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# Infrastructure's central role in China's 'new urbanization'

**To bring the benefits of urban life to hundreds of millions of new residents in city clusters, infrastructure development and financing must be innovative, sustainable, and high quality.**

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People and their quality of life are at the center of China's approach to urbanization. By 2020, China aims to integrate 100 million rural migrant workers into urban life, offering them benefits such as access to jobs, schools, and healthcare. The country also plans to revamp shantytowns where around 100 million people reside and urbanize about 100 million people in China's central and western regions. This is a massive undertaking, but urbanization is not only about the numbers. Its basic principle is the importance of the roles of people and regions. The build-out of China's urban environment is an important story because it changes lives.

Of course, "new urbanization" faces multiple hurdles. Integrating migrant workers poses

an important population challenge. Coordinating regional development will have a critical impact on economic development. Upgrading the industrial capacity of cities as they expand will define, to a large extent, the future of China's growth profile.

All these important tasks require the support of better infrastructure construction. A modern economy depends on reliable roads and rails, electricity, and telecommunications. China has had the single biggest development of infrastructure in the history of mankind. Over the past 10 or 15 years, it has been the world's largest market for infrastructure. And there is clearly more to be done for China's "people centered" urbanization approach to achieve its goals.

To develop an infrastructure plan that fits seamlessly into China's new urbanization blueprint, it is crucial to look at the overarching goals and strategy of China's urbanization, key areas for infrastructure construction, and methods of infrastructure financing.

### **Overarching goals and strategy**

China's urbanization has entered a new stage; the focus has shifted toward higher quality and efficiency. At this stage, China's people-centered effort emphasizes city clusters as its major component. Urbanization will provide economic integration, growth, and the benefits of an urban lifestyle to populations of 10 million to 50 million people in each cluster. Comprehensive capacity and system innovation will support this integration. To achieve this overall goal, five major tasks must be accomplished.

The first is to promote migrant-worker integration step-by-step, which will help to eliminate the divide between urban and rural populations. To do so, household registration (*hukou*) reform should be pushed forward to provide equal access to public services for all citizens, and the process should be conducted in accordance with local conditions.

The next task is to improve the layout and patterns of urbanization, which will greatly increase the efficiency of land use in urban construction. The goal is to balance the spatial layout, optimize the scale of cities and towns, and coordinate development of small, midsize, and large cities, as well as small towns. It requires promoting urbanization strictly in accordance with plans for managing land, water, and ecology.

Increasing the sustainable-development capacity of cities is another goal. That means improving a variety of aspects in the development of cities—

industry job creation, the functions of downtown areas, regulation of city extensions, urban financing mechanisms. The overarching goal is to develop new cities that are innovative, green, smart, and human.

Coordinated urban-rural development should also be promoted, as it will vitalize the development of rural areas and narrow the gap between urban and rural regions, thus promoting new urbanization.

The fifth task is to improve the system and mechanism of urbanization. Relations between markets and government, and between central authority and local administration, should be aligned smoothly and effectively. The goal is to swiftly remove the hindrances to urbanization and create a favorable environment for healthy urban development.

The Third Plenary Session of the 18th Communist Party of China (CPC) Central Committee mandated that the new urbanization be people centered. Advancing this policy—and delivering the desired living conditions for massive numbers of new urbanites—cannot be accomplished without the support of high-quality infrastructure.

### **Key areas for future infrastructure construction**

The requirements of China's new urbanization strategy define the focus of China's infrastructure build-out. The strategy requires several interconnected elements: the transportation network needs to play a leading role, the build-out should follow a strategic spatial-planning framework for expanding economic growth and market areas from east to west and from north to south, and the layout and patterns of urbanization must be optimized. Moreover, public infrastructure should also be enhanced to cater to

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the needs of the growing urban population and to economic development. Therefore, construction of China's infrastructure should mainly target four areas.

First, step up the capacity of integrated transportation in eastern city clusters. In doing so, city clusters could exercise effective and integrated management over transportation, narrow the economic gap between cities, and enhance eastern city clusters.

Second, accelerate the construction of high-speed railways and highways among major cities in the central and western city clusters. By shortening travel time between cities, high-speed railways and highways will greatly facilitate the flow and allocation of labor and capital. In central and western regions, the construction of high-speed railways and highways will also improve the attractiveness and overall competitiveness of city clusters. These projects will help to urbanize 100 million people and optimize the structure of urbanization nationwide.

Third, ramp up public-transport facilities that connect small and midsize cities and small towns to traffic hubs or cities with major transport routes. These cities and towns should be incorporated into the national traffic network to achieve coordinated urban development.

Small and midsize cities and small towns do not have the economic foundation or demand to serve as traffic hubs. As such, their connections to traffic hubs should become a focus of infrastructure construction.

Fourth, enhance public infrastructure to better support the growing population and demand for services. Increasing numbers of urban residents have posed great challenges to cities' infrastructure, public services, and environment. These areas have to be strengthened if China is to achieve true people-centered urbanization.

### **Investment and financing strategy**

China's sweeping urbanization is set to create tremendous demand for building out infrastructure and massive need for investment and financing. To address this issue, the Third Plenary Session of the 18th CPC Central Committee explicitly stipulated that a transparent and well-regulated financing mechanism for urban construction should be established.

It also decided to allow local governments to issue bonds to add to their financing methods and to allow social capital in infrastructure projects through means such as franchises.

Within this framework, the urban-construction strategy should primarily include three aspects.

First and foremost, ensure investment from central and local governments. The central government can issue special treasury bonds to finance a particular project, while local governments should ensure their level of investment. It should be noted that although the government should invest in the development of cities, it should also control the financing scale to prevent risks.

Second, attract private investment. Since the central government has made it clear that social capital is allowed in urban construction, policies should be made to encourage private investment. Moreover, methods like investment subsidies and service procurement can also be used to engage more private capital in urbanization.

Finally, be innovative in devising financing mechanisms. For example, projects that contribute

greatly to public welfare are usually long-term projects with high credit ratings. If government investment cannot be secured and if it is difficult to raise funds in the market for such projects, those undertaking the project may issue long-term bonds or seek capital from investment funds or policy banks. For projects that aim for both public welfare and profitability, new models of public-private partnership should be encouraged and experimented with. In such projects, the roles and responsibilities of the government and those of the market should be properly defined.

With growing population and increasing demand, China is urbanizing at a pace that has impressed the rest of the world. At this stage, it is important to maintain the efficiency and quality of urbanization. To achieve people-centered urbanization, it will be crucial to plan ahead and keep the big picture in mind. ○

