

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

THE WALL STREET JOURNAL

WSJ.com

CHINA NEWS | Updated May 9, 2013, 2:30 a.m. ET

Beijing Puzzles Over Urban Growth

Government Entertains Debate on How to Manage Population Gains as It Seeks Lift From Bigger Cities

By BOB DAVIS

BEIJING—China's new leaders are counting on urbanization to remake the economy but have tried to limit the flow to the country's largest cities, fearing that a surge in migration could turn them into Latin American-style slums.

Some urbanization specialists inside and outside China argue that the fear is largely misplaced. The problem with Beijing, Shanghai and other Chinese megacities, they say, is that they aren't even more densely packed—or better planned.



Reuters

Beijing's ring roads encourage automobile use and urban sprawl, experts say. Here, a ring road.

More on China's Economy

[China's Inflation Quickens](#)

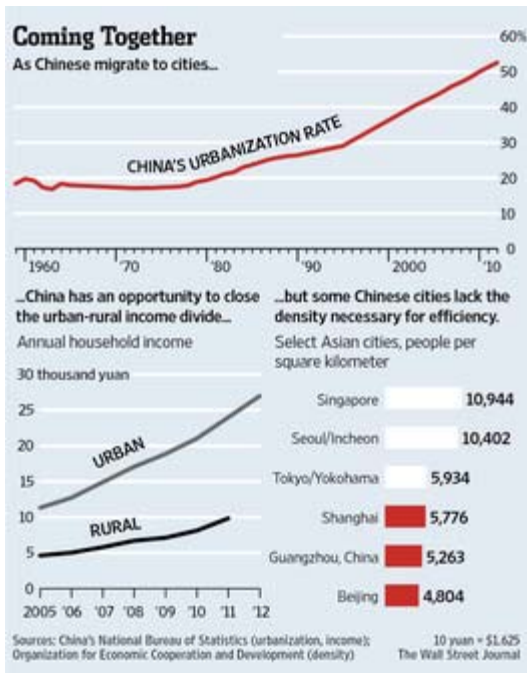
Adding more people to Beijing, for example—on top of the 18 million or so who already live here—would encourage better public transportation, boost land prices so high that factories would move away, and attract talented people with fresh ideas, according to these specialists. Imagine, say, Manhattan or Tokyo.

"We have to let the market play a bigger role in the development of cities and dismantle barriers" to urban growth, said He Fan, a senior economist at the Chinese Academy of Social Sciences, the government's most prestigious think tank.

"People prefer to move to larger cities because there is more opportunity there."

Angel Gurría, secretary-general of the Organization for Economic Cooperation and Development, is another big-city booster. "When you see the situation in the large urban conglomerations, you say, 'Let's stop the growth,'" he said during an interview in Beijing. "But you probably don't want to stop the growth [because] a well-organized, predictable process of urbanization allows for a much better allocation of resources."

Urban planners talk about "agglomeration" effects—the idea that cities gain by having people more tightly packed. That's because travel by car becomes impractical and is replaced by public transportation. Also, old-line industries are



forced to relocate because of rising prices, and lightly polluting service industries take their place. The influx of people brings an energy to a city that helps create new businesses and investment.

In Manhattan, with a density of 18,300 people per square kilometer, about 45% of the working population takes public transportation, for instance, says Jonathan Woetzel, China analyst for McKinsey Global Institute. In Charlotte, N.C., where population density is about 15% of Manhattan's, just 5% of the locals take public transportation. In China, says Mr. Woetzel, only downtown Shanghai approximates the public-transportation ridership of Manhattan.

While China has some of the world's largest cities, it also has about 160 cities in the 200,000 to 1,000,000 population range. The fear of urban planners is that the government will try to develop them all, leading to a mishmash of highways, industries and pollution.

China's government hasn't bought into the bigger-is-better argument so far, but it is listening to new ideas. The country's new premier, Li Keqiang, who has made urbanization a focus of China's economic reform plans, said the government had received 500 proposals on the subject at a March meeting of the largely ceremonial parliament. China's planning agency, the National Development and Reform Commission, says it will release a blueprint to guide urban-growth policies later this year.

