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## China Issues Note # 3

### City Development Strategies in China: Some Suggestions for the Next CDS Initiative

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President

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In the course of its various consulting and research assignments in China, Chreod Ltd. is increasingly being asked to work on public policy issues that have broad implications for governments, civil society, and private sector interests.

**China Issues Notes** are designed to place some of Chreod's thinking on these policy issues into a form that will foster broader discussion and discourse.

Comments and suggestions are welcome. These can be directed to either our Canada or China offices, or by e-mail to [info@Chreod.com](mailto:info@Chreod.com).

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## Preface

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1. Chreod was retained by the World Bank, on behalf of the Cities Alliance, to prepare the first country-specific City Development Strategies for China. Chreod associated with the Urban Institute of Washington DC and the International Centre for Sustainable Cities in Vancouver to conduct this assignment which prepared development strategies for the metropolitan regions of Changsha, the capital of Hunan Province, and Guiyang, the capital of Guizhou Province. Working closely with municipal governments, the Team focused on developing realistic strategies to: 1) improve the linkage between economic development planning and infrastructure planning; and 2) improve the capacities of municipalities and their infrastructure companies to finance long-term infrastructure development in sound and equitable ways.

2. This assignment was part of a worldwide program of preparing City Development Strategies under the auspices of The Cities Alliance, a global coalition of cities and their development partners designed to achieve the promise of well managed cities. Launched in 1999 by Jim Wolfensohn, President of the World Bank, and Klaus Töpfer, Executive Director of UNCHS (Habitat), the Alliance aims to improve the efficiency and impact of urban development cooperation in two key areas: 1) linking the process by which local stakeholders define their vision for their city, analyze its economic prospects and establish a city development strategy and priorities for action; and 2) making unprecedented improvements in the living conditions of the urban poor by supporting urban regeneration at citywide and nationwide scales of action.

3. The China CDS project ended with a national conference held in Chengdu, capital of Sichuan Province, from 22-23 January 2002. Participants included all of the four cities involved in the project, representatives from four municipal governments who will be participating in the next round of CDS development in China, representatives from the State Development Planning Commission, State Council Development Research Center, Ministry of Construction, and Ministry of Natural Resources and Land, academics and researchers from institutes and universities in Beijing and Tianjin, and staff from the World Bank and JBIC.

4. The following Issues Note is the closing address at this conference made by Edward Leman, President of Chreod. Ltd., and outlines some key issues that governments participating in the next CDS round should address early in the strategic planning process.

Chreod Ltd. openly welcomes comments, criticisms and suggestions on the points raised in this Issue Note (e-mail to [info@Chreod.com](mailto:info@Chreod.com)).

## 1 Introduction

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1. Having spent the past fourteen months working with the Stage One CDS cities in China – Guiyang, Changsha, Xiangtan, and Zhuzhou – we would like to offer a few suggestions to the governments of Chengdu, Lanzhou, Baotou, Dongsheng, and Zhengzhou as they prepare to start the next round of China’s CDS program later this year. The discussions over the past two days have underlined the need for a clear understanding of the “City Development Strategies” initiative, what it means to individual cities and the key stakeholders within them, and what CDS can usefully achieve.

