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Building the dream



Building the dream

By 2030 Chinese cities will be home to about 1 billion people. Getting urban China to work properly is vital to the country's economic and political future, says James Miles

SOME HISTORIANS BELIEVE that Marco Polo never went to China. But even if the 13th-century Venetian merchant did not lay eyes on the coastal city of Hangzhou himself, he certainly reflected the awe it inspired in other foreign traders when he described it as “beyond dispute the finest and the noblest in the world”. And, “incredible as it may seem”, he wrote, Hangzhou (which he called Kinsay) was but one of more than 1,200 “great and wealthy cities” in southern China. “Everything appertaining to this city is on so vast a scale... that it is not easy even to put it in writing.”

In Marco Polo's day it was the ornate palaces, paved roads and meticulously planned layouts of Chinese cities that impressed visitors; in today's megacities it is some of the world's tallest skyscrapers and largest shopping malls, interlinked by the world's longest bullet-train network. And if all goes according to the Communist Party's plan, the coming two decades will evoke a few more gasps.

By 2020 the high-speed rail network will expand by nearly two-thirds, with the addition of another 7,000km (4,300 miles). By then almost every city with a population of half a million or more will be connected to it. Tens of millions more migrants will have poured in from the countryside. Between now and 2030, says the World Bank, the average rise in the number of city-dwellers each year is likely to be around 13m, roughly the population of Tokyo. In 2030 China's cities will be home to close to 1 billion people, or about 70% of the population, compared with 54% today. By some estimates the urban population will peak around 2040, still just shy of

the 1 billion mark but close enough. As James McGregor, an American businessman, put it in his book, “One Billion Customers”, published in 2005, the notion of a billion Chinese spenders has come to symbolise “the dream of staggering profits for those who get here first, the hype and hope that has mesmerised foreign merchants and traders for centuries”.

After taking over as party chief in 2012, Xi Jinping (now also president) launched his expected decade in power with a catchphrase: “The Chinese dream”. It was a striking break from the party's tradition of ideology-laden slogans. Now endlessly invoked in official speeches and the subject of numerous books and songs, the phrase is clearly intended to appeal to upwardly mobile urban residents striving for the comforts of their rich-world counterparts.

Only 15 years ago such a middle class barely existed in China. In 2011, when the country reached 50% urbanisation, it had become obvious that the party's fate rested with the stability of cities and the content-



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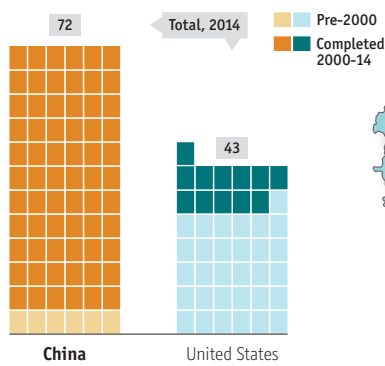
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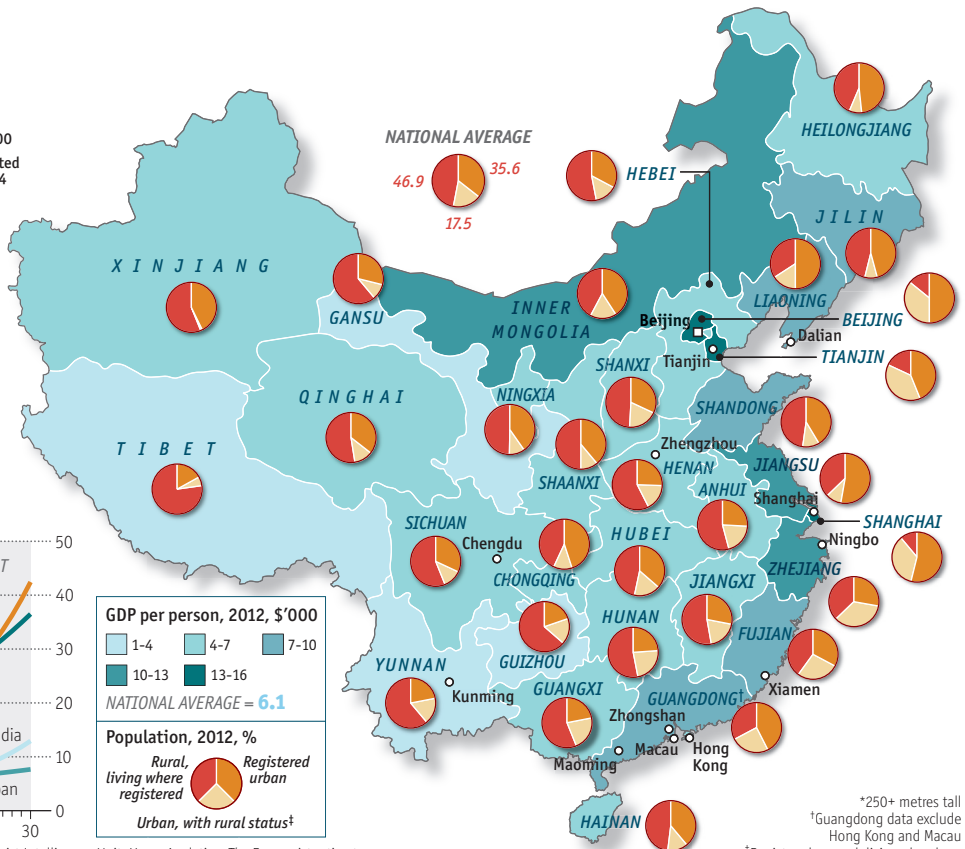
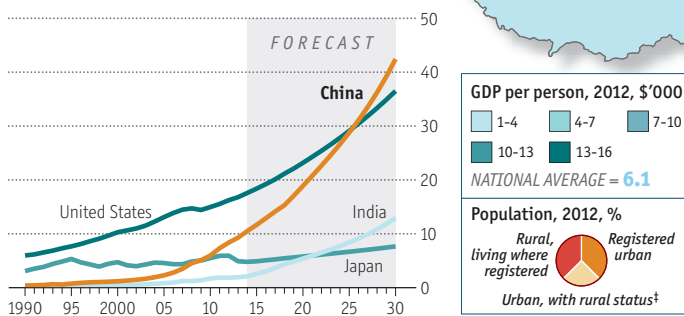
A list of sources is at Economist.com/specialreports

An audio interview with the author is at Economist.com/audiovideo/specialreports

Number of skyscrapers*



Nominal GDP at current exchange rates, \$trn



Sources: Council on Tall Buildings and Urban Habitat; Economist Intelligence Unit; Haver Analytics; The Economist estimates

*250+ metres tall
 †Guangdong data exclude Hong Kong and Macau
 ‡Registered as rural, living elsewhere

edness of their middle-class residents. The largely rural country that Deng Xiaoping (himself of peasant stock) set out to “reform and open up” in the late 1970s had become overwhelmingly urban in its economic and political focus. Thanks mainly to a tide of migration, China’s urban population had grown by more than 500m since Deng launched his reforms: the equivalent of all the people in the United States plus three Britains.

