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# Urban Economics and Development

## China's Urban Regions as a Hindrance to Development

by Franz Peter Lang, Bochum\*

**China's policy of opening the door to foreign business has sometimes aroused excessive expectations. Both in China and abroad, overoptimism has now been replaced by a more realistic appraisal of what can be achieved in economic terms. Nonetheless, Deng Xiaoping's aim of quadrupling industrial and agricultural output<sup>1</sup> by the year 2000 is still being pursued. Urban regions have been allocated a key role in this as the powerhouse of development. In the light of regional economic analyses,<sup>2</sup> this article examines whether the intended economic reforms go far enough to enable the conurbations to perform this function.**

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The paramount development strategy governing China's regional economic policies is the notion of concentrating the economy's scarce organisational and technical resources on projects that can be implemented relatively quickly and which will have a major impact on other sectors of the economy.

Concrete development projects of this kind have already begun in areas such as

- ☐ vehicle construction, through the expansion and modernisation of existing car factories (e.g. the Volkswagen works in Shanghai),
- ☐ steel production (Shanghai-Baoshan and Wuhan),
- ☐ light industry (Tienjing),
- ☐ the textile industry (Guangzhou).

In each case, existing capacity is being expanded in the traditional centres for the industries in question, making it possible to draw on the experience and infrastructure that are already present (localisation economies).<sup>3</sup> The increased economic activity in established industrial areas is intended to:

- ☐ remove supply bottlenecks in the domestic economy,
- ☐ promote exports, and
- ☐ improve the generation of own funds to finance investment.

This can be described as a strategy of unbalanced growth,<sup>4</sup> aimed at boosting exports after an initial phase of import substitution. It is designed to ease China's

shortage of foreign exchange and at the same time raise the level of prosperity. This development strategy, which was enunciated at the Twelfth Congress of the Chinese Communist Party in 1982, is the guiding principle for preparing the main modernisation projects of the first decade of the planning period up to the year 2000.<sup>5</sup>

### Conurbations as Growth Poles

The strategy of using the conurbations as growth poles is based on the realisation by regional economists that even in the past China's industrial output was being significantly boosted by pockets of higher development in the urban areas, such as Tienjing in the north (light industry), Wuhan in central China (steel industry) and Shanghai in the east (manufacturing).<sup>6</sup> These areas continued to grow even during the periods of tight regulation by the political planning authorities, such as the period of collectivisation in the fifties or the Cultural Revolution in the late sixties.<sup>7</sup> Hence there is nothing

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<sup>1</sup> See Deng Xiaoping: Wichtige Aufbauprojekte durchführen und die Fähigkeiten der Wissenschaftler und Techniker sinnvoll nutzen, in: Deng Xiaoping: Der Aufbau des Sozialismus Chinesischer Prägung, Beijing 1984, pp. 9 ff.

<sup>2</sup> Cf. Deng Xiaoping: Die intellektuellen Ressourcen anderer Länder nutzen, in: Deng Xiaoping, op. cit. pp. 27 ff.

<sup>3</sup> Cf. W. Isard: Location and Space Economy, New York 1956, pp. 172 f.

<sup>4</sup> Cf. K. Dervis et al.: General Equilibrium Models for Development Policy, Cambridge 1982.

<sup>5</sup> See Deng Xiaoping: Eröffnungsrede auf dem XII. Parteitag der kommunistischen Partei Chinas, in: Deng Xiaoping, op. cit., pp. 3 ff.

<sup>6</sup> See Xue Muqiao: China's Socialist Economy, Beijing 1981, pp. 18 ff.

<sup>7</sup> See M. C. Castells: Die kapitalistische Stadt-Ökonomie und Politik der Stadtentwicklung, Hamburg 1977.

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new in the urban regions being the country's engines of growth.

China's conurbations house no more than 300 million people in all; the overwhelming majority of the population (around 900 million) still live on the land. This massive rural population is an expanding reservoir of labour, owing partly to the relatively high birth rate among rural Chinese and partly to rapidly rising productivity in the farm sector, which recently began to operate mainly along free enterprise lines and where markets are showing signs of saturation.

The large labour potential offers an opportunity for tremendous economic expansion, but the assimilation of these population masses into the industrial production process will pose problems initially.

Since industrial activities are undertaken mainly in urban agglomeration areas, there is a danger of an uncontrolled migration to the towns, as has occurred in many developing and newly industrialising countries. This would create further insoluble problems for China's cities, which are already bursting at the seams.

