

# Should China Develop Small Cities and Towns?

WEN Tiejun<sup>1</sup> (温铁军) and WEN Li<sup>2</sup> (温厉)

<sup>1,2</sup>Agricultural and Rural Development College of Renmin University, Beijing

## I. Background: why China plans to develop small cities and towns

The policy of “developing small cities and towns” came about through a process of compromise and reconciliation among different opinions. This process has demonstrated that independent innovation in policy making amongst Chinese academia is a long-term and complex task.

China’s concept of “urbanization”, as defined according to western experiences of modernization, is no different with regard to the urban-rural population ratio. China has made its own choice in realizing urbanization according to its national conditions. Specifically, China aims to develop small cities and towns as its own way of addressing the “Three Rural Problems” (agriculture, the countryside and farmers) and averting the emergence of slums and social imbalances that have been witnessed in other developing countries during the urbanization process.

Since China’s declared transition to a market economy in 1992, urbanization has been a topic of continued discussion in academic circles. In particular,

various opinions were put forward in 1998, when the strategy to develop small cities and towns was adopted at the Third Plenary Session of the 15th CPC Congress.

But the policy decision is not an endorsement of widely discussed efficiency of scale or other economic rationale, but more a recognition of the rapid growth of towns at and below county level. Small towns have thrived even without investment from the government. In 2002, while adopting a new strategy of building a “comprehensively well-off society”, the 16th CPC Congress emphasized the principle of balanced development to address the problem of dual urban and rural structure. This principle was incorporated as a major element of the “scientific outlook on development” at the Third Plenary Session of the 16th CPC Central Committee in 2003. Later in 2005, the policy to build a “new countryside” was issued to invigorate the local economies of towns at and below county level, thereby balancing out urban and rural development. In 2007, Chengdu City and Chongqing Municipality were approved as the two

pilot program sites for this comprehensive reform.

Nevertheless, debates are still going on despite the issuance of new policies.

#### (I) Mainstream opinions under debate

In general, there are two factions in favour of “big city” and “small town” development. These two factions can be broken down into at least six areas of identification: 1) “Metropolitan region”: drawing on the urbanization experience of Japan and Latin America; 2) “Large cities”: modeling analysis proves that maximum cost effectiveness can be achieved when a city’s population falls into the range of between one million and four million; 3) “Prioritize the growth of medium and small cities with populations of less than 300,000”; 4) “Prioritize growth of county-level towns”. This is because such county-level towns are the economic, political and cultural centres of the countryside and have a favourable influence on the development of surrounding rural areas; 5) “Small town strategy”. Since reform and opening-up, statutory towns have enjoyed the highest speed of growth, as they are the least restrained by old systems and a high proportion of their economies are privately run. The government should regulate and encourage, rather than discourage, their growth. Other debates include “centralized large and medium-sized cities versus scattered small towns” and “county seats versus statutory towns”. In addition, some scholars advocate the diversified pattern of large, medium and small-sized cities and towns.

#### (II) Debates on developing large cities

Most scholars who support efficiency of scale consider that China should expand large and medium-sized cities for the following reasons: efficiency of infrastructure investment, potential of attracting rural surplus labour, and significantly positive effects of driving up economic growth. A thriving urban economy and high employment rate is occurring during a time of high influx of rural migrants. Thus

not only do large and medium-sized cities have considerable potential for expansion, constraints for the growth of small towns can also be overcome to some extent. In recent years, some scholars have proposed that China is coming to the “Lewis” turning point, which means that urbanization has entered a stage of acceleration. Therefore, they argue, we need to speed up the reform and development of cities and totally eliminate barriers to the migration of the rural populace.

Some scholars hold that development of “small towns” is only the outcome of special historical circumstances and the division of rural and urban areas. Similar to scattered township enterprises, small towns are widely dispersed as well and cannot solely take on the mission of urbanizing hundreds of millions of farmers. The development of small towns cannot provide a fundamental solution to rural reform and development. Furthermore, over-emphasis on small towns will only lead to a “countryside syndrome”, which could be more threatening than urban problems.

