Financing for effective, inclusive and sustainable urbanization

------China Case

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Main issues

What is new-type urbanization in China?

Features of new-type urbanization from the perspective of financing

Financing bottlenecks and new problems

Strategic choices of financing for new-type urbanization
What is new-type urbanization in China

- The key issue is sustainability of Financing
- The major elements are effective, inclusive and sustainable
- The core is to advocate people-oriented rather than land-oriented
What is new-type urbanization in China
A snapshot of urbanization in China

- Urbanization rate in China is up to 56.7% in 2016 from 35.88% in 2000, but only 16.2% in 1960, above 1 % year-on-year growth since 2010.
- Propels domestic demand growth.
- Calls for sustainable financing mechanism.
Financing for Urbanization will answer three questions

Why to finance for new-type urbanization?

How to finance for new-type urbanization?

How to improve financing efficiency?
Features of new-type urbanization from the perspective of financing
Features of new-type urbanization from the perspective of financing

- Different Development Concepts
- Different Urban Appearance
- Different Financing Mode
Different Development Concepts

- Face-saving projects
- Land-oriented
  - Extensive Financing
- Large-scale urban construction
- Deindustrialization
- New dualistic structure
- Large-scale land expropriation

- Coordination
- Human-oriented
  - Intensive Financing
- Inclusive
- Innovation
- Equalization of basic public service
- Eradicate new dualistic structure
Different Urban Appearance

“Reinforced concrete” cities of the same imagine

Cities and towns with their own characteristics of “green hills, clear water and nostalgic elements”
Different Financing Mode

**Land Financing**

- Land financing is the most popular method.
- Depends on local government financing vehicle.
- Low degree of participation by social capitals in urbanization.
- Easy to lead to implicit and explicit heavy debts and higher debt risks.

**Multiple Financing Model**

- Fiscal taxation policy, local bonds, public-private partnership.
- Strict constraints on local government debt to lower fiscal risks.
- Abstract more low-cost social capitals to participate in new-type urbanization.
- Lay emphasis on financing efficiency.
Financing bottlenecks and new problems

- Obscure Boundary
- Capital bottlenecks
- Path Dependence
Obscure Boundary

Vague boundary between the government and market
- Low efficiency

Vague powers or authorities for the central government and local governments
- Misplaced resource allocation

Government financing scale exceeds the reasonable limit during urbanization

Local governments suffer heavy duties of public expenditure

Unreasonable sharing of urbanization costs
Capital Bottlenecks

**Tax system arrangement**
- lack of imperfect local tax mechanism

**Transfer payment system**
- special transfer payment still accounts for a large percentage

**Big gap between the demands and the possibility**

**Disposable fiscal income is not enough for part of local governments**

Obviously lack enough capitals to break new dualistic structure
Path Dependence

- Land revenue has been reduced due to land-oriented replaced by people-oriented
- Under the strict budget constraints on local government debt

Disguised forms of financing in the name of “government purchase of services”
Fake up public-private partnership

Moral risks and adverse selection behaviors still exist
Strategic Choices of Financing for New-Type Urbanization
Strategic Choices of Financing for New-Type Urbanization

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<td>Clarify Financing boundary</td>
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<td>Prioritize resources allocation</td>
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<td>Expand financing channels</td>
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Clarifying Financing boundary answers
Why to Finance for

Financing for the costs of the citizenization of rural migrant workers

• Maintain appropriate level of fundamental public service
• Education and training, medical treatment, public health and social security
• Municipal utility
• Affordable housing
Clarifying Financing boundary answers
Why to Finance for

Financing for infrastructure

- Public and Private Partnership
- Special local bond
Clarifying Financing boundary answers

Why to Finance for

Financing for good environment and friendly ecology

• Improve protection and management of ecological environment

• Improve the efficiency of resource utilization
## Strategic Choices of Financing for New-Type Urbanization

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<th>Prioritize resources allocation</th>
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<td><strong>Basic Principle</strong></td>
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<td>Focus on solving equity and congestion problems</td>
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<td><strong>The first priority</strong></td>
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<td>Break the barriers to labor mobility</td>
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<td><strong>In the long run</strong></td>
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<td>Establish “portable fundamental public service package”</td>
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Strategic Choices of Financing for New-Type Urbanization

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<th>Expand financing channels</th>
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<td>“Financing” covers capitals, resources and assets</td>
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<td>Optimize institutional supply and improve public governance</td>
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Inclusion

As for the relationship among the government, market and society in the process of new-type urbanization,

- **Efficiency problems** at economic level shall be almost solved by the market
- **Equity problems** shall be resolved by the government through regulations
- Social capitals can participate in urbanization orderly through market mechanism under government guidance to achieve **Sustainable Urbanization**
Thank you!
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