Li Keqiang, who took over as prime minister in 2013, sees further urbanisation as critical to China’s economic success. He has called it a “gigantic engine” for growth. Mr Li and other officials are fond of quoting Joseph Stiglitz, a Nobel prize-winning American economist, who said that technological innovation in America and urbanisation in China would be “two keys” to mankind’s development in the 21st century.

A new grand plan for China’s cities, overseen by the prime minister and published last month, admits to a number of problems, such as worsening pollution, urban sprawl and congestion as well as growing social tensions. It also points out that China’s urbanisation lags behind that of other countries at similar levels of development (typically around 60%), and that there remains “quite a lot of room” for further urban growth.

Getting cities right will help China to keep growing fast for years to come. Getting them wrong would be disastrous, bringing worsening inequality (which the World Bank says has approached “Latin American levels”, although Chinese officials insist it has recently been improving), the spread of slums, the acceleration of global climate change (cities consume three-quarters of China’s energy, which comes mainly from coal) and increasing social unrest.

After more than a decade of spectacular growth in China, much of it in double digits, doubts are setting in both at home and abroad about the sustainability of the “Chinese model”. Growth is slowing. Lavish spending by local governments has piled up huge debts. Increasing numbers of middle-class Chi-

nese are looking for boltholes abroad for themselves, their families and their assets. Scandals involving senior officials have revealed corruption on a gargantuan scale. Censors generally succeed in preventing anti-party messages from spreading widely, but microbloggers with thousands of followers still boldly relay damning critiques.

Mr Xi describes the country’s problems and his approach to solving them in colourful terms. Reforms, he says, have entered a “deep-water area”. China must “venture along dangerous paths to break through barriers to reform”. In tackling corruption it will need the resolve of a man who must “cut off his own snake-bitten hand to save his life”. At a plenum of the Central Committee in November the party declared that market forces must play a “decisive role”, the strongest support it has ever expressed for the market. This seems all the more stirring after years of vacillation under Mr Xi’s predecessor, Hu Jintao, who retreated from reform in the face of powerful resistance by vested interests, above all local governments, huge state-owned enterprises and, ironically, the new middle class, which would rather not share the fruits of growth with rural migrants.

Why cities matter

All the most important reforms that Mr Xi needs to tackle involve the movement to China’s cities. He must give farmers the same property rights as urban residents so they can sell their homes (which is currently all but impossible) and leave the land with cash in hand. He must sort out the mess of local-government finances, which depend heavily on grabbing land from farmers and selling it to developers. He must loosen the grip of state-owned enterprises on the commanding heights of the economy and make them hand over more of their profits to the government. He must move faster to clean up the urban environment, especially its noxious air, and prevent the growth of China’s cities from exacerbating climate change. And he must start

▶ giving urban residents a say in how their cities are run.

This list is both daunting and urgent. The recent growth of China's cities has created two new social forces whose concerns Mr Xi cannot afford to ignore. One is a vast migrant population (including the urban-born children of recent migrants from the countryside) that now makes up more than one-third of the urban total of 730m. It is far harder for a member of this group to gain official recognition as a city-dweller in his own country, with all the welfare benefits and access to public services that status confers, than to gain citizenship in America or Europe if he were to migrate there. The harsh treatment of China's internal migrants is creating huge social divisions that could erupt in serious unrest.

The other new force is the urban middle class, now thought to be roughly the same size as the migrant population, which numbers around 260m. It has been kept reasonably content by the rapid growth of the past few years, but that may not last. China's middle classes, like those elsewhere, worry about property: how to protect it from the whims of urban planners and party officials, what is happening to prices, and what to do if the bubble bursts. Increasingly unaffordable house prices, or conversely a steep drop, might prompt different ends of the middle-class spectrum to protest. So too might the party's many sins and blunders: a food-safety scandal, perhaps, linked to official corruption.

Like his predecessors, Mr Xi is nipping signs of unrest in the bud. Dissidents who have done little more than briefly raise protest banners in tiny groups are being thrown into jail. But there are also some positive signs. He has taken charge of a new party organ, a small group of officials with a wide range of portfolios, who are working to improve policy co-ordination and overcome bureaucratic resistance to change. It even has a task force dedicated to building "democracy and the legal system", although that may not get very far. Mr Xi has also launched a fierce campaign against high-level corruption which, though unlikely to offer a lasting cure to the endemic problem of graft, could scare officials into compliance with his reform plans.

A dwindling labour supply

As economic growth slows and the pool of surplus labour in the countryside shrinks, the speed of urbanisation will diminish. For the past few years about 9m people have been moving into cities every year. The number will fall to 7m in the second half of this decade and 5m in the 2020s, according to Jin Sanlin of the Development Research Centre, a government think-tank. By 2017, he writes, that supply of surplus labour in the countryside will have all but disappeared.

Chinese officials note that the speed of urbanisation in China has been far faster than in Western countries during their industrial transformations. It took China only 30 years to climb from 20% urbanisation to today's 54%. In Britain the equivalent journey took 100 years and in America 60. However, in more recent times population growth in urban China has been slower than in countries such as South Korea and Indonesia during their period of rapid economic development, mainly because of China's discriminatory policies against migrants and its state monopoly on rural-land sales.

By any measure, the country's urbanisation has been impressive. Shanghai is about to finish a 121-storey American-designed skyscraper that will be the world's second-tallest building (after Dubai's Burj Khalifa). Whole new urban districts, underground railways, modern airports and intercity expressways have been built on a scale and at a pace most countries would be proud of. But China has failed to reap the full benefits of city growth. This is becoming a pressing problem in the face of diminishing returns from pouring ever more concrete. ■

Spreading the wealth

A billion shoppers

Chinese consumers are spending plenty, but they could do even better

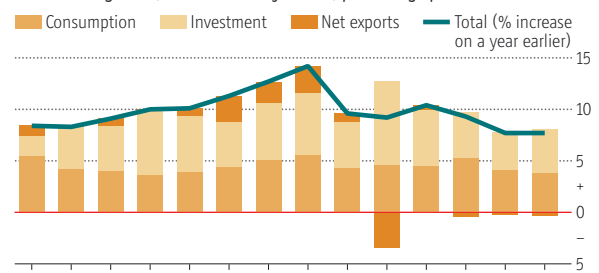
DENG HONG'S AMBITION, according to a Chinese newspaper, was to build a city inside a single building; a "temperature-controlled paradise". Last September his dream edifice, the New Century Global Centre, formally opened in the southwestern city of Chengdu (see picture, next page). China's official media call it the world's largest building. Its centrepiece is a shopping mall of such arresting dimensions that many visitors pause on arrival to take souvenir photographs. It boasts a 300-metre indoor beach, a skating rink and an IMAX cinema. The Chinese often say that theirs is a country of too many people and too little land. The cavernous Global Centre building begs to differ.