The opposition to the expansion of large and medium-sized cities holds: due to the formidable dual structure between urban and rural areas, many obstacles to the free flow of factors cannot be removed on a short-term basis. Existing cities in China still have many drawbacks in terms of management mechanism and mode, infrastructure development, social security, and provision of public service. Therefore, under such conditions, the expansion of existing cities will only lead to a deterioration of the urban environment.

In particular, as more and more officials and scholars have learned during their overseas visits to developing countries, the random expansion of large cities there has already given rise to numerous slums and shanty areas that breed serious social instabilities such as mafia groups and crime. China should draw

lessons from them and avoid similar problems. Increasingly, people have realized that it is more realistic for China to develop small cities and towns at and under the county level at the present stage of building "a new countryside".

### (III) Debates on small city and town development

Compared with large and medium-sized cities, China's small cities and towns enjoy three distinctive advantages:

First, the synchronization between employment growth of township enterprises and the increase of statutory towns has been an internal impetus to the "golden growth" driven by internal demand that began to appear in the 1980s.

Most annual statistics dated after 1949 indicate that China's urbanization lags behind economic growth. But following the initiation of reform in the countryside, township enterprises enjoyed very favourable conditions for development in 1985 and

1996. Industrialization in the countryside broke the iron wall that once separated urban and rural areas. By 1998, when China adopted a strategy to develop small towns, the added value of township enterprises accounted for as much as 27.9% of China's GDP. Township enterprises employed a total of 125 million labourers, or 35.7% of non-agricultural employment nationwide that year, of which 50% of new non-agricultural jobs in the countryside were created in and around county towns, statutory towns and market towns. Thus a rural township population of 170 million people appeared (including a standard urban population of 100 million).

These towns prospered primarily due to private investments. Each year, these towns received private investments worth 70-100 billion yuan, which means that 37% of China's urban population (using the same statistics as above) lived in small cities and towns with only 4%-6% of total investment for capital construction in the country. Small cities

and towns undeniably shouldered the pressures of large and medium-sized cities, compensating for the shortages of state finance, expanding the urban and rural commodities market, and pushing up demand for urbanization.

In the 1980s, the number of small cities and towns increased by a total of 8,192, but the rate of growth differed greatly over time. Between 1983 and 1986, township enterprises absorbed 13 million labourers a year, and at the same time, 1,600 towns were created annually. Between 1987 and 1991, township enterprises absorbed only 7 million labourers a year, and at the same time, a mere 350 towns were created annually. In the late 1990s, many township enterprises went bankrupt, and each year, fewer jobs were created than the level of the newborn population. The same period saw flagging domestic demand and rising public debts in the countryside.

The above situation tells us that the growth of small cities and towns is positively correlated with rural industrialization, and many experiences and lessons can be drawn from the township economic pattern that mainly comprise private investments. Correct guidance to promote small cities and town development is institutionally supported and will be helpful to fashion a long-term demand to expand investment, which will also alleviate financial capital surplus that is becoming increasingly serious.

Second, it takes lower opportunity cost for farmers to enter and leave small cities and towns. Small cities and towns are located much nearer to the countryside; therefore it is cheaper and easier to return home if necessary. Farmers will be less likely to form slums or cause social instability when they move to small cities and towns rather than large cities.

Therefore, the development of small cities and towns will have fewer negative impacts on urbanization than the development of large cities. According to a survey conducted by 11 ministries and

commissions in 1997, townships had a much higher employment rate than large cities. On average, each surveyed township had an employment rate of 71.6%, which was 23 percentage points higher than the average level of cities. Fifty percent of non-agricultural new jobs in the countryside are created in and around county seats, statutory towns and market towns.