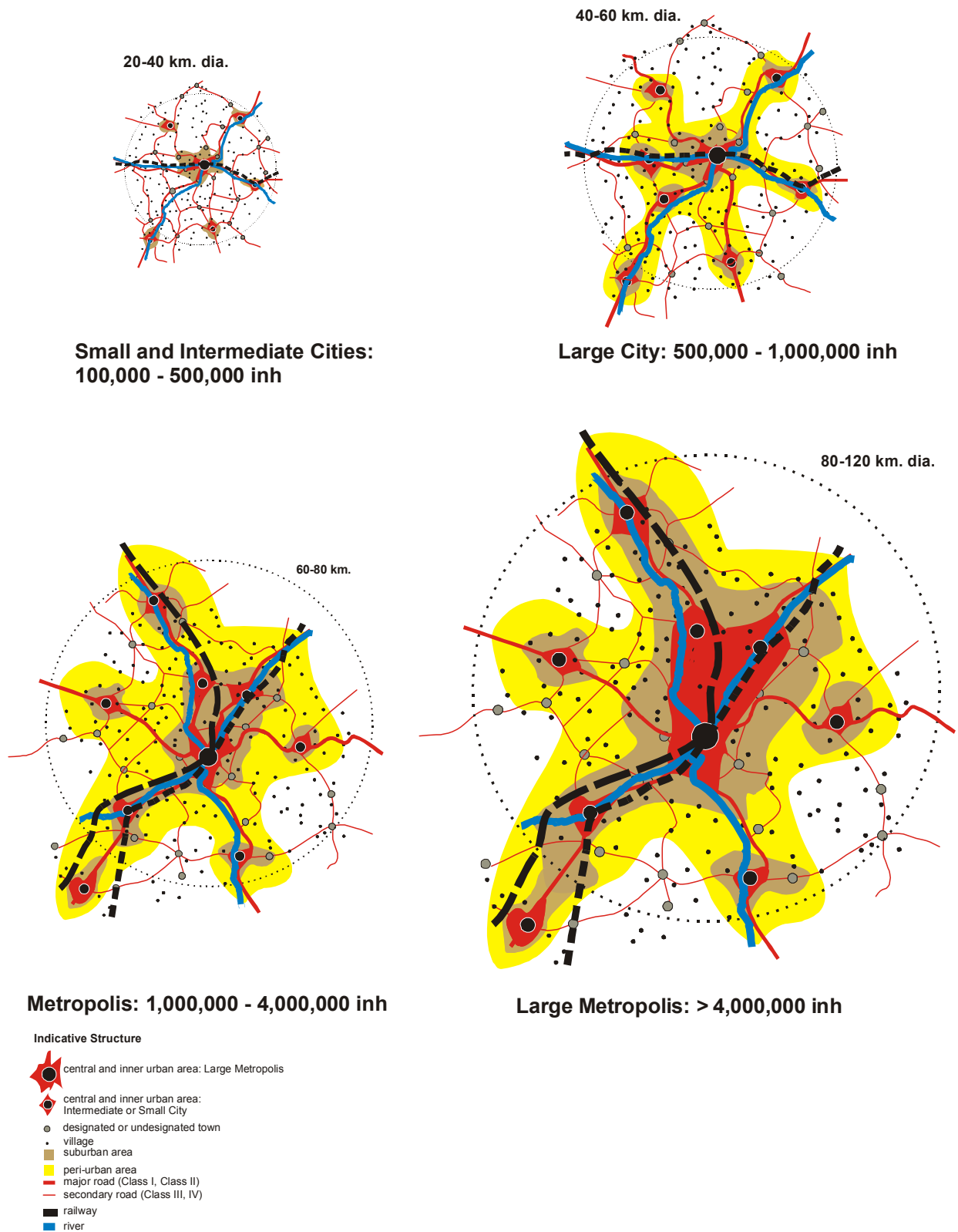
2. Perhaps the most fitting way to end this workshop and the Stage One CDS project is to suggest an agenda for the first meeting that each of the five cities will hold with its advisors in the next CDS round. In our view, the first meeting should squarely address three questions: 1) How do the participating governments define “city” for the purposes of the CDS?; 2) How do they define “development”?; and 3) What do they expect from a “strategy” given the institutional structures and practices in China and in their municipalities? These may appear at first glance to be rather obvious questions. However, as we learned with the four municipalities in the first round of CDS in China, each of these three terms can mean very different things to different stakeholders. For consensus to be reached on a CDS that can be realistically implemented it is important that, at the start of the planning process, consensus is reached on what CDS actually means in the local context.

## 2 Agenda Item # 1: What is “City”?

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3. There is no common strategy for developing a city: problems and opportunities vary by location, by level of economic, social and institutional development, and particularly by the size of city. Regional and urban development policy in China over much of the latter half of the last century has been based on central planning approaches that primarily distinguished between ‘urban’ and ‘rural’ areas. Little distinction was made between cities based on their size – agglomeration economies were not seen as relevant as production and consumption were ‘planned’ – and only notionally on regional location (e.g. coastal, central, and western ‘regions’). A combination of market reforms and decentralization, particularly over the last decade, is leading to a greater appreciation of the differences between cities based on their size and location, as reflected most recently in the Tenth Five Year Plan.