Mr Deng did not attend the launch ceremony. He was in custody, suspected of being involved in a corruption scandal that has also ensnared a former mayor of Chengdu, who in turn may be linked to an even bigger case linked to a former member of the Politburo Standing Committee, Zhou Yongkang. Mr Deng's troubles are an uncomfortable reminder of the perils of hubris. Massive buildings help to boost local officials' egos and brand their cities. According to the Council on Tall Buildings and Urban Habitat, an American industry association, China has about 200 skyscrapers over 250 metres tall, four times as many as America. Close to Mr Deng's building is an office complex reminiscent of Beijing's "bird's nest" stadium that cost 1.2 billion yuan (\$175m) to build. It was supposed to become the city government's headquarters, but after a public outcry over its extravagance its leaders decided to move to more modest buildings nearby.

The Global Centre, though, is also a monument to an increasingly essential ingredient of China's economic development: consumption on a scale that helps to lessen the country's dependence on infrastructure investment as an engine of growth. China's leaders want citizens to save less and spend more. Mr Deng's brainchild is a proud declaration by a local government far inland that it wants a consumer culture like that in megacities such as Beijing, Shanghai, Guangzhou and Shenzhen. The capital's most iconic new structures are stadiums, office buildings and a colossal egg-shaped centre for the performing arts. Chengdu's is a jaw-dropping shopping experience. ▶▶

Cultivating a consumer culture

China's GDP growth, contribution by source, percentage points



Source: CEIC



The Global Centre is a monument to consumption—an increasingly essential ingredient of China’s economic development

▶ Chengdu, the capital of Sichuan province, is a “second-tier” city, a loosely defined category that includes most provincial capitals; yet it is rapidly gaining the “first-tier” status of Shanghai, 1,600km (1,000 miles) to the east. That suits China’s leaders, who are trying to boost consumption in regions that have fared less well in China’s almost uninterrupted boom of the past 35 years. Thanks to massive government investment since the turn of the 21st century, the gap between the wealthy east and the far less developed west of China has narrowed. According to the Economist Intelligence Unit, a sister organisation of this newspaper, average GDP per person in China’s western provinces in the late 1990s had dropped to about one-third the figure in the nine eastern coastal provinces; but by 2012 it had recovered to more than half, the highest level since China launched its economic reforms in the late 1970s.

The Global Centre seems to be reckoning on a fair number of wealthy spenders in Chengdu: it provides 15,000 parking spaces. It is also readily accessible by the city’s first metro line, which opened in 2010 (there are now two lines, and plans for an underground network of more than 350km by 2020, close to the length of London’s). But Chengdu’s new middle classes much prefer to drive. The city has more than 3m private cars, second only to the number in Beijing. And at weekends the centre already seems to be packing visitors in.

Consuming passions, continued

Like the rest of the country, though, Chengdu is beginning to slow down. The city estimates that its GDP last year grew by about 10%, two percentage points less than it was aiming for and the lowest rate since 1999. Nationally the picture is much the same. This year’s overall growth target is for 7.5%, the same as last year’s and a far cry from the double-digit advances of most of the past decade. But that does not mean household spending will falter. Andy Rothman of Matthews Asia, an investment firm, calls China “hands down the best consumption story on the planet”. Retail sales last year went up by 11.5% in real terms, after 12.1% in 2012 and 11.6% in 2011. China’s household spending over the past few years was holding up well, he argues. It was just that investment grew even faster.

A “rebalancing” may be under way. Except for a dip last year, the share of GDP growth contributed by households and the government has been rising (see chart 1 on the previous page). In 2011 and 2012 it exceeded that contributed by invest-

ment for the first time since the middle of the past decade. Last year China overtook Japan to become the world’s second-largest consumer economy.

However, there is a lot more that China’s leaders could do to achieve the goal set by the prime minister in March: that the country should “fully tap the enormous consumption potential of more than a billion people”. The Global Centre was not built for the mass market, as attested by a display inviting shoppers to invest in luxury resort property in Thailand. A large group of people living in China’s cities is, in effect, “shut out of the urban consumer economy”, says Tom Miller, author of “China’s Urban Billion”: the one-third of urban residents who have migrated from the countryside. They make up about 40% of urban labour and the majority of China’s workforce in manufacturing and services, but they spend very little.

As Mr Miller notes, this is changing, thanks to a shift in China’s demography. In 2012 China’s working-age population (those between 15 and 59; most Chinese retire young) began to shrink. In response to shortages of young, unskilled labour, local governments have been raising minimum wages. This has been good for inland cities like Chengdu, which have benefited from production shifting westward in search of lower labour costs. It has also been great for migrants: their average wages doubled between 2005 and 2011, to about 2,050 yuan (\$322) a month, and last year rose by nearly 14%. But a lot remains to be done to turn these migrants into big spenders.

A good start would be to change their official household registration, or *hukou*, to the city, entitling them to the welfare benefits and access to public services enjoyed by other city-dwellers and thus releasing some of their spending power. Migrants have an unusually high savings rate, far higher than that of either urbanites or rural dwellers, perhaps to compensate for the absence of welfare benefits. According to Chi Fulin of the China Institute for Reform and Development, rural migrants on average spend 2.7 times as much when they move to urban areas as they did at home. But they still need to save to make up for their lack of entitlement to housing and other benefits. If they also change their *hukou*, their expenditure more than triples.

Yet for most migrants changing *hukou* is next to impossible. They continue to be called *mingong* (peasant workers) no matter how long they have been living in the city, and so do their children, even if urban-born and raised. For reasons of equity as well as economic advantage, *hukou* reform has become urgent. ■

The rural-urban divide

Ending apartheid

For China's reforms to work, its citizens have to be made more equal

MIGRANTS ENCOUNTER BARRIERS of speech, habits and manners the world over, but in China these are heavily reinforced by the system of *hukou*, or household registration, which permits routine discrimination against migrants by bureaucrats as well as by urbanites (a term applied in this special report to city-dwellers who have no rural connections themselves, and nor do their parents). In a survey conducted by the Chinese Academy of Social Sciences, nearly one-third of respondents in Shanghai said they would not like to live next door to a migrant, against only one-tenth who said they would rather not live next to a poor person. In Changchun, a less outward-looking city in the north-east, nearly two-thirds said they did not want to live next to a migrant. Chinese urbanites seem as anxious as Europeans about migration from poor to rich places, even though in China the migrants are fellow citizens.