Third, towns are more able to connect urban and rural markets and stimulate the growth of secondary and tertiary industries and SMEs (small and medium-sized enterprises) in the countryside. Driven by state support and long term investments, they may not only achieve the above-mentioned results but also absorb surplus rural labour and expand domestic demand by increasing farmers' income and consumption. In addition, the demands of local SME's can bring comprehensive benefits to county level economic development and have a positive impact on the cycle of the local economy. This is helpful in alleviating the pressures of population surge in large and medium-sized cities and according to the experiences of northeast Asian countries, is also favourable to maintaining stability against potential economic crisis arising from the impact of international hot money.

The opposition to the economic rationale of developing small cities and towns primarily come from scholars who have proven certain economic hypotheses with individual cases. For instance, some views hold that considering the low population level and scattered locations of small towns, the development of infrastructure is not a worthwhile task.

## II. Challenges facing China's strategy of "developing small cities and towns"

Discussions on urban and rural dual structure started as early as the 1980s. This currently unbreakable obstacle stems from our national fate: for China, a country with a small-scale peasant economy, the rapid industrialization of cities is realized at the

cost of institutional imbalance. Despite the fact that China's economic achievements are unparalleled and many Chinese people are now enjoying modern consumption-led lifestyles, once incomes are divided on a per capita basis, China's high-ranking economy falls back to the status of a developing country. Moreover, due to the persistent institutional problem, 60% of the rural population still remain at a subsistence or semi-subsistence level and cannot enter the modern market. No matter how hard people try to westernize themselves, they do it in vain.

Since the adoption of the strategy "developing small cities and towns" in 1998, urban and rural disparities have continued to widen rather than narrow. As the strategy was intended to be a favourable policy for rural development, this is something more distressing than persistent academic debates. The compromise of different interest groups may not be an outcome of Pareto improvement.

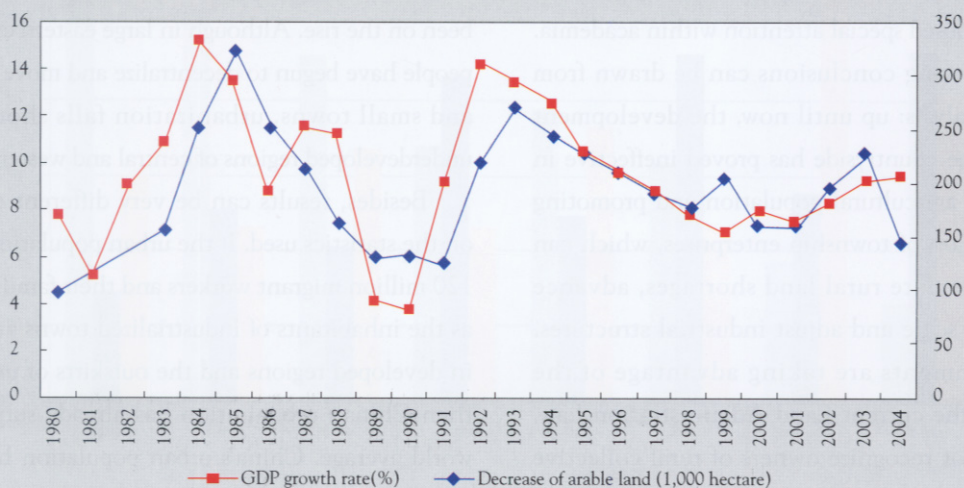
In discussions of recent years, I have stressed the following points on many occasions: firstly, there are no successful models of agricultural modernization in developed countries; secondly, there isn't a successful model of urbanization in large developing countries.

Hence, no matter which method is applied in the research of China's urbanization problems, the following constraints need to be taken into account:

First, China's urban and rural dual structure is a long-term antagonistic institutional contradiction. This is not only because China's population will not stop growing until after 2020, but also due to the fact that China is home to one third of the world's farmers, and no less than 500 million farmers will still be left in the countryside after 2020. More importantly, urban interest structures are deeply entrenched in cities and are rejective of farmers. Common experiences of urbanization (which in the context of this article means to create or expand medium and large cities) suggest that this is a radical approach for resource capitalization that excludes the welfare of agriculture, the countryside and farmers.