4. **City Size.** The first sub-item on the meeting agenda should be a clear recognition of the size class of the CDS city. As mentioned this morning by the representative from the Ministry of Construction, not all of China’s 688 cities can hope to become ‘international metropolises’. Recognizing the inherent limitations of size of a city will provide some basic discipline in formulating a CDS. There are enormous differences in function, structure and form of city size classes in China: small cities and towns differ from large cities, and dramatically from metropolises and large metropolises. (Fig. 1).



**Figure 1: Types of Cities in China by Population Size (same scale)**  
 source: Chreod Ltd.

5. **City ‘Boundaries’.** The next issue that participating governments need to address is the spatial extent of the ‘city’ that will be examined in the CDS process. Experience in the first CDS round in China has clearly shown that defining the spatial extent of urban areas along municipal administrative boundaries is inadequate. Many of these boundaries were drawn decades ago, and no longer reflect the actual functional areas covered by today’s urban economies, or the areas over which significant demand is emerging for urban infrastructure and other services (Fig. 2). Participating governments need to go well beyond the ‘city proper’ (ie. urban administrative districts) in the CDS to include suburban districts and areas that are generally urbanizing quite rapidly in peri-urban county cities and towns. This wider spatial area – covering the full ‘city’ – needs to be the focus for CDS if the strategic planning process is to be effective.

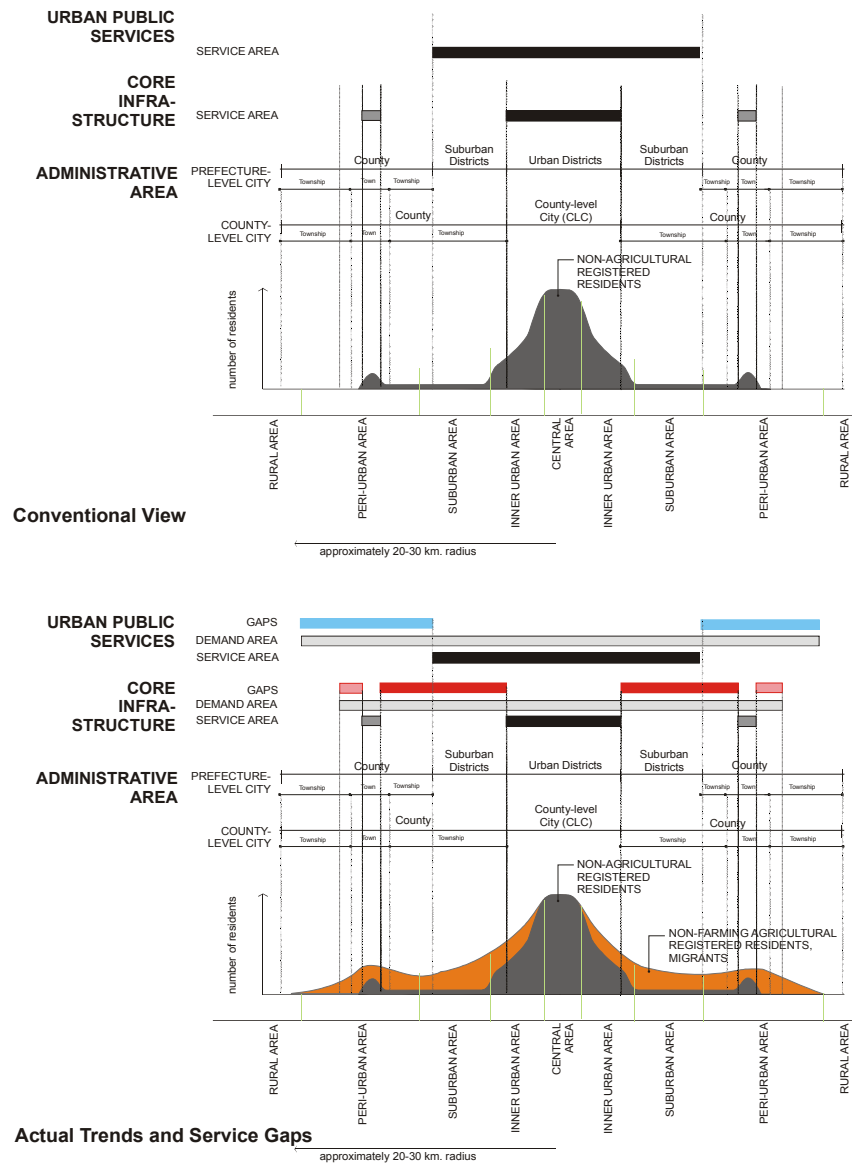
6. **Who is ‘Urban’?** Who will be included as ‘urban’ populations within the wider city area also needs to be clearly defined at the outset of the CDS planning process. Participating governments must make a clear decision if they are simply going to develop strategies that include the non-agricultural registered population, or if they are going to include the growing demands for urban services from agricultural registered residents who, despite their hukou, have left farming to become increasingly integrated into the wider urban economy’s secondary and tertiary sectors. Perhaps a more challenging decision is whether the CDS will include the needs of the growing migrant populations in many of China’s cities, including some in central and western provinces. For CDS to be truly effective, it should, in our view, include all residents who are part of the wider functional city, regardless of their registration status.