In one crucial respect, however, they fall short of that status. A migrant may have been living in a city for many years, but his *hukou* will still identify him as rural. The document acts as an internal passport. China's first constitution in 1954 said that citizens enjoyed "freedom of residence and freedom to change their residence". Four years later Mao Zedong introduced the *hukou* system in order to prevent a flood of migrants pouring into the cities. It was eased only in the 1980s when China needed cheap labour for its factories. But the pernicious legacy of *hukou*-induced apartheid persists today.

If China's level of urbanisation were calculated on the basis of *hukou*, rather than residency, it would be a mere 36%, not far ahead of India's (31%). Very few of those who have migrated to the cities over the past three decades have obtained urban *hukou*. This matters a lot because a person's *hukou*, rather than his place of residence, determines the level of welfare benefits he is entitled to. The city-born children of migrants suffer the same discrimination, often being denied access to urban state-run schools and having to clear higher hurdles to get into university.

The *hukou* divide is sharpest of all in China's "first-tier" megacities, which are among the biggest magnets for migrants. In

some, including Beijing, they are not allowed to buy cars or houses unless they meet what for most would be impossibly exacting conditions. Thus, as China's middle class has expanded rapidly, a similarly large group of urban "second-class citizens" (as even the official media have sometimes called the migrants) has grown in parallel. Not that it matters in a one-party autocracy, but migrants and their urban-raised offspring are not even allowed to vote in the cities.

In the decade to 2010 the migrant population living in cities grew by more than 80%, a colossal influx that pushed up the total number of urban residents by some 200m. China has been remarkably successful in controlling the spread of urban slums: over the same period the proportion of city-dwellers living in slums fell by one-quarter to below 30%, according to a UN study. And many of these slum-dwellings are relatively smart compared with their counterparts in other developing countries, thanks to tough controls on building shanty towns.

Risking an explosion

Even so, migrants often live in grim conditions. Out of sight are pockets of wretchedness similar to slums in developing countries such as India. One such is the village of Dongxiaokou north of Beijing, just beyond the edge of the city's urban core. A village only in name, it is essentially a centre for processing waste. Thousands of migrants, most of them from impoverished villages in a single prefecture of the central province of Henan, prepare sackfuls of tin cans, piles of iron scrap and mountains of plastic bottles for bulk sale to recycling plants.

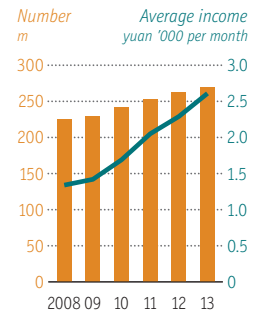
It is a scene of Dickensian poverty, with migrants packed into tiny brick shacks off muddy, rubbish-strewn streets. Their children go to ramshackle private schools that charge around 4,500 yuan (\$725) a year, several weeks' income for many migrants. For most of them there are no places at state schools. If migrants fall seriously ill, they have little choice but to go back to their villages; their government-subsidised rural medical insurance is often not valid in a different province (or even, until last year, in a different part of Henan). The only migrants who have urban health insurance are those with formal job contracts, but not even one in five enjoys that privilege.

The party appears to be waking up to the disruptive potential of an urban underclass. Early in 2013 Li Keqiang, the prime minister, began calling for a "human-centred new style of urbanisation". In November last year the party decided to speed up the pace of *hukou* reform. Officials have been calling for "equal rights" for all urban residents. A new word has entered the party lexicon: *shiminhua*, which means turning a migrant into an urbanite with all the perks of a city *hukou*-holder. The declared aim of urbanisation now is not just to move people into cities, but more importantly to make urbanites of them.

That will be both costly and hugely contentious. Mr Li's plan for a new style of urbanisation was published in March after many months of bickering among officials. It glossed over the crucial question of how to pay for it all, which hints at strong resistance by local governments that do not want to foot the bill, and by urbanites who fear their privileged access to education and health care will be stripped away. Li Tie, a government re- ▶▶

No longer so cheap

China's migrant workers

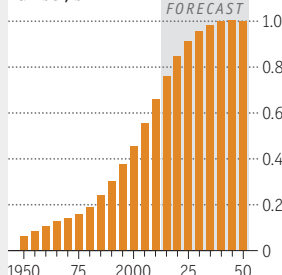


Source: Haver Analytics

Still plenty of upside

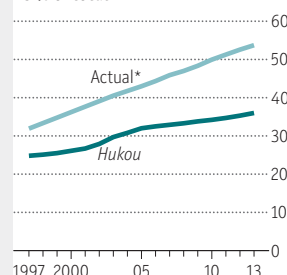
China's urban population

Number, bn



Sources: UN Population Division; Haver Analytics

As % of total



*Resident for six months or longer



Going to a better place

► searcher, in a book last year wrote that online support for *hukou*-related reforms was “not running high”. Part of the problem, he said, was that policymakers, journalists and online commentators were themselves urban *hukou*-holders and as such formed a “rigid interest group”, posing a “severe” challenge to reforms.

At the same time many holders of rural *hukou*, despite the discrimination they suffer, are suspicious of moves to give them urban status. They fear that it might lose them the right (conferred by rural *hukou*) to a small patch of farmland and a residential plot in their village of registration. Mr Li’s urbanisation plan failed to provide reassurance.

In July last year the agriculture ministry conducted a survey of nearly 7,000 rural *hukou*-holders, mostly male and living in the countryside, which found that only about a quarter regarded getting an urban *hukou* as important. Even among those whose entire families were living in urban areas, the share was only just over half. The main reason for not wanting urban *hukou*, the survey found, was fear of losing entitlements to land. Last October a senior official on the National Health and Family Planning Commission said that as many as 70% of rural migrants wanted to stay in the cities but had no wish to give up their rural *hukou*. That chimes with the views of the waste-recycling migrants of Dongxiaokou village. One middle-aged man standing by the roadside says he would far rather have his tiny patch of land in backward Henan province than a promise of a pension in wealthy Beijing.

Losing the plot

Given the discrimination they face, it seems odd that migrants themselves resist reform, but they will continue to do so until the government allows them to sell their land and sever their ties with the countryside for good. Mr Li has promised this, but local governments, used to seizing land at will, are loth to give up that privilege.

The new urbanisation plan calls for 100m migrants to be given urban *hukou* by 2020, but there will still be conditions: at a minimum, applicants will need a stable job and a legal place of residence. That would rule out most migrants, who often live in unauthorised lodgings and work without contracts.

