successful urban development should be broadened to include not only economic performance, but also environmental and social outcomes. With its emphasis on social harmony, the Eleventh Five-Year Plan (2006–2010) has already initiated this shift in priorities. However, there are no clear national guidelines as to which types of positive environmental and social impacts local government leaders should target. There also exists no performance evaluation system or procedure for judging the performance of city leaders in this regard.

Policymakers at the national level can operationalize this policy by designing and instituting a new national performance monitoring and evaluation (PME) system for local governments. The objective of the PME system is to improve urban-development environmental and social outcomes by making local leaders more accountable for their performance.

The PME system should be based on a core set of key performance indicators (KPIs) that quantitatively measure urban productivity, environmental conditions, and the quality-of-life of local residents. The KPIs can include some universal indicators used in all urban settlements, as well as some indicators tailored to local circumstances that each city develops itself. The core KPIs can be developed at the national level and rolled-out to local governments through provincial development and reform commission offices. The collection and analysis of data and information used in assessing how well city administrations have performed as measured against the indicators should be carried out annually by independent organizations. Further, the results of these annual evaluations should be published and made available to the public. The results should also be taken into account in official evaluations of the performance of local leaders, and in decision making regarding their promotion within the public sector hierarchy.

In terms of the content of the PME, the emphasis should be on urban productivity and quality of life. The overarching definition of urban productivity is “output per unit of input.” Output can still be defined primarily by economic production. The inputs to be measured relate largely to resources, for example, land, water, and energy. Thus, cities that put into place measures for making development more compact, and for using less water and energy in service delivery will score higher in the evaluation. Resource consumption per capita should also be taken into account.
The very nature of quality of life makes defining and measuring it a complex exercise, particularly since definitions of quality of life embody social and cultural values. However, with respect to urban development, PRC cities would do well to shift their emphasis from the quantity of urban development to the quality of the cities and communities that they create. There is already widespread consensus in government and policy circles that this is the appropriate direction in which to move. Thus, higher-quality urban development can include the following characteristics:

- Cleaner living environments (cleaner air, and cleaner surface water and groundwater);
- Livable communities (walkable, bicycle-friendly, human-scale communities that integrate housing, public transit, public open spaces, employment opportunities, and services);
- Affordable access to housing;
- Affordable access to social services and social safety net programs; and
- Equity in the distribution of benefits of real estate development among all parties, including farmers, migrant workers, and low-income households.

Specific indicators for measuring these types of outcomes can be developed by teams of national and local government experts (see Section IV).
IV. Toward Implementation of the Proposed Strategy

Successful implementation of the strategy outlined above will require a concerted effort by a wide variety of government agencies. To facilitate effective coordination, one national-level government agency should be assigned overall responsibility for overseeing implementation of the strategy. This can be a coordinating commission, perhaps under the State Council. Inter-institutional working groups should also be organized to define various aspects of the implementation plan, including the indicators to be used in the national PME system for local governments.

The central government—eventually including a coordinating commission, the National Development and Reform Commission (NDRC) and other ministries and agencies—can greatly facilitate implementation of the strategy by providing detailed guidance to subnational government agencies as to their future roles and responsibilities. This guidance should come in the form of implementing regulations, guidelines, manuals, and where required, direct technical assistance to local governments, which could be provided to cities by provincial-level administration offices.

Successful implementation of the strategy will likewise require tapping a broad range of financing sources. In addition to reform of the intergovernmental fiscal transfer system, the NDRC should provide cities with implementation tools that involve the private sector to a greater extent, both in the delivery of services and in the development and management of urban infrastructure. By opening-up markets for land, housing, and infrastructure and services to a broader range of actors, cities can lighten their respective financial burdens and provide better services to more people at lower cost. Civil society can also play an important role in implementing the strategy, both as a service provider (non-profit housing developers, for example), and as a vehicle for providing stakeholder input into development plans.

Figure 2 illustrates the interrelationships between the various components of the urbanization strategy. Where synergies exist, implementation of policy proposals should be coordinated with others. Funding generated by some aspects of the strategy may be used to finance other aspects. For example, additional municipal revenue generated through property taxes may be used to finance future public services extended to migrant workers. Similarly, revenue from development of collective land at the urban periphery can be used to further integrate farmers and migrant workers into urban society.
Reform of the public service sector can begin by disconnecting population registration from public service delivery. Once that is accomplished, expansion of public services and creation of a new population registration system can proceed simultaneously.

The new population registration system can be rolled-out first in areas of the country targeted for urban and economic development. For example, cities in the center of the country can offer local registration with the full complement of public services and protection during the initial stages of implementation. This should incentivize migration to that area of the country, which is consistent with the policy of shifting development from the eastern seaboard to the country's geographic center. In issuing residence certificates under the new system, the number of years that individuals have held temporary residence certificates under the old system should be taken into account.

The table on page 16 sets out high-level actions that can be undertaken in the short and medium term in each of the major urban policy reform areas emphasized by the ADB-financed technical assistance policy study on strategic options for urbanization.
### Short- and Medium-Term Actions Under the Urban Development Strategy by Reform Component

<table>
<thead>
<tr>
<th>Component</th>
<th>Action</th>
<th>Time Frame*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property taxation</td>
<td>Evaluate pilot projects</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td>Issue regulations and guidelines</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td>Levy taxes on second dwelling units, high-cost units, and all new units</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td>Evaluate affordability by marginal groups</td>
<td>Medium term</td>
</tr>
<tr>
<td></td>
<td>Levy taxes on all buildings</td>
<td>Medium term</td>
</tr>
<tr>
<td>Land reform</td>
<td>Evaluate pilot projects</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td>Issue regulations and guidelines</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td>Form public-private partnerships</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td>Allow farmers to develop rental housing</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td>Build social infrastructure on collectively owned land</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td>Convert collectively owned land in urban villages to State land</td>
<td>Medium term</td>
</tr>
<tr>
<td>Social services</td>
<td>Disconnect social service provision from <em>hukou</em> (household registration)</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td>Formulate a strategy for extending coverage of social services to all migrants (criteria, timing, financing, responsibilities of various levels of government)</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td>Draft social services and protection expansion plans</td>
<td>Medium term</td>
</tr>
<tr>
<td></td>
<td>Extend services</td>
<td>Medium term</td>
</tr>
<tr>
<td>Population registration</td>
<td>Design a new population registration system</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td>Implement the new population registration system</td>
<td>Medium term</td>
</tr>
<tr>
<td>Municipal administration</td>
<td>Define new criteria for establishment of cities</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td>Establish new cities according to the criteria defined</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td>Devolve responsibilities for revenue-generation and service-delivery to appropriate authorities</td>
<td>Medium term</td>
</tr>
<tr>
<td></td>
<td>Strengthen the managerial and technical capacity of cities</td>
<td>Medium term</td>
</tr>
</tbody>
</table>

* Short term: 1–4 years; Medium term: 5–8 years.

References


Strategic Options for Urbanization in the People’s Republic of China

Key Findings

Over the past 30 years, rapid urbanization and economic growth have transformed the cities of the People’s Republic of China (PRC). But this unprecedented urbanization has highlighted challenges that demand significant changes to basic urban management and planning policies.

This report is based on a 2011–2012 policy study for the PRC’s forthcoming national urbanization plan that will set out urban development policies and guidelines over the coming decade. It examines the PRC’s urbanization challenges and suggests actions for improving the urban environment through changes in the design, financing, administration, and social integration of cities.

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