7. **‘City Region’.** Preceding remarks by representatives of both the World Bank and the State Development Planning Commission have underlined the importance of addressing ‘city regions’ in the next round of CDS: participating governments need to go well beyond their individual cities to define much wider urban regions of which their cities are part. For much of the past century China did not consider the regional scale of settlement to be relevant for public policy, except as an instrument for administrative control. The ‘city controlling county’ system introduced in the late 1950s, and under which Prefecture-level Cities were established, was an attempt to limit rural-urban migration and to coordinate the supply of rural resources to cities. The system was introduced to facilitate top-down policy implementation, not to provide the means for planning and governing dynamic city regions. While there is growing recognition of the functional importance of urban regions, governments at all levels in China have yet to come to terms with how to define a ‘city region’.

8. This dilemma is shared by governments in most other countries. Regional development theory has lagged behind actual conditions in rapidly-urbanizing parts of the world for several decades. There are many descriptive and prescriptive models of ‘city regions’ but little consensus among economists, geographers, regional planners and public administrators over which are the most accurate and useful. Policy makers must therefore largely depend on their own best judgments and interpretations of local conditions. They must decide what ‘city region’ makes the most sense to development of local urban systems, and over which they can actually exert influence with realistic policies. Our empirical research over two years on urbanization trends throughout the Yangtze Basin led to the identification of four principal types of regional urban systems (Fig. 3). While they might provide

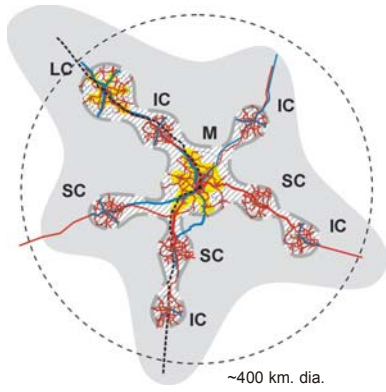
some guidance in the next CDS round, it is important that participating governments clearly identify what ‘city region’ means based on local conditions, and how they propose to apply the CDS strategic planning process to these wider regions. Care must be taken that the region is not too small – which would limit the effectiveness of CDS planning – but that the region also is not too large, which would dissipate the CDS if policies cannot have any meaningful impact on outlying areas.

9. Therefore, the first item on participating governments’ agendas for preparing a CDS is not simply rhetoric. By attempting to answer the question” What is ‘City?’” governments will be making some key decisions on the scope and content of the eventual CDS. They will be defining the core framework for subsequent strategic planning.

