

Devil in details of grand urban plan by Francesco Sisci

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Few doubt that growth in China's economy will grind to a halt in the next few years. Many believe there will be a significant slowdown from the double-digit development of the past three decades. Premier Wen Jiabao in his last speech at the opening session of the National People's Congress (NPC) on Sunday announced a 7.5 percent target for 2013. But the major concerns are about the third decade of the century, when China's gross domestic product could overtake US GDP. Then, many believe China's economy could fall into some form of stagnation, like that of Japan after the 1980s.

Chinese leaders love to think long-term, and so were trying to address also this issue when planning a gigantic development program of 40 trillion yuan (\$6.4 trillion) for the urbanization of 400 million people in the next 10 years.

Such movement is unprecedented in human history in terms of the resources and number of people involved. It is bound to dramatically change China, economically, socially, culturally and also politically, and thus it will have a huge impact on the rest of the world. If China succeeds, the transition will open a fast-track for development during the 2020s. If it fails, the spillover effects from a struggling economy rivaling the US in size will be equally global, and could trigger wider financial and economic crisis.

The mammoth urbanization plan will be concentrated mainly in small and medium cities with less than 2 million residents, with the 40 trillion yuan investment financed by a massive issuance of bonds in the next 10 years, something that will change the financial structure of the country in the longer term. The medium-term goal is to spur China's development by steadily bringing into the cities the 400 million people who now live part of the year, or year-round, in the countryside.

These people will be brought from a rural existence that in some respects resembles the Middle Ages into a present that resembles the science fiction of *Blade Runner*.

Urban migration is a double challenge for developed countries. On one hand, there is the scope of the program to consider, and China's ability to mobilize all these resources. The other aspect is the program's projected horizon over which Beijing wants to lay a foundation for growth. A 10- or 20-year program is unthinkable in the West, and that sort of ability to plan appears to provide China with a competitive advantage over the political landscape that in the US and Europe is mired in short-term programs driven by elections within a one or two-year timeframe.

The 40 trillion yuan program offers a revolution for industrial growth in the country, but also for its financial development, which has been stifled by a primitive system of public financing. Then, and above all, there is the human aspect. Already today there are about 200 million "seasonal migrants" who live mostly in the cities but lack the residence permits that would give them access to schools for their children or healthcare.

It is not simply an economic initiative, but a complex project of structural transformation in China, and it will be discussed in the next few days at the NPC. The political godfather of the plan is Li Keqiang, who at the end of the session, on March 14, will be appointed prime minister. He is expected to guide the economy and the national administration over the next 10 years, provided there are no major surprises.

The plan could include sales of new bonds and should include a restructuring of the debt that local governments have taken on since 2009, when the central government launched a major economic stimulus plan worth about 4 trillion yuan, saving China from the financial crisis that began in the United States the year before.

Then, after the initiative from the central government, provinces and cities, in turn, loosened restrictions on granting new loans had stimulus plans of their own, leading some 4 trillion yuan more in funding, an amount that today weighs on local budgets and has created a housing bubble with uneven effects in different parts of the country.

These new bonds may be at least in part sold abroad. In fact, the government is also preparing radical measures that could lead to greater liberalization of the yuan exchange rate. China has about 1 trillion yuan held in foreign accounts that will be used as the basis for providing financial services to foreigners who want to buy and hold the Chinese currency.

This process should help Beijing realize a full liberalization of the yuan exchange rate by 2015 or 2020, when the urbanization plan should be complete. By then China's GDP could exceed that of the US.

The great wave of urbanization, which could lead to about 70 percent of the population living in cities, should powerfully stimulate domestic consumption. This, in turn, should help to solve the problem of the large Chinese trade surplus and create a huge market for foreign imports. Urbanization could stimulate overall growth in China and also lead to the country becoming the single largest contributor to global growth, the economic locomotive of the world, by the end of the decade.

Beyond the grand plans, the greatest difficulties will be in the details. This mountain of money must be spent efficiently, creating a real market and not simply flooding China with difficult-to-maintain structures and infrastructure with very low economic performance.

Efficient management of this plan would create the basis for rapid growth in the third decade of the century, though perhaps not the double figures seen in the past. Conversely, errors in management could derail the country.

One of the major challenges is to create a more equitable distribution of income, and to provide fairer opportunities for everyone to access new careers and social advancement. This wave of urbanization could be accompanied by complex reforms providing cheaper and better education for new migrant families and will go hand in hand with a reform of the old residence system that has anchored millions of people to the countryside, has helped to stem a massive internal migration, and also prevented the birth of slums around large metropolises.

Another important issue for the Chinese leadership is overall social control, management of protests, and political stability. Even large demonstrations in small towns are less destabilizing for the country than small protests in large cities.

It is impossible to crack down on every protest in large cities or nip them all in the bud; thus the politically revolutionary importance of protests in cities needs to be “gelded” – and this is traditionally done by granting new and established outlets for political expression. These outlets, creating channels of non-revolutionary opposition, would respond to the social tensions that will inevitably grow in cities as they develop a large urban proletariat.

Moreover, greater fiscal pressure, which would be needed to finance urbanization and a larger welfare system, will be felt by the growing middle class. Again a traditional response has been to allow forms of political control by the taxpayers over the government spending money that has been extracted from people’s pockets in a very immediate and direct way. It’s that old adage, “no taxation without representation”.

Economic and social problems could lead to stronger calls for political reform and match up with political and administrative reforms that the government has already announced. One can see already the China challenge for the next decade: how to sustain the long-term planning ethos used by the present centralized bureaucracy with the rise of a society and a political system that will become more liberal and democratic, and thus possibly wanting to be less subject to the reins of government.

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