The last two decades have witnessed a greater outflow of net land, labourers and capital-three factors essential to agricultural development under a market economy-from the countryside. In addition, almost every cycle of economic boom caused the decrease of arable land at a faster pace than population urbanization, making it almost impossible for land

Figure 1. Economic growth and arable land decrease (1980-2004)



Source: China Statistical Yearbook, 2005

shortages in the countryside to be fundamentally resolved with reform and development.

Figure 1 indicates that over 25 years after reform and opening-up, each cycle of high GDP growth had witnessed a decrease of arable land.

We came to realize that during the rapid urbanization of the late 20th century, primary capital accumulation of local governments had led to the irreversible conversion of arable land on a large scale. Under current institutional mechanisms of constraint, governments at all levels have a high desire to reap huge revenues from the conversion of arable land for non-agricultural purposes. After the central government reclaimed financial rights, "land for cash" dealings between local governments and monopolistic capitalists continued to go unchecked. Moreover, under the effects of the internal mechanism of capital deepening and privatization reform, township enterprises became more capital intensive and less labour intensive. As a result, local non-agricultural employment of rural labour continued to decline year by year. In spite of ownership reform, enterprises originally located in the countryside didn't make the natural move into towns. Both the "land for cash" dealings of local governments and labour exclusion have cast a shadow over small town development but have rarely aroused special attention within academia.

The following conclusions can be drawn from the above analysis: up until now, the development of towns in the countryside has proved ineffective in absorbing the agricultural population and promoting the congregation of township enterprises, which can otherwise alleviate rural land shortages, advance economies of scale and adjust industrial structures. Local governments are taking advantage of the drawback of the current Land Administration Law, which does not recognize owners of rural collective land as having equal economic rights and interests. Specifically, rural land is appropriated at a low cost and

then sold at a high price, with all revenues going to local government. At the same time, high land prices in towns have discouraged farmers from moving there.

Second, China's urbanization is not backward. In academia, those who claim that China's urbanization lags behind industrialization cite the fact that the country's urban population still makes up a smaller proportion of the total population than the world average. Even though China's overall urbanization, which is recorded in the hukou system (household registration system), is below the world average, an objective view needs to be taken.

Many research articles simply ascribe the low urbanization level to the planned economy system of China's past. This correlation tends to mislead people into thinking that the market economy and the abolition of the hukou system are the answers to all these problems. But rather than being a hindrance to urbanization, the hukou system only aims to control the population size of large cities and prevent an urban population explosion. Due to significant regional disparities in large countries like China, urbanization levels vary greatly from region to region. A serious "big city syndrome" has already occurred in some parts of east China, where the tendency for counter urbanization that is typical of developed countries has been on the rise. Although in large eastern cities where people have begun to decentralize and move to suburbs and small towns, urbanization falls short in most underdeveloped regions of central and western China.

Besides, results can be very different depending on the statistics used. If the urban population includes 120 million migrant workers and their families, as well as the inhabitants of industrialized towns and villages in developed regions and the outskirts of urban areas, then China's urbanization has already surpassed the world average. China's urban population has already exceeded twice that of old Europe, or the total urban population of developed countries in the Pacific

Rim, and has become the largest urban population in the world. However, it is not feasible to expand the shouldering capability of cities in the face of increasingly limited domestic resources and an a high-consuming urban population.

