CHINA KEEP GROWING! BUT NOT LIKE THAT! I DON'T MEAN STOP! HURRY UP ALREADY! ONLY GROW BETTER!

1. CHINA KEEP GROWING!

We're in the midst of a global twister. America is on its knees begging for cash injections; banks are creaking, prices falling, and container ships bumping emptily against the docks. Yet China – one of the world's most globalized nations – has explicitly stated that its "greatest contribution" to global stability will be to keep its own economy running smoothly. Essentially, when seas are high, it will look to home.

There is however good reason to believe this actually is in everyone's best interests. With the slowdown in the West, the global economy is increasingly reliant on China for maintaining some degree of growth; and were China now to fall into a slump, it could roll the entire world off into a downward spiral. Fortunately though, the world is well assured. China's growth, it is widely assumed, is dependable because it is not based on a single finite resource, such as oil (as in Russia), but on the continuing productivity gains of the Chinese workers. And why would those workers suddenly stop working, or gaining?

But a little more scrutiny reveals a markedly more fragile picture. Over the last two decades, Chinese economic growth has been driven by a twin-burn engine, fuelled on either side by urbanization and exports. Yet exports are now drying up. Against a fifteen year trend of 26% annual export growth, recession in the West has led in 2008 to a 2% *fall* in exports. Thus exports have become not a driver, but a drag. At the same time, central government has become increasingly concerned about urban land acquisition. The last fifteen years have seen cities across China mushrooming to two and half times their size. Now fear of further loss of arable capacity has led to a stipulated minimum of 120 million hectares of farmland. Seeing as this is just about as much as there is now, cities are left with precious little room to grow into.

The sudden drop off of exports and urban expansion, taken together, constitutes a terrible double blow for the growth wave. The rapid urbanization model, formerly so dominant in transforming the physical and social landscapes of China, is now gagging on the prosect of no new land to develop, no investment capital with which to develop it, and no foreign markets to sell to once developed. It turns out that China's growth, far from being resource-independent, was in fact heavily reliant upon two distinct resources, which until recently people somehow assumed to be infinite. These were the affluence of the Western consumer, and the vastness of the Chinese nation. And right now, right when the world needs them most, they're both looking disconcertingly exhausted.

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2. BUT NOT LIKE THAT!

In truth, this should have long been apparent given the fundamental unsustainability of the rapid-urbanization-export-maximizing approach. For one, exports, in the greater scheme of things, ultimately have to balance. Over the last ten years and more China has been running a huge trade surplus with the US, exporting far more than it was importing, and all the while sterilising the proceeds to amass a foreign exchange reserve of almost 2 trillion US dollars. The effect of this vast dollar stockpile was to flood the US with cheap credit, thereby funding the boom, but only through an excessive agglomeration of US debt. But as any shopkeeper knows, if you keep lending to your customers so that they can keep on buying your products, at some point they're going to fall over, and you'll be stuck. The current global financial crisis is in no small way an expression of precisely this – the necessary unwinding of global trade imbalances. In 1992 China made a spectacular entrance onto the global trade scene, rising from almost nowhere to become the world's no.1 exporter within just fifteen years. A change of that kind – so enormous and so fast – brought with it an awful lot of distortion.

And this distortion was equally at work within China through the rapid urbanization component of the growth model. Again starting in the early nineties, central policies were introduced which incentivized local officials to boost GDP by acting entrepreneurially. This sparked a multi-scalar urban rush. The best means to grow local GDP was to stimilate urbanization, and the best way for local officials to raise the necessary capital to urbanize was to start selling the thing they had most of: land. Officials at every level across China acquired land, stripped it, and resold it in the form of use-rights to urban developers, using the cash to lay down promised infrastructure, and elaborate slick downtown masterplans. According to the principal of market reform, these operations were largely left to play themselves out, and assessed chiefly on the basis of the GDP figures which areas were able to report up. The result was a chaotically atomized pan-China construction boom, with thousands of small and mid-sized cities exploding horizontally – or even summoning themselves into existence out of previously rural areas – and competing frenetically for investment. Given the fiercely appetitive landscape that was developing, fledgling cities entered into internecine undercutting wars, with land being offered to industry at cheaper and cheaper rates, with more and more favourable tax packaging, and with fewer and fewer regulatory constraints. What followed was exorbitant land consumption in largely unstructured patterns, as well as the drastic deterioration in the quality and environmental standards of the new industries being developed.

Protected by sweetheart deals with local officials, and afforded artificially attractive leases and conditions, factory bosses were able to run amok, largely unbeholden either to central planning schemes or to market realities. Sure enough they produced cheap exports, but the resultant urban formations were characterized by local protectionism, and riddled with land abuses. A stark demonstration of this comes from the people who formerly held the land themselves. In 2007 over 80,000 large-scale protests were officially recorded – more than ten times the number that took place 1992. More than half of these were related to land issues. It was becoming clear that things couldn’t continue.

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3. I’M NOT SAYING STOP!

Yet what makes the atomized urbanization model so essentially ill-suited to post-Olympic China is a fundamental structural confusion. At the same time that policies encouraged ubiquitous local-level bureacratic entreprenerialism, there was an inherent bias toward the megacities. The Shanghai-model of the urbanizing ‘90s, pioneered by former Shanghai bosses Jiang Zemin and Zhu Rongji, inevitably favoured the coastal Special Econmic Zones (SEZs). These areas were able to use their peculiar export and import status, as well as their superior level of global recognition, to leverage more foreign investment, and thus outpace the swingeing rabble of interior cities. A further structural advantage was awarded the megacities in their ability to attract human capital, both from within China’s pool of freshly mobile graduates, and even internationally as the megacities became global cosmopolitan centres.