Until now, the drift away from the land has been strictly controlled by government interdicts. However, this has an adverse effect on economic development:

□ First, it allows city dwellers to develop into a consumption-oriented "urban elite" proud of its pioneering economic and intellectual role; without the

stimulus of competition from the rural population, their achievement motivation has already begun to decline.

□ Secondly, the isolation of the bulk of the population in a rural environment far removed from industry and with comparatively poor educational opportunities hinders the development of intellectual potential that could be of great value in the process of economic expansion.

The way in which the urban agglomeration areas are organised will therefore continue to have a dominant influence on economic development in the future. Though overlooked in the past, their function as "growth poles" of economic development has now been universally recognised. It can be assumed that Mao Tse-dong's ideologically motivated notion that village society would play a leading role has now been abandoned, at least for practical political purposes. The Party's political decision-makers – or at least those who are prominent at present – are therefore demanding that the modernisation programme exploit the cities' traditional role even more intensively than in the past.<sup>8</sup>

That will be no easy task, however, for urban development has been of a conservative rather than of a dynamic, innovative nature since the economic shock of the country's "liberation" from capitalism. This pessimistic finding is confirmed by the results of initial regional economic analyses of the situation in China's conurbations,<sup>9</sup> based on the premise that if it is to be fully functional, an efficient urban economy must develop a flexibility that enables it to adapt structurally to changed economic circumstances.

The cities of Hong Kong and Singapore, with their strongly Chinese flavour, are acclaimed as examples of

<sup>8</sup> See Tagungsbericht: Tagung von Kadern städtischer Planungsbehörden am 14. 12. 85 in Shanghai, Vols. I, II and III, Shanghai 1985.

<sup>9</sup> Ibid., pp. 236 ff.

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### ÖLANGEBOTSMODELLE: ENTSCHEIDUNGSHILFEN FÜR DIE WIRTSCHAFTSPOLITIK? (OIL SUPPLY MODELS: DECISION-MAKING AIDS FOR ECONOMIC POLICY?)

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"dynamic" urban regions. Very little regard is paid to their negative aspects, such as falling standards of housing and a deteriorating environment. Economic considerations predominate, expressed mainly in terms of a technocratic view of economic phenomena. Signs of a change of attitude have begun to emerge only very recently. The conclusion drawn from a comparison with China's cities is that if the urban economy is to perform its function it needs efficient indicator systems and guidance mechanisms that signal changes in infrastructure and land needs quickly and permit them to be shaped as desired.

China's business centres are also reputed to have had these qualities in the past, and none more so than Shanghai, but today they are found seriously wanting in that regard.<sup>10</sup> If they are to regain these qualities, it is essential first to explore the development mistakes of the past that have led to today's unsatisfactory situation.

### Characteristics of "Capitalist" Urban Development

The present state of China's conurbations is due in no small measure to the country's capitalist and free-market past.<sup>11</sup> The development of the cities was dictated by purely economic interests, untrammelled by planning or regulation, thus creating urban patterns that are familiar from the industrialisation phase in Europe or North America.<sup>12</sup> The pattern of land usage around a focal point, such as

- ☐ an industrial complex as in Wuhan,
- ☐ natural resources as in Dalian,
- ☐ an intersection of transport routes as in Tienjing, or
- ☐ a market, as in Shanghai,

takes the form of a series of bands or rings, in which the intensity of development falls as the distance from the centre of the conurbation increases.

Activities with a high value added per unit of usable space, such as commerce and banking, are to be found close to the centre. The concentration of such activities in a relatively small area increases the attractiveness of the centre, since there are economic advantages to be gained by sharing the infrastructure and being able to meet business partners without incurring high transport costs ("urbanisation economies").<sup>13</sup> Central locations

are thus exploited intensively by constructing high-rise buildings with a large usable floor area.

At the periphery, on the other hand, development tends to be horizontal rather than vertical, with relatively low buildings. It is here one finds activities with a low value added per unit of area, such as small businesses, handicrafts and housing, but also industrial plant requiring a large working area.

This urban pattern can be considered to be the result of "location-differentiating factors",<sup>14</sup> such as transport costs and land prices. It is particularly noticeable in areas that are not strongly differentiated by natural features, such as rivers, mountains or deep valleys. These conditions are prevalent in the flat country of northern and eastern China, where they allowed cities such as Shanghai to develop in the classical ring pattern. Shanghai's outward appearance (intensity of development according to the location and quality of the site) has remained largely unaltered to the present day, a testimony to the past effectiveness of location-differentiating factors in the development of the monocentric Chinese conurbations.