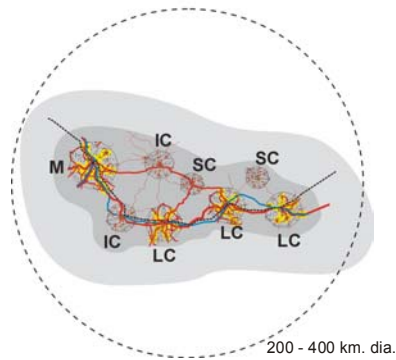
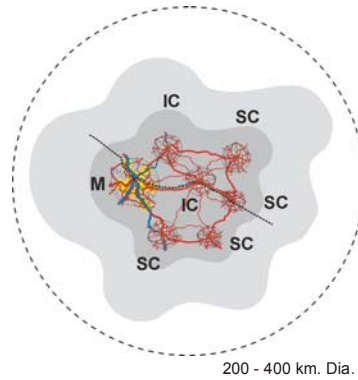


**Figure 2: Emerging Service Gaps in Suburban and Peri-urban Areas in China**  
 source: Chreod Ltd.

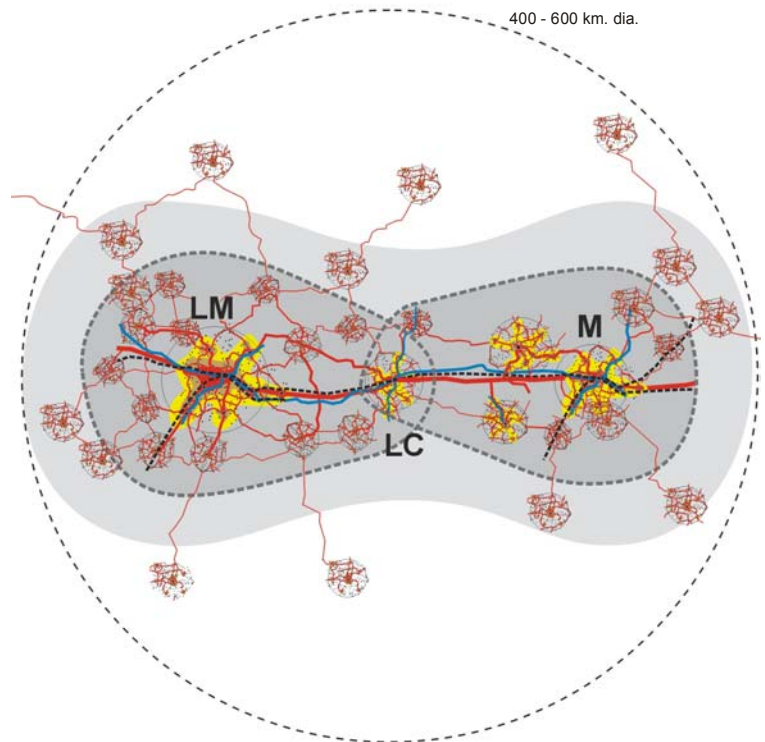
### City-centered Region (CCR)



### Cluster (CL)



### Corridor (COR)



### Megalopolis (MG)

**Figure 3: Regional Urban Systems in China's Yangtze River Basin**  
source: Chreod Ltd.

### 3 Agenda Item # 2: What is “Development”?

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10. The second major item on participating governments’ agendas should be to define what they mean by ‘development’. Theorists – including at the World Bank – have been struggling to adequately define this term for decades, and continue to do so. Governments participating in the next round of CDS will at the outset need to come to terms with ‘development’ in a way that makes the term useful and concrete.

11. **Economic Development.** The first step – defining ‘economic development’ – is particularly complex during the current transition to a market economy. Local governments need to recognize that, in a market economy, a city is not a producer. It is a spatial agglomeration of producers, organized in sectors, networks and, in some cases, clusters that seek profitability and profit growth. Similarly, a city itself is not a ‘consumer’: it is a spatial agglomeration of many consumers – individuals and households, enterprises, government agencies, social organizations – with varying demands for diverse products and services. Governments need to recognize that a city is also an agglomeration of diverse factor inputs (production inputs, information, capital, facilities, infrastructure) to production by enterprises that must be delivered effectively, efficiently and economically to support their competitiveness. Innovation by enterprises, knowledge providers, and government is key to the effective delivery of these factor inputs, to production, and to distribution to as wide a group of markets as possible. This suggests three key roles for municipal governments in supporting enterprises: improving sectoral and locational access to markets; economic provision of public services and infrastructure to ensure competitive production; and incubating innovation in meeting existing and latent market demands by the city’s enterprises.