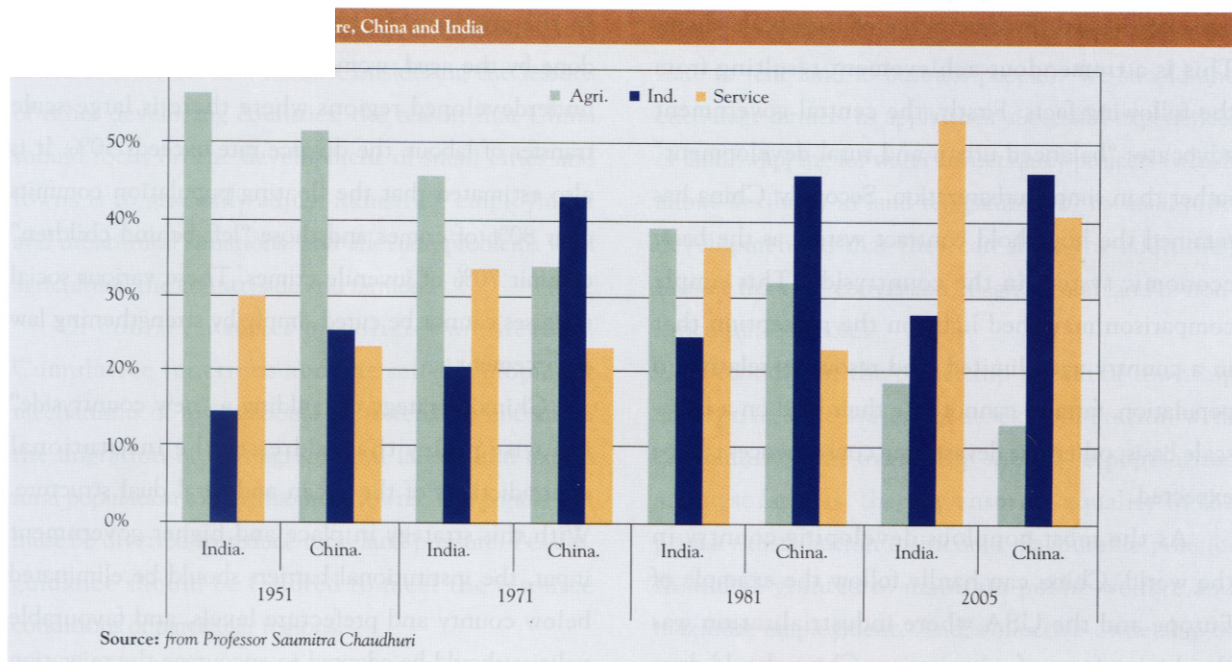
### III. Lessons from other developing countries in urbanization

China's "three rural issues"(agriculture, the countryside and farmers) are shared worldwide. Solutions of universal applicability should have been found in relevant research. Whether in Asian countries like India, Bangladesh and Indonesia, or Latin American countries like Mexico and Brazil, similar problems are found in countries with a population of more than 100 million. This can be explained by the fact that regardless of the type of system, developing countries have to rely on gains in agriculture to complete industrialization. Labour, land and capital flow out from the countryside, making small-scale farming unsustainable. This cycle coincides with urban-rural polarization and

the widening income gap, which is the result of urbanization and industrialization. In some serious cases, these problems even halted the above countrie's modernization process.

Through site visits in many developing countries, I realized peasant uprisings and even "red regimes" controlled by guerrilla forces still exist in some developing countries. Admittedly, these countries are more privatized, democratized, liberalized and westernised than China. But of those developing countries with populations over 100 million, although most are not as restrained in terms of national resourees like China, and their per capita resource levels are much higher, no country has realized industrialization by relying on internal accumulation like China has. China has not only become an industrialized country with a manufacturing output ranking first in the world, but has also increased per capita output of main agricultural products to world average or above.

According to the changes of industrial structure in China and India over the past 55 years, India still



has a low proportion of industries and has not yet met all the conditions required for industrialization.

For most developing countries with a population over 100 million, rapid urbanization often goes hand in hand with the transfer of the rural impoverished population and the subsequent emergence of social problems. What's more, whether in India where urbanization is merely 30% or in Mexico where urbanization is as high as 70%, the problems are similar.