In cities conforming to the classical ring configuration, free market competition creates a pattern of land prices that are high at the centre and decrease progressively as one moves towards the outskirts. Land usage costs derived from land prices, such as rents, follow a similar pattern as a result of competing demands on scarce land resources in the conurbation. The users able to pay most thus obtain the most coveted central locations, while those who can afford less are forced out to the periphery. Hence a flexible system of land prices and rents acts as a mechanism for the allocation of urban sites. Land usage governed by economic factors in this way changes constantly as the economy develops,<sup>15</sup> as demonstrated by the rapid change in the appearance of Hong Kong and Singapore.<sup>16</sup>

The population distribution in "ring cities" with the classical pattern of land use is socially uneven, since the most attractive locations can be afforded only by residents with very high incomes owing to competition from other wealthy users, primarily commercial users. Most of the inhabitants therefore move to the outskirts. The cost of travelling to work or to shopping facilities in the centre or on the outskirts is an important factor. A well-developed urban mass transportation system

<sup>10</sup> Ibid., p. 267.

<sup>11</sup> Cf. M. C. Castells, *op. cit.*

<sup>12</sup> Cf. F. P. Lang: *Raumwirtschaftliches Modell der Stadtentwicklung*, Frankfurt 1980, pp. 17 ff.

<sup>13</sup> Cf. W. Isard, *op. cit.*, pp. 172 ff.

<sup>14</sup> Cf. F. P. Lang: *Einführung in die räumliche Wirtschaftstheorie*, forthcoming.

<sup>15</sup> J. P. Crecine: *A Dynamic Model of the Urban Structure*, Santa Monica 1968.

<sup>16</sup> Cf. Tagungsbericht, *op. cit.*, pp. 314 ff.

allows people to live a long way from their place of work and the shopping centres. This geographic separation of industrial and residential areas can enhance living conditions and enable production to be organised more efficiently.

### Characteristics of Chinese Urban Development

The "capitalist" urban building pattern remained virtually unaltered in the People's Republic of China, despite the changed political and economic conditions. However, Chinese cities differ completely from their counterparts in Europe and America in that inhabitants and suppliers of services have spread themselves almost evenly across the city.

Chinese urban economists attribute this mainly to the lack of a rational structure of land prices. The prices for land use, which are mainly set by the state, completely ignore differences in the economic attractiveness and position of different properties. Consequently, the information, sanction and control mechanisms that cause "capitalist" cities to adjust to changes in the economic environment are missing. Instead, there operates a number of other influences stemming from China's characteristic system of values and decision-making.

By contrast with the pattern of land use in cities conforming to the ring configuration, the population of Chinese conurbations is spread across the various districts without social differentiation. People from all social strata live side by side in districts comprising a blend of industry, commerce and housing, even though the existing building stock is laid out for a differentiated pattern of occupation. The only deviation from this principle of distribution occurs in the case of senior party officials, who live in the former residential districts of the well-to-do. There are several reasons for the general lack of differentiation.

The social upheaval of 1949 caused a massive geographic and social shift between the urban and rural populations. Most of the traditional city dwellers either left the conurbations as refugees during the final stages of the civil war or were forcibly resettled in the country. Only a small minority of people who were considered politically reliable or essential to the running of the cities were allowed to remain there.

Instead, large numbers of "politically reliable" country dwellers were resettled in the cities; as a matter of policy, there was no social differentiation in the allocation of

housing in the existing residential districts. Differences in housing quality were ignored, both out of necessity and as a point of political principle.

A further reason for the lack of social differentiation in the distribution of the urban population is the "welfare principle" of socialist enterprises, which can be summed up in the slogan "All eat from a single bowl".<sup>17</sup> Workers' living quarters are generally very close to their place of work, a situation that was also common in Europe during the early stages of industrialisation and in certain old industrial regions, such as mining communities in the Ruhr. As a rule, workers belong to the same "unit" for their entire working life. The system makes no provision for moving to another unit, so that there is also no possibility of a worker moving house of his own volition.

Housing location is also unaffected by the various grades a worker may attain in his "unit" in the course of his career. Hence, changes in social status are not demonstrated by moving to a better district but are apparent more in the size of the accommodation allocated. This pattern of geographic distribution has remained virtually unchanged to the present day because of the uniformity of house rents. It is only in recent years that the expansion of the cities as a result of relocating industries away from the centre has led to some relaxation of this principle.