Chinese leaders argue that urbanization is crucial to remake the economy so it relies more on domestic consumption and less on exports, a long-sought goal by China and one its trading partners encourage. Rural migrants make higher salaries in the cities and their departure from the villages can boost incomes back home too, as demand for labor starts to outstrip supply in rural areas.

"Urbanization will not only spur tremendous consumption and investment demands and create more job opportunities but also directly enrich the farmers," Mr. Li said during his first news conference as premier.

How best to manage urban growth is hotly debated. Urban specialists point out that many of China's cities aren't as densely populated as Singapore, Seoul or downtown Tokyo, which have made the transition to the consumer-led service-industry centers that China aspires to. Beijing is seen as especially poorly planned. It has about half of the population density of Seoul and is circled by six ring roads that encourage automobile use and urban sprawl.

In China, more densely populated cities, like cosmopolitan Shanghai and the central transportation hub of Wuhan, produce less pollution per person from cars and trucks than sprawling Beijing, according to the OECD.

Much more could be done to make China's largest cities more efficient, including expanding subways. The OECD says China's 10 largest cities have far less extensive rail systems to service downtowns than major cities outside China, though many cities are now in the process of adding subways. But China has long been wary of supersize urban centers for fear of creating slums like those surrounding some Latin American or African centers, or of worsening pollution or spurring centers of political opposition. Since China opened its economy in 1978, officials have tried to control the influx of migrants to coastal export centers by denying migrants the resident permits they need to collect social benefits or get their children into local public schools. Many migrants leave their children at home and eventually return to their villages to live.

Yukon Huang, a former China director for the World Bank, estimates that if such restrictions were eliminated, about 60% of China's population would now live in cities, rather than the current 52.6%.

The government appears to continue to balk at a biggest-city approach. While Premier Li says he is in favor of "coordinated development of large, middle and small cities," he also warns of "urban malaise" and the creation of shantytowns in cities "filled with tall buildings." Some China scholars note that he uses a Chinese word for urbanization—*chengzhenhua*— that suggests giving priority to development of townships and smaller cities, rather than large ones.

Mr. Woetzel, the McKinsey China analyst, says a smaller-city approach can work, particularly if such cities are linked to large, regional hubs. Globally, McKinsey estimates, much of the growth in the coming decades will come from cities with a population of less than 10 million. In China, Mr. Woetzel said, "the sweet spot is cities of 1.5 million to 5 million people," which have plenty of room to grow. He says Beijing has enormous power to route people to favored locations through financial credit, subsidy and residence-permit policies.

But critics warn that such incentives won't work if ordinary Chinese think the new locations are lousy places to live. They point to the emergence of what Chinese call ghost cities—like the much-publicized city of Ordos in Inner Mongolia—places chock-a-block with new apartment houses, boulevards, commercial space, but largely void of residents. Expect more of these ghost cities, they say, if the government chooses wrongly where to build.

Mr. He, the Chinese Academy of Social Sciences economist, says spending heavily on infrastructure and real estate to build up smaller cities across the country could produce bad debts if the new projects don't pay off. The money would be better spent in the largest cities, he said, to build subways, clean up pollution and pay for social services for new residents.

While infrastructure spending on smaller cities could boost growth in the short run, Mr. He said, "the problem would be a financial crisis down the road."

Another priority, say the critics of Beijing's urbanization policies: abolish the residence-permit system over time, so people can live where they want. Some cities in China's interior would grow naturally, they argue, because housing prices are cheaper there and industries, looking to move away from high-cost coastal regions, are relocating there too.

"You need to let entrepreneurs, ordinary people and businesses decide where they want to move," said Kam Wing Chan, a China specialist at the University of Washington.

Write to Bob Davis at bob.davis@wsj.com

Corrections & Amplifications

Kam Wing Chan is a China specialist at the University of Washington. An earlier version of this article incorrectly stated the institution's name as Washington University.

A version of this article appeared May 9, 2013, on page A15 in the U.S. edition of The Wall Street Journal, with the headline: Beijing Puzzles Over Urban Growth.

Copyright 2012 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com