Officials sometimes hold up the city of Zhongshan in the southern province of Guangdong as an example of how *hukou*

reform could work. Since 2007 migrants into the city (who make up more than half its population) have been able to apply for city *hukou* on the basis of points scored for educational qualifications, ownership of property, payments of social-security contributions and volunteer work (such as giving blood). Yet since the scheme was launched, only around 30,000 out of a total migrant population of 1.6m have gained local *hukou* this way. Migrants can also use their points to apply for just some of the benefits associated with urban *hukou*, which has enabled them to secure places at state-run schools for about 25,000 of their children. But that is out of a total of 200,000 migrant children attending school in Zhongshan (and many more who are studying in their parents’ villages of origin). All the same, in January Zhongshan won a prestigious award in Beijing for its points system.

In June 2012 three days of large-scale rioting erupted in Shaxi, a satellite town of Zhongshan, fed by rumours that security agents had maltreated the son of a migrant worker who was involved in a fight. Peng Ronghui of Zhongshan’s department in charge of migrant management admits that the city’s migrant population has created “a problem of social control”. She says they “lack a sense of belonging and their morale and self-discipline is relatively poor”.

Cities like Zhongshan worry that lifting *hukou* restrictions would require massive extra spending on public services such as education, health care and housing. Yet most local governments would simply not be up to the task. ■

Local government

Emerging from the shadows

Seizing land and running up debts is no way to finance local government

RESIDENTS OF CHAOBEI NEW CITY know what it is like to be “upstairsd”—the word for turfing farmers off their land, pushing them out of their homes and making them move into newly built clusters of blocks of flats without lifts. It is forced urbanisation, to which local governments have taken with relish in their rush to acquire precious land. Chaobei New City is the reincarnation of six flattened villages: a desolate, prison-like, rubbish-strewn ghetto. On a concrete wall along one side, billboards spell out the risks of protesting. For example, depositing funeral wreaths, ashes from cremations or corpses at government petitioning offices could be treated as crimes.

Chaobei New City’s very name conveys the mindset of those who ordered it built: officials who hoped that by destroying the villages and building 56 blocks of flats in their place they could create a semblance of urbanity. The residents would still be classified as peasants for welfare purposes, but the statistics would count them as urban. To local officials, who take enormous pride in urbanisation rates, such numbers matter. Xianghe county, to which the “new city” belongs, is in Hebei province, ►►

▶ about 45km (30 miles) east of Beijing. Like almost every other local government in China, Xianghe's has an urbanisation target: 60% by 2017, up from around 50% today and ahead of the national target of 60% by 2020. Since the global financial crisis in 2008, governments have been hardening such objectives as a way of stimulating growth, and have been borrowing heavily to meet them. The result has been a rapidly growing pile of debt that has spooked global investors.

Seizing land is an easy way of acquiring cash or collateral for borrowing, and since the 1990s this technique has become a favourite of local governments. Some have used the pretext of building what they call “new-style rural communities”, such as Chaobei New City. Such schemes have uprooted millions of farmers around the country. In one prefecture alone, Chinese media quoted a local leader in 2010 as saying he planned to flatten villages with a total population of 1m within three to five years. The coastal province of Shandong has moved more than 12.5m villagers into nearly 5,200 “new-style rural communities” since 2009, according to the local government. It calls this “urbanisation on the spot”.

Mod cons from hell

Central-government officials have expressed alarm and (ineffectually) reminded local governments that resettlement must be voluntary. Beijing newspapers have run several exposés of the horrors of being “upstairsed”, comparing the phenomenon to Britain's enclosure movement of the 18th and 19th centuries when landlords stripped farmers of their right to use common land. Last September *Xinmin Evening News*, a Shanghai newspaper, described cracks in Chaobei New City's buildings, flooded basements, sagging ceilings and a leaky sewage system.

Angry victims of forced appropriations are legion. According to state-controlled media, seizures of rural land by local governments are the cause of 60% of mass petitionings in China and of nearly 4m disputes every year. Lynette Ong of the University of Toronto says almost all compulsory relocations involve gangs or secret societies, often hired by local governments to push farmers out. Occasionally evictions trigger large-scale protests, but strong-arm tactics usually deter farmers from putting up much resistance. The thuggery, often brought to light by social media, is a political embarrassment to the central government. But what is behind these land grabs is of far greater concern: a financial system that has gone wrong and a system of local governance that has become dangerously dysfunctional.

Chaobei New City is symptomatic of both. The local government sold ten hectares (25 acres) of the land seized from the villagers to a local developer, Xiu Lan Real Estate Group. The company is using it to build Rivedroite Town, a cluster of lavish French-style houses separated by a wide road from the farmers' new flats. It is unclear how much Xiu Lan is investing or where the money is coming from, but the company's website suggests it has a close relationship with large state-owned trust companies. Such institutions are a widespread and openly acknowledged source of financing for property projects. Their lending is less strictly regulated than that of formal banks. A cosy relationship between both types of institution has enabled what Stephen Green of Standard Chartered calls “shadowy activity” by formal banks, which use their informal counterparts to channel lending into property

Local governments receive half the nation's fiscal revenue but are responsible for 80% of spending

and other risky projects.

Some trust companies and banks raise funds by selling fixed-term investments known as wealth-management products (WMPs). These promise better returns than bank deposits, interest rates on which are capped at extremely low or even negative real levels—a legacy of Maoist banking that has proved hard to shake off. But this short-term finance often supports long-term projects, creating a dangerous maturity mismatch. And some institutions may be repaying maturing products with fresh funds raised from new ones. In 2012 Xiao Gang, then chairman of the state-owned Bank of China and now in charge of regulating the country's stockmarkets, described this as “to some extent...a Ponzi scheme”.

In theory banks are not liable when WMPs go wrong. In practice, when defaults have occasionally loomed, ways are almost always found of keeping investors from losing much, if anything (including in the biggest potential default so far, of a \$490m trust product issued through China's biggest bank, ICBC, that was due to mature in January; a stalled mining venture related to the project suddenly got official permission to go ahead).

Local governments, which in China cannot borrow from formal banks or sell municipal bonds without central-government backing, are among the biggest borrowers through such shadow channels. They mostly use the money to finance public works (including knocking down villages in the hope that resulting “urbanisation” might stimulate growth). In response to the global financial crisis of 2008 the central government loosened controls on bank lending. The volume of new loans doubled in 2009. Much of the money found its way indirectly into the hands of local governments which used it in a spending binge in an effort to maintain growth. As a result, debts soared. Along with WMPs, this has become the biggest worry to bearish observers of China's economy.