The retention of this pattern of urban population distribution is undoubtedly due partly to the more effective political control it gives the authorities. If the social environment caters for all aspects of daily life and social contact, there can obviously be little room for unobserved individual activities. This improves the chances of checking on loyalty to the party line by exercising state power and making use of "neighbourhood assistance".

The general lack of experience in tackling life's problems on one's own, such as those involved in changing jobs or moving house, also tends to make for low individual mobility.

The situation is exacerbated by the underdevelopment of the transport system. Even travelling from one part of the city to another by public transport or by bicycle often takes several hours, so that living some distance from one's place of work is scarcely a feasible proposition.

The system of the work and residential unit also comprises supplies of people's daily needs, organised either by the "unit" itself or by supply units co-operating with it. This has the effect of spreading service activities throughout the conurbation to match the inefficient

<sup>17</sup> Cf. Z h a i Lilin: Betriebswirtschaftslehre in China, in: Die Betriebswirtschaft, May 1986.

distribution of population. As a result, the advantages inherent in the existing building stock, which may have been designed originally as a department store or shop, are not fully exploited, nor is it possible to reap the benefits of specialising in certain merchandise or to make the corresponding savings in transport costs. The high cost of managing and supplying the small general stores spread throughout the cities therefore raises the costs of the services sector and reduces its performance.

Special socio-political factors are also at work. Once the civil war had been won, the political cadres who were incompetent in economic matters took over the running of the economy at a time when it was already fully stretched by the need to restart production. The collectivist strategy designed to preserve traditional and apparently proven industries was also politically inspired. The expansion of these industries without regard to the actual needs of the economy was further distorted by the Stalinist priority given to the development of heavy industry.

The outcome was a policy of restoring and perpetuating the industrial structure dating from the capitalist era. The working population was distributed to suit the location of existing industries. Since then, the original functionally differentiated economic system of the conurbations has been arbitrarily overlaid by a pattern of intermingled industrial and residential areas, which has also been reflected in the structure of the services sector.

This also encouraged the transport and supply networks to develop in ways that did not meet the needs of the population. The visible result has been bottlenecks in the supply of everyday consumer goods, transport and energy in the big cities that are still prevalent today.

The conurbations' monostructures were thus reinforced, although certain localisation economies<sup>18</sup> could also be achieved as a result of having several enterprises from the same industry in one place.

### Necessary Changes

China's new economic policy therefore has to contend with conurbations with:

- ☐ industrial monostructures, largely petrified at the pre-revolutionary stage,
- ☐ an underdeveloped services sector,
- ☐ a backward transport system, and
- ☐ intermingled residential and industrial areas.

They are the consequence of preserving the old "capitalist" patterns of land use while at the same time neutralising differentiating factors, such as transport costs and land prices, for political reasons. In this regard, Chinese regional planners point to the decision taken in 1949 to neutralise the free market system of land prices and private initiative in the organisation of urban activities. In their view, this regulatory system must be restored so that the structure of the cities can develop in an orderly manner and adjust to the needs of a rapidly changing economic environment.

However, this is only one of the conditions that must be fulfilled if the cities are to perform their allotted function. A sober assessment of their present state and the special influences described above suggests that the economic reform that is now under way in urban areas must go far beyond the restoration of flexible land prices if it is to be successful.

The present organisational structure of work units must be changed in the following manner:

- ☐ In particular, the link between large production plants and correspondingly large housing complexes must be severed. Restructuring production still inevitably means reorganising housing, which entails unnecessary costs that could be avoided if industry and housing were organised separately. The first steps in this direction have been taken, in that it is now possible to purchase private apartments.
- ☐ The link between industry and services must be broken. Services must be organised independently and be able to adjust flexibly to demand. The collective and private enterprises that are now permitted are already moving towards a better adjustment of supply to demand.
- ☐ The mass transportation systems and the urban road networks must be developed further. This would satisfy one of the important conditions for changing the pattern of urban land use by reducing the present high cost of travel.

The centralist organisation of the Chinese urban economy must be abandoned before these necessary changes can be made. However, decentralisation of the system of decision-making makes it more difficult for the state to control the teeming cities and limits political power. This is probably one of the greatest obstacles to reform, since it is already becoming clear that junior cadres are only implementing those of the reforms they find acceptable.

<sup>18</sup> Cf. W. Isard, *op. cit.*, pp. 178 ff.