12. Economic development means different things to different stakeholders. To municipal governments it might mean increased inward investment, growing municipal fiscal capacities in the form of budget surpluses, increased creditworthiness and borrowing capacities, sufficient fiscal capacities to provide high quality public goods and services to all who need them, and stable employment (or, in the case of cities with problem enterprises, minimization of unemployment). To enterprises, sustainable economic development is ultimately rooted in profitability and profit growth through output growth (producing more to meet larger demands), productivity improvements (producing more with less), and market innovation (finding and filling unmet market needs). To individuals and households, economic development could mean stable employment, expanding employment choices, and growth of disposable incomes.

13. Governments need to balance these perspectives in formulating urban economic development strategies in the CDS process. The first step is to understand the diversity of these perspectives, and to decide on the relative priority that each should take in determining strategy.

14. **Social Development.** The comments made this morning from the representative of the Ministry of Construction are central to a successful CDS. A sustainable development strategy for any city needs to be about more than simply economic development; it must encompass social development as well. There are areas of social development common to all residents that a CDS could address, such as

education, health services, and recreation. Cultural and heritage protection and restoration are becoming increasingly important in China's cities given the extensive redevelopment in inner urban areas and suburban expansion that have been occurring over the last decade, in some cases with insufficient development control. Participating governments need to establish priorities among social dimensions at the outset of the CDS planning process.

15. The World Bank's representatives raised this morning the need for participating governments to address 'urban poverty' in the next round of CDS in China. We agree with the Bank that this is an uncomfortable issue for most local governments. In our view, most of this discomfort is tied to the term 'poverty'. In China, poverty is largely viewed as a declining 'rural' problem: the State Council's Leading Group on Poverty Reduction is responsible for eradicating poverty, and has been doing a very good job of it over the last fifteen years. The disadvantaged urban population – the unemployed, the elderly without family support, the sick, the handicapped – are assisted through formalized social support programs administered through the Ministry of Civil Affairs and delivered by municipal governments. To urban governments therefore, 'poverty' is generally not seen as an issue.

16. While 'poverty' – as defined in China – may not be an issue in cities, the growing number of 'vulnerable' households is. Economic restructuring is leading to growing under and unemployment in almost all cities. Marketization of housing is beginning to cause serious pressures on the affordability of shelter. Commercialization of many health services is cutting some households off from basic health care. The charging of fees for basic and intermediate education is putting severe strains on a growing number of urban families. Many services are becoming unaffordable to vulnerable households who have not quite fallen below the thresholds that precipitate formal social support.

17. Previously 'rural' populations in suburban and peri-urban areas of China's cities are inherently vulnerable as the formal social support mechanisms in place for non-agricultural registered residents in the 'city proper' are not available to them. While contributing to the wider urban economies, these populations are largely disenfranchised from the institutionalized structures of social support available to 'urban' dwellers. Returning to farming is not an option for many of these households given the huge surplus in farm labour across most of China.

18. Vulnerability to economic change is volatile in China. While most households may not be living below 'poverty' lines, however they are defined, many are marginally above them. Economic changes, such as the widespread restructuring of state-owned enterprises in China's cities, export slumps that curtail TVE production, or even moderate inflation that undermines purchasing power, can plunge many households into hardship. These populations need to be better understood in future CDS efforts in China – both quantitatively and qualitatively – and strategies improved for mitigating their vulnerability.

19. **Institutional Development.** Another important issue for participating governments to address at the outset of their CDS work is the extent to which existing institutions of governance and service delivery need to be improved to support economic and social development goals and objectives. Corporatization of many local government services over the last few years has led, in our view, to a false sense of security in service delivery. While the separation of ownership and

management has been an important first step in improving service delivery, the job is not nearly finished. Many locally-owned government corporations are simply paper entities that continue to rely on direction and fiscal subsidies from municipal governments. While corporatized, they are not yet commercialized in the sense of being self-financing, fully accountable, or in delivering services that markets demand and are willing to pay for.

20. There are other institutional issues that participating governments need to consider in the next CDS: rationalizing and codifying the allocation of responsibilities for urban services delivery among public, quasi-public and non-state providers; expanding fiscal resources for capital and recurrent financing of public infrastructure; rationalizing and codifying the revenue streams for providers of infrastructure services, based on full cost recovery for private goods; streamlining the process of capital investment planning of public infrastructure; improving budgeting, monitoring and control; and implementing a wide range of efficiency improvements in operations. A particularly important issue is the extent to which existing institutional capacities need to be strengthened through additional training of staff, introduction of performance incentives, and introduction of new information and communication technologies.