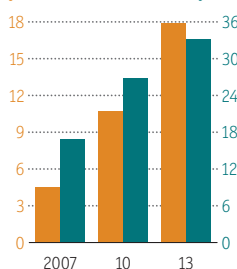
There are good reasons for concern about local-government borrowing, and about the banks and trust firms, but financial meltdown looks unlikely. An audit made public in December showed that in mid-2013 local governments directly owed 10.9 trillion yuan (\$1.8 trillion), an increase of more than 60% on 2010. This is by no means crippling. Taken together with other debts for which local governments are, or might be, liable, such as those of local state-owned enterprises, it amounts to one-third of GDP. The central government would never allow a local government to default, so these debts are for the centre to worry about. GK Dragonomics, a research firm, says total government debt may be 70-80% of GDP, still well below the levels of many rich countries with lower growth. ▶▶



Unsustainable

China's local-government debt:

yuan trn as % of GDP



Sources: Haver Analytics; National Audit Office

Risks are certainly growing. Standard & Poor's, a credit-rating agency, points out that projects which once looked viable may cease being so as growth slows. It outlines a possible scenario: a WMP fails, investors stop buying new products and non-bank credit dries up. Investment slows and property prices drop. Non-performing loans rise, putting pressure on banks. Credit slows further, and growth with it. In the event of such a crisis, however, the central government could take bad loans off the banks' books and order them to resume lending.

It could also ramp up its own spending. It would not solve the problem, but could avert an immediate crisis.

To reduce such risks, China must introduce a range of reforms. The most pressing of these is to lift controls on bank-deposit interest, which would reduce depositors' incentives to shift money into riskier WMPs. There are signs that it is gradually moving that way, but for all the recent talk of the importance of markets, progress remains slow. Zhou Xiaochuan, the governor of China's central bank, in March held out the possibility of full liberalisation of interest rates in a year or two. Banks themselves are not keen because higher rates would cut their profit margins.

Reform is also slow in two areas that are key to local governments' woes: the way in which their spending obligations, such as on public works, are funded; and the ownership of rural land. Changes in both are vital if China's new "human-centred" urbanisation is to succeed and officials' rapacious instinct to grab land is to be tamed.

Local governments' lack of money to cover their spending needs is a problem of the Communist Party's own making. In 1994, worried about the central government's rapidly declining share of the country's total revenue, the party reorganised the tax system to boost the centre's takings. But it failed to reduce the burden on local governments, which have remained responsible for such coffer-draining activities as providing education and health care. The central government transfers funds to local ones (via provincial governments) to cover basic costs, but this is often far from enough. Local governments receive half of the nation's fiscal revenue but are responsible for 80% of spending.

To make up shortfalls, local officials turn to rural land. Whereas the property rights of urbanites were strengthened from the late 1990s, thanks to the privatisation of urban housing and legislation to protect it from government interference, the property rights of villagers have remained vulnerable to abuse. Landesa Rural Development Institute, an American NGO, found that in 1,791 villages it surveyed, the number of land seizures had nearly tripled between 2007 and 2011. Land-related income, which in 2001 made up one-sixth of local-government revenue, had soared to three-quarters a decade later.

Counting the cost

Giving urban benefits to migrants will cost a lot of money. Unless a new way of funding local governments can be found, they are likely to solve the problem in the time-honoured manner: by seizing yet more land. The central government might help, but could it afford to? Estimates of the likely expense vary widely. A report this year by the Chinese Academy of Social Sciences put the cost of providing a migrant worker with full urban

benefits at 130,000 yuan. A government study in 2010 came up with a figure of 80,000 yuan. But Kam Wing Chan of the University of Washington writes that even at about 100,000 yuan per migrant, the total would still be manageable.

Mr Chan calculates that it would add up to around 23 trillion yuan, or more than 44% of China's GDP in 2012. That would be more than any economy could cope with, but it would not happen all at once. If it were done gradually, bringing in 20m migrants annually, it would mean spending a far more manageable 3.8% of 2012 GDP a year. But in fact those 100,000 yuan of health-care and other expenses would be stretched out over a lifetime, so the actual annual cost of converting 20m people to full urbanite status would be 0.1% of 2013 GDP, Mr Chan reckons: about one-fifth of what China spent on the 2008 Olympic games.

That would leave the task of giving full property rights to farmers. Doing so would make it more difficult for local governments to seize land, which in turn would make it harder for them to find ready collateral for piling up huge debts. Most importantly, it would empower farmers, and perhaps even end the tyranny of village officials who use their control over land to fill their pockets. Last November the party pledged to allow rural land (though not arable land) to enter the market on the same terms as any other property. This will take time: even deciding who owns what in the countryside will be tricky. And local governments are not keen to dispense with a ready source of cash.

But the party has to press ahead. If financial and social stability are not sufficiently powerful incentives, there is another to consider: the rampant urban sprawl encouraged by local governments' ability to seize rural land at will. Such unrestrained expansion may work in parts of America where there is plenty of empty land (albeit at a cost to the environment and often to the quality of life). In China, where urbanisation has forced around 40m farmers off their land over the past three decades, usually with little or no compensation, it will not. ■

Urban sprawl

People, not paving

China's largest cities can mostly cope with population growth. The spread of concrete is a bigger problem

TO GRASP THE size of China's largest cities, and the pace of expansion of even the remotest of them, consider the south-western city of Kunming. Looking at a map, it would be easy to dismiss it as a backwater, tucked in a mountainous subtropical corner of China that borders on some of South-East Asia's poorest countries: Vietnam, Laos and Myanmar. Yunnan, the province of which Kunming is the capital, is one of China's most backward, with a nominal GDP per person roughly that of Albania. By the standards of China's provincial capitals Kunming's urban population is merely middling, yet at 3.8m it roughly equals that of America's second-largest city, Los Angeles. By the end of this decade it is likely to have risen by 50%.

There will, however, be no mushrooming of shanty towns along the shore of Dian Lake, Yunnan's largest and the one-time pride of Kunming (ill-regulated urban growth has since turned it so toxic that its water is deemed unfit even for industrial use). Officials have what they think is a far better plan: building a new suburb called Chenggong. This will account for most of a project- ►►

Dreaming spire

A Shanghai suburb that is forever England

OXFORD STREET IS a quiet cobbled lane, with Tudor-style shop fronts and lights supposed to look like gas lamps. At one end it opens out onto a small square. A bronze statue of Winston Churchill stands in front of the open-air colonnade of Thames Bar, looking towards an elderly man sitting on a bench on the other side of the plaza. He is petting his two pugs, one dressed in a yellow jacket and the other in blue. It is so much cheaper here than in central Shanghai, he says—and, traffic permitting, it is only an hour away by car.

President Xi Jinping may be having a Chinese dream, but the country's city planners are often inspired by foreign examples. Thames Town has Victorian- and Georgian-style housing for 10,000 people, red phone booths and, perhaps oddest of all, a church (pictured) with a spire closely modelled on a mid-19th century Anglican one in Bristol. A columnist in *Global Times*, an English-language newspaper in Beijing, accused Shanghai officials of being “unconcerned about cultural affinity or national ethos”, succumbing to “the appeal of the foreign”.