And it is on this issue of migration that urban incoherencies become most apparent. The continuing existence, if under terms of somewhat mitigated relaxation, of the hukou system, ensured the continuing restriction of rural to urban migration. Thus while national growth efforts favoured the urban poles, urbanizing migrants were encouraged to leave the village but not the countryside, creating to high levels of intraprovincial migration, and a massive pool of floating migrants. Existing in a regulatory grey area, the floating migrants were urbanites of the least stable kind – a kind of temporary or rolling component within the urban population, who were physically within the city, and yet unintegrated into its essential fabric.

Unstable migration of this kind has deleterious effects upon city growth in two key ways. Firstly, necessarily uncommitted to the temporary situation in which they find themselves, temporary migrants exhibit much lower levels of personal or financial investment in their immediate surroundings. Without committed stakeholders, local environments tend to degenerate toward substandard living conditions, which are more readily tolerated by temporary residents as these are regarded as short-term. Crucially however, while they are short-term to the resident, they form a semi-permanent presence within the city. And thus the city suffers. Secondly, the investments which floating migrants are not making into the urban environment are instead being diverted, in the form of remittances, to places which are regarded as more permanent – i.e. the migrants' point of origin. The result of this is that capital generated through urban productivity is leaking out of the city itself, and is instead flowing in non-productive areas. Thus the place most deserving of investment – the budding city – is starved of funds, while the place least deserving of investment – the stagnant village – is being built up.

It is a remarkably topsy-turvy situation which is made all the more pressing by the reality that migration levels, far from slackening, are set to accelerate over the coming period. While previously the urban population was significantly swollen by the physical act of cities swelling, and thus engulfing formerly rural populations, future city growth is likely to come primarily from a rural influx. Mid-size cities can expect 40–50% of their future populations to comprise of migrants. Can these all have such temporary expectations? What would it mean for a city to have up to half of its population regarding itself as not really living there at all?

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4. HURRY UP ALREADY!

The oncoming wave of migrants constitutes for China its greatest challenge yet: graduating from the rampant ad hocism of the pre-Olympic urban boom, to a more sophisticated and sustainable post-Olympic urban consolidation. This perforce will be less space extensive. It will also be more people intensive – with more people travelling in, arriving with ever greater expectations, and forming a more volume and incontrovertible presence. China's grand contribution to the world of keeping its own economy running smoothly will centre upon its ability to manage this influx, and reorientate its growth. Atomized urbanization driven by rampant land acquisition and temporary populations will not survive the global storm. Instead forms will have to become more compact, more coordinated, and more integrated. And they have to do this now.

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5. ONLY GROW BETTER!

The urbanization of the recent era can be characterized as driving forward on five wheels: everywhere urbanizing and all at once. The

4.2 trillion RMB stimulus package however represents an end to such unidirectional exuberance: it is an explicit acknowledgement on the part of the central government that if left to themselves, the five wheels would come off, and the whole process crash into the ditch. The package is a guiding hand coming into play.

Notably, the largest single component of the stimulus is investment in national infrastructure. The configuration of new road, rail and airport networks will inevitably enforce a rationalization of the tiering of cities according to their levels of connectivity. Even more significant will be the development of the national power grid, which will dictate the shape and weighting of future urban growth. Heavy industry may follow the route of on-site generation, locating itself ever further from the city at the end of a coal-truck road. Urban centres however, as they become more sophisticated and I.T. heavy, will increasingly be strung together and suspended from the cross-weave of power lines. Central engagement in the distribution of these lines and power stations will to a large extent assume the hitherto missing role of national and regional planning.

At the lower level, engaging users with the emerging urban property market will be the principle route to improved urban integration. The atomization model encouraged fervid competition among cities, with all the concomitant volatility and short-sightedness of a new market. However, given the level of control exercised by local officials and state-owned banks in land deals and investment structuring, the market within cities, from the point of view of the urban resident, was in fact excessively constrained. Shifting the emphasis of where market freedoms take place from competition among urban nodes to competition for urban space will bring the consumer into play, and form a second, this time "invisible", guiding hand. In particular, restructuring urban growth to be more demand-aligned will protect against future bubbles, and simultaneously capture more residential investment capital.

An important move in this direction, and again part of the new measures, is to reduce mortgage downpayment requirements from 30% to 20%. The more accessible the property entry level becomes, the greater the user response to urban development, and the lesser the role of the speculator. A further and equally stimulating implication of this shift is to put more money into the pockets of consumers themselves. Cash formerly constrained within housing is freed up for urban retail – the one true bull market left unravaged by the global crisis.

While Chinese exports are contracting, consumption is strongly on the rise, with retail sales growing by 22% in 2008. Even so, the Chinese consumer is a relatively small contributor to overall GDP (less than one quarter, against almost three quarters in the US), offering tantalising room for significant expansion. Indeed it is newly cash-flush consumer who will carry the growth wave through, as growth itself shifts from state-led export-orientated operations to consumer-led domestic-orientated sales.

As the global twister sweeps its way east, the Chinese urban middle class consumer stands right in its eye, staring up.

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04.01.09