Mexico and Bangladesh both have a population of around 130 million, and according to various estimates in 2006, China had transferred some 180-250 million of the floating population from the countryside into non-agricultural sectors. In other words, in more than a decade, China has transferred a rural population larger in size than the total population of Mexico and Bangladesh or Brazil (180 million).

So far, China has not seen any guerrilla uprisings, mafia unrest or nationwide starvation as occurred in some parts of Latin America and the sub-continent of south Asia. In addition, China is the only country with a floating population of some 200 million that has not experienced the emergence of large-scale slums. This is a tremendous achievement resulting from the following facts: Firstly, the central government advocates "balanced urban and rural development" rather than simply urbanization. Secondly, China has retained the household contract system as the basic economic system in the countryside. This simple comparison may shed light on the perception that in a country with limited land resources relative to population, farmers cannot lose their land on a large-scale basis; otherwise devastating consequences can be expected.

As the most populous developing country in the world, China can hardly follow the example of Europe and the USA where industrialization was the driving force of urbanization. China should draw

experiences and lessons from the urbanization of large developing countries with populations of over 100 million. Indeed, positive changes are already taking place in China's documentary language with "Chinese characteristics" such as "emphasis on developing small cities and towns" and a "diversified path of development". Research on China's urbanization methodology should not only objectively view the selection of urbanization paths much discussed in academia, but also draw on the experiences and lessons of developing countries as well.

China is free from large slums partly due to the pendulum-like movement of the floating population, where rural labourers migrate between the countryside and cities on a seasonable basis. But China also has a huge institutional cost born by its people: firstly, there have been early signs of large slums. In Beijing, the reason that "Henan village" in Chaoyang District and "Wenzhou village" were forcefully resettled was because they were similar to, or starting to evolve into slums like those of other developing countries. Secondly, rural migrants and their families and communities have shouldered tremendous costs. In the countryside, heavy manual work has to be done by the aged, women and children, and in some underdeveloped regions where there is large-scale transfer of labour, the divorce rate exceeds 50%. It is also estimated that the floating population commits over 80% of crimes and those "left-behind children" commit 70% of juvenile crimes. These various social malaises cannot be cured simply by strengthening law enforcement.

China's strategy of building a "new countryside" is a wise policy that addresses the institutional contradictions of the urban and rural dual structure. With this strategy in place and higher government input, the institutional barriers should be eliminated below county and prefecture levels, and favourable policies should be adopted to encourage the migration

of the rural population to central towns including county seats. Through low-cost town development and with self-governing village administrations, our vision is to alleviate the problems with agriculture, the countryside and farmers in a step-by-step fashion. In this way, guided by the “scientific outlook on development”, conditions will be created to enable the sustainable development of agriculture.

#### IV. Policy recommendations

##### (I) Purpose of the strategy of developing small cities and towns

Urbanization is not an end in itself. As far as resources, institutional and environmental constraints are concerned urbanization focusing on small cities and towns is a means to an end. Considering the lessons of other developing countries, the reason that China should focus on the development of small cities and towns is to gradually adjust industrial, employment and urban-rural situations, and alleviate problems with agriculture, the countryside and farmers.

Of course, a series of policies are needed. Cumulative functions and the self-development mechanisms of towns should be fostered to encourage the migration of non-agricultural labour and excess rural population to neighbouring towns. The population must be diverted to reduce rural land pressure. Besides, guidance should be tailored to meet the resource conditions of particular regions.

##### (II) Address property rights issues related to

##### urbanization

The key of the small city and town strategy is to intensify reform on the ownership of rural land and township enterprises.

Firstly, small-town land ownership must respect the rights and interests of community members as property owners. For rural land allocation at and below county level for purposes including small town development, more flexible ways of land use must be

allowed under the precondition of unified planning. We should introduce stock cooperation of land for capital infrastructure construction and lease land for commercial and industrial projects (the former allows owners to obtain dividends, while the latter allows the state to rent land to business people). We should and encourage farmers to apply their successful experiences of land swapping for water conservancy projects (which allows flexibility in land reorganization) to small town development so that they can share the additional income from the conversion of agricultural land to non-agricultural purposes.