Thames Town is often scoffed at as one of China's most peculiar “ghost towns”. For years most of its houses remained empty. Its

town centre attracted far more people in search of a novel background for wedding photographs than for suburban homes. (Cashing in on this, many of Thames Town's shops offer photographic services and wedding regalia for hire.) But in the environs of a city like Shanghai, one of China's most prosperous, building the town was probably a good long-term bet. Soaring property prices in the city centre are forcing buyers ever farther out.

Shanghai has a record of proving doom-sayers wrong. Thames Town and other European-themed suburbs like it are but tiny specks compared with the vast endeavour that the city undertook in the 1990s, clearing a semi-industrial, semi-rural area of tens of thousands of people to make way for a new financial centre on the east side of the Huangpu river. In 2000 this newspaper called the new Pudong zone a “ghost town of a business district”. It is now a skyscrapered icon of Chinese economic power.

New shops are opening in Thames Town, and residents say occupancy is picking up. Three years ago even the church acquired a congregation—though that was just transplanted from a Catholic church nearby, demolished to make way for yet more urban growth.



▶ ed 40% expansion of the built-up area of the city of Kunming. Kunming's urban-planning exhibition promises “a beautiful environment” for Chenggong.

Work on the new addition is already well under way. Thickets of residential tower blocks and office buildings are sprouting. Chenggong was connected to Kunming's new metro network last year. City-government offices and local universities have already moved there. By 2016 it will have a \$525m bullet-train station with one of its 30 tracks connecting to Shanghai, 2,000km (1,200 miles) to the east. By the end of this decade the population of Chenggong is expected to reach nearly 1m, three times its current level. Not so long ago Chenggong was derided as a ghost city in the making. Few are now so scornful.

Kunming's orgy of urban expansion sits oddly with a long-established Chinese policy of seeking to limit the population growth of large cities. An urban-planning law adopted in 1989 calls for strict control. Even after a decade of huge expansion in which the urban population of Beijing (including its satellite towns) grew by about 7m to nearly 17m, the party still clings to the hope that it can keep such expansion in check. When it unveiled plans for wide-ranging economic reforms last November, it called again for “strict control over the population size of extra-large cities”. For all the party's recent emphasis on the role of market forces, they are still not allowed to determine people's movements.

Kunming could now argue that it is not “extra-large”. The central government's new urbanisation plan released in March suggests that the term applies only to cities with urban popula-

tions over 5m. On this definition only about 15 cities qualify, and they do not include Kunming. Previously, however, “extra-large” had meant any city with more than 1m people, of which China has more than 130. (America, by contrast, has a mere nine in this category.) A little redefinition goes a long way.

The central government wants cities to grow, but prefers the smaller ones to grow faster than the rest. Its new urbanisation plan calls for *hukou* barriers to be scrapped altogether in cities with fewer than 500,000 urban residents. Those bigger than 500,000 have been asked to remove or relax *hukou* rules, but in an “orderly” or “reasonable” manner, meaning not all at once. In extra-large cities tough *hukou* restrictions are to remain in place. Yet in the past decade the populations of small cities have been shrinking, largely because bigger ones have proved to be a much more powerful draw for migrants.

Plenty of room for more

The government's worries about population size are overblown. Chinese cities are by no means unusually crowded. Three Chinese scholars, Ming Lu and Zhao Chen of Shanghai's Fudan University and Zheng Xu of the University of Connecticut, argue in a recent paper that apart from cities with 10m people or more, the average big city in China has “a lot of room for growth”. Even greater Beijing, which city officials think is bursting at the seams, is far less densely populated than greater Tokyo.

Rather than try to control population size, the central government would do better to have a go at curbing the spatial expansion of cities. Local bureaucrats have a predilection for vast ▶▶

▶ areas of concrete. Plazas, broad boulevards and colossal airports and railway stations have become their badges of honour. In the central city of Zhengzhou, what local officials called the largest bullet-train station in Asia opened in 2012: a \$2.4 billion edifice with a plaza in front which together cover around 240 hectares (about 340 football pitches). The station is half-deserted.

Such extravagant use of land and money will only increase if the government continues to encourage cities to expand their populations. Built-up areas across the country have recently been growing by an average of 8% a year whereas their populations have been rising by only 5%. In western China the gap is far wider, with urban areas growing three times faster than their populations, according to Fudan University's Mr Lu. Kunming provides evidence of extravagant habits. Luo Chun, a professor at Yunnan University, reckons his institution's new campus in Chenggong district is five times the size of its old one in the centre of Kunming. The original campus remains in use.

Central officials are concerned about this, but for the wrong reasons. They fear that urban sprawl could make it more difficult for China to maintain near-self-sufficiency in staple foods. The country is already hovering close to what officials describe as a "red line" of 120m hectares available for planting such crops. Even so, grain production has been rising. Thanks to fewer people in the countryside, farming is becoming more efficient.

A better reason to worry about sprawl is that it is making China's cities less "harmonious and liveable", to use a phrase in vogue among the country's city planners. Old neighbourhoods are being demolished, their inhabitants scattered into far-flung gated communities, commuting times are lengthening, car-dependence is growing and the spatial divide between rich and poor is widening. All this contributes to what officials call the country's growing "urban disease". ■

Greenery

Let us breathe

Pollution in cities is becoming a political issue

THE WORD "ECO-CITY" first took off with a book written in 1987 by Richard Register, a green thinker based in California. Now what may become the world's first city with the word in its name is beginning to take shape in the unlikely setting of a smog-shrouded expanse of salty mud on the northern Chinese coast. Around a lake that not so long ago was a sewage farm, energy-efficient apartment blocks are going up. Electric buses ply the still largely empty streets. Public litter bins are equipped with solar lighting so that residents can find them more easily at night. China's urban growth is warming up the planet, and the elaborately named Sino-Singapore Tianjin Eco-City is being touted as a cool solution.

Few other countries could dream of building a large city from scratch, let alone an eco one, but China has the advantage of an autocratic approach to urban planning (and to governance in general). It can decree that a piece of land will become a green city, commandeer it and sell it cheaply to developers. That is how the eco-project began in 2007 when Singapore proposed a co-operative green-city venture. China's leaders agreed, having recently awoken to the environmental horrors wrought by breakneck



urban expansion. Later that year the party formally declared that its goal was to build an "ecological civilisation". The 30 square kilometres of inhospitable terrain near the northern port city of Tianjin became a test bed.