21. Institutional development is key to a successful CDS. Economic and social development cannot be attained unless truly effective institutions are in place within local governments.

22. The overarching need in the CDS process is for governments to decide on the relative importance of economic, social, and institutional development in formulating the CDS. These relative priorities need to be established at the start of the CDS planning process, and constantly re-visited by participating governments as new information becomes available during subsequent inquiry and stakeholder consultations.

#### **4 Agenda Item # 3: What is “Strategy”?**

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23. The third item on the agenda of the first CDS meeting by municipal governments participating in the next CDS round should be to clarify and define what is meant by ‘strategy’ in the local institutional context.

24. A strategy is not only a set of goals for economic, social and institutional development. It needs to define more than simply ‘what’ should be done. A CDS should clearly articulate policies that establish ‘how’ goals will be addressed, ‘where’ they will be focused, ‘who’ will do what, ‘when’ these actions should occur, and ‘how much’ they should cost.

25. But policies alone are not enough. If participating governments do not have the proper instruments available to them to actually implement their policies, then these policies will remain as empty rhetoric and the CDS will flounder. Governments need to carefully identify which policy instruments are actually available to them. These might include, in broad terms: decisions on functional responsibilities among governments and between government and the non-state sector; urban management practices related to the budgeting process, management controls, human resources development, technology integration and information management; public finance instruments defining revenue and expenditure assignments, debt management

practices, revenue management practices, expenditure management, and financial monitoring; regulation through laws, administrative directives, standards, guidelines, statutory plans, and the design of the development approvals process; enforcement of regulations through monitoring, licensing, levying of penalties, and the effectiveness of recourse methods and remedies for non-compliance; investment, including capital, recurrent and re-investment; and advocacy by governments, including investment promotion, fostering of public-private partnerships, and public education.

26. Participating governments need to clearly establish what instruments are available to them, which ones work best, what needs to be done to improve them, and what new instruments might be added to expand or deepen the reach of public policy.

27. While strategy is already embedded in municipal five-year plans, the rigidity of these plans means that they often cannot keep pace with rapid urban and economic change. Strategy is also embedded in municipal master plans, but, as elsewhere in the world, these too are static, limited in scope, take many years to prepare and approve, and are often based on unrealistic projections. Strategic planning of the kind advocated under CDS is more open-ended than the rigid five year and urban master planning process in China. It is not a linear process ending with a complete strategy. For CDS to be effective, it must be a continuous, cyclical and iterative process that expands and deepens governments' understanding of needs, strengthens consensus and commitment of all key stakeholders to addressing these needs, and provides instruments and tools to these stakeholders through which the city's evolving economic, social and institutional needs can be met.

## 5 Conclusion

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28. CDS is not a formula. It is a strategic planning approach that is generated and powered by local needs and expectations. For it to work well in the next CDS round in China, participating governments should begin by clearly defining in concrete terms what 'city', 'development', and 'strategy' mean to them and their citizens, given local conditions and constraints. A concerted effort at doing so will minimize confusion and unrealistic expectations among stakeholders, and hopefully provide greater precision and depth to China's second CDS initiative.

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**Edward Leman** is President of Chreod Ltd. which he established in 1985. Mr. Leman's work in China has comprised: urban and regional development policy development for the World Bank, ADB, the State Development Planning Commission, Ministry of Water Resources, and major municipal governments; municipal and infrastructure finance policy development for the Ministry of Finance, Shanghai Municipal Government, and the Guangdong Provincial Government; and risk management and strategic planning services for foreign investors in infrastructure, real estate, and financial services. Mr. Leman has worked on urban development and infrastructure projects for municipal governments in over 25 of China's coastal and inland cities, including Shanghai, Tianjin, Qingdao, Shenzhen, Chongqing, Chengdu, Guiyang, and Changsha. He has published extensively on infrastructure finance, urban/regional development policy, market conditions and investment risk management in China. Currently in press are English and Chinese versions of his recent book on municipal finance and governance in China prepared for the Ministry of Finance and the Asian Development Bank.