Secondly, in the ownership reform of township enterprises, the system of stock cooperation with community joint ownership should be popularized amongst farmers, thereby ensuring equality in the primary distribution of income. Favourable policies should be granted to maintain public welfare and maximize employment. And, collective ownership of assets occupied by town governments below county

level should be redefined through asset liquidation, audit and stock cooperation.

### (III) Central towns are key to building a “new countryside”

In recent years, most towns have been created through the combining of townships (townships are of lower level than towns), resulting in quantitative rather than qualitative growth. Thus more emphasis should be given to the actual development of central towns, including county seats, in undeveloped regions. In fact, more than half of all townships across China have already been combined. The number of townships, which reached 90,000 in 1984, has been reduced to less than 40,000. Suppose 10,000 central towns are created in the coming 13 years, which would mean an average of three to five central towns for each county or prefecture, then 200 to 300 million of the rural population could be transferred to towns before 2020. By the investment standard of 100 to 200 million yuan for the construction of each square kilometre of town area, it would take an investment of one to two trillion yuan to build all these central towns. Taking the impetus

effect into account, a minimum total investment of 300 billion yuan per year would be necessary to stimulate the market consumption of tens of millions of the urban population. This may make small town development a long-term factor of economic growth driven by domestic demand.

### (IV) Reform local governance structure and balance the relationship between statutory towns and village self-governance

Innovation should be allowed in the administrative systems of small towns according to their local conditions. The self-governing principle may be experimented with in statutory towns below county level. Sharing financial rights with higher-level government, statutory towns should also be entitled to reduce or merge their own agencies and formulate their own staff quota. Regardless of institutional procedures, the jurisdiction of statutory towns must be integrated with the villagers self-governing system and must not interfere in village affairs or go against the laws of self-governing villages, nor raise funds for town construction in any way that may exploit farmers or rural areas.

## References:

- [1] 温铁军. 我们到底要什么 [M]. 北京: 华夏出版社, 2004 年第一版.
- [2] 谢扬. 中国城市化的道路与方向. 中国投资, 2001 年第 2 期.
- [3] 温铁军. 城市化的陷阱. 战略与管理. 1998 年第 4 期.
- [4] 温铁军. 新农村建设 / 理论探索. 北京出版社出版集团 / 文津出版社, 2006 年第一版.

- [5] 玛雅. 乡土中国与文化自觉. 南风窗. 2006 年 10 月 6 日.
- [6] 温铁军. 三农问题与世纪反思. P435 页 “政府资本原始积累与土地农转非”, P355 页 “乡镇企业增长之谜与改制原则”. 三联书店出版社, 2005 年第一版.
- [7] 温铁军. 我们是如何失去迁徙自由的. 三农问题与世纪反思. P458 页, 三联书店出版社, 2005 年第一版.
- [8] 温铁军, 朱守银. 地方政府的资本原始积累与土地农转非. 管理世界. 1996 年第 3 期.
- [9] 谢扬. 经济与信息. 2000 年第 4 期上的文章的观点.

## Abstract:

Given its national conditions, China cannot simply copy the European and American model of modernization, which was driven by industrialization. The Communist Party of China adopted a “small city and town” strategy in 1998 in recognition of the success of towns that thrived even without state investment. However, this development strategy also faces a series of challenges.

China should draw on international experiences and prevent the emergence of social malaises such as slums, mafia groups and crimes that occurred in some other large developing countries with a population of above 100 million. The key to developing small cities and towns in China is to reform the ownership of rural community land and township enterprises, reform local governance structure, and balance the relationship between statutory towns and village self-governance.

## Key words:

Small town strategy; Urbanization; International comparison; Slums.