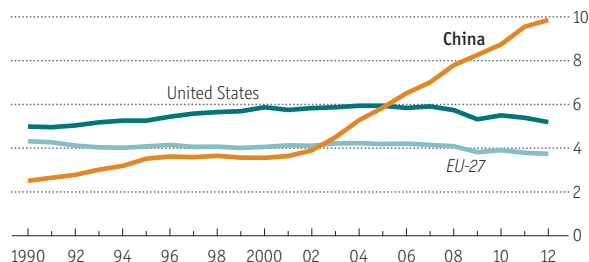
China has tried a couple of eco-city projects before and failed. About 60km (40 miles) farther along the coast to the east of Tianjin, in Caofeidian, work began in 2009 on an eco-city aiming for 500,000 residents by 2020. Yet most of the site remains a wilderness, too remote to attract developers. In Shanghai, plans a decade ago for a similar-sized eco-city on an alluvial island became entangled in local corruption and never got off the ground. But Tianjin's, with strong backing from central and local governments, is making progress.

To give it a flying start, officials designated it as China's first industrial park devoted to the animation industry. The \$690m state-funded zone opened in 2011 and has attracted hundreds of businesses. To lure in more residents, the government built a Victorian-style school in brown brick with lavish facilities, including a room full of stuffed animals to help children learn about nature ("all real, except the tiger and the panda," says a proud teacher). A 350-bed hospital, supposedly one of the best in China, is due to be completed next year, at a cost of \$110m.

At a control centre a dozen officials watch a giant screen dis- ▶▶

The price of progress

Carbon-dioxide emissions, tonnes bn



Source: EDGAR



Public resentment of China's deteriorating environment, particularly the noxious haze over its cities, is growing

▶ playing readings from heating and water systems, as well as feeds from closed-circuit cameras at traffic intersections. “If an emergency happens, we can respond,” says an official surveying the images of lifeless streets. Officials are not deterred by the “ghost city” label. The city opened two years ago and now has 10,000 residents. By 2030 it aims to have 350,000. Work is due to begin this year on subway lines that will make it easier for locals to get to Tianjin, currently about an hour’s drive away, and nearby industrial zones.

The government has a powerful incentive to support the project. Within China, public resentment of its deteriorating environment, particularly the noxious haze over its cities, is growing, and abroad the country is being criticised for its contribution to global warming. In 2006 China became the world’s biggest emitter of carbon from energy, overtaking America; it is now spewing out nearly double America’s level (see chart 5, previous page). The spread of Chinese smog across the region is worrying neighbours such as South Korea and Japan.

Ho Tong Yen, the Singaporean CEO of the eco-city’s development company (and a director of Mr Register’s Californian consultancy, Ecocity Builders), says he believes many of the eco-city’s methods will eventually become “a key part of urbanisation in China”. A decade ago, he recalls, Chinese officials he met at conferences would boast about their cities’ GDP growth. Now they brag about how green their cities are.

A work in progress

This sounds like a bit of a stretch. China’s urban landscapes appear to be the antithesis of green: smog, foul-smelling streams and canals, roads jammed with exhaust-belching cars, shoddy buildings erected with little heed to building codes. But growing public discontent with the urban environment is beginning to change at least the rhetoric of officials, and in some cities their actions as well. In recent years about a third of China’s 600-plus municipalities have announced plans to turn themselves into eco-cities. The central government has imposed stricter controls on emissions of carbon and smog-forming pollutants. In March the prime minister, Li Keqiang, declared “war” on pollution. Smog, he said, was nature’s “red-light warning against the model

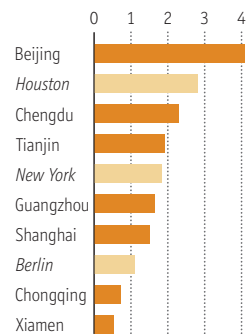
of inefficient and blind development”. It was a remarkable admission of urbanisation gone wrong.

Since there is no agreed definition of an eco-city, local governments interpret the term to suit themselves. They often use it as an excuse for prettification, or worse, for seizing yet more land from farmers and using it to build luxury housing, with golf courses next to them (because grass is “green”). Even the eco-city in Tianjin, a drought-prone area, has a golf course, supposedly irrigated with recycled water. Mr Register himself is not altogether bowled over by the project. In 2012 he wrote that its layout, with the wide streets and long blocks typical of modern Chinese cities, looked “every bit as if created to encourage driving”. Its plan for 20% of its energy to come from renewable sources does not sound much bolder than the nationwide target of 15% by 2020, against 9% now.

And for all its claims to greenery, the eco-city lacks a vital ingredient: a thriving civil society that is free not only to protest about the environment but to put pressure on the government to live up to its promises. The party talks green and sometimes even acts tough, but all the while it has been scheming to prevent the growth of an environmental movement. It does not want residents to set their own agenda for the way cities are run. ■

Many people, many cars

Private passenger cars
Selected cities, 2012, m



Source: China SignPost

Politics

The urban voice

China’s new middle classes, quiescent so far, may soon become more demanding

CAO TIAN IS a property dealer who dreamed of changing his city. As a poet and writer chosen by the government of Henan in central China as one of the province’s ten cultural personalities of the year in 2006, he clearly did not lack imagination. When in May 2011 the mayor of Zhengzhou, Henan’s capital, announced he was stepping down, Mr Cao said that he would stand for election to replace him. Not only would he take no salary, he would put up 100m yuan (\$15.4m) as a guarantee of good behaviour while in office.

It was a good try, but he knew it was doomed. Chinese law says that independent candidates can stand for the post of mayor in cities. In theory all they need is the support of 20 members of a city’s legislature, which in Zhengzhou is less than 4% of the total. But legislators are hand-picked by the Communist Party. Most of them are officials and party members. Mr Cao says he spoke to half a dozen he knew and got nowhere; they were all “very obedient” to the party. “You can eat with them, you can gamble with them, but you cannot talk [about standing for election],” he says. The authorities made that clear enough. They launched a tax investigation into his company, a common tactic ▶▶

▶ for intimidating dissenters. Mr Cao left town for a few months. To no one's surprise, the acting mayor, Ma Yi, was elected by Zhengzhou's legislators to fill the post.

Mr Cao's challenge was an act of rare bravado. In China, entrepreneurs like him are usually reluctant to cross the line into political activism because business deals often depend on good ties with the party. At the time of Mr Cao's mayoral bid China's leaders were more than usually jittery following a series of pro-democracy uprisings in the Arab world. Internet activists were anonymously calling for China to stage its own "jasmine revolution", the name given to Tunisia's revolt in late 2010. Online censors were busy trying to expunge any reference to the word "jasmine"; police were rounding up dissidents and even telling florists not to sell the flower.

It was a bad moment to provoke the authorities, especially for someone like Mr Cao, who had form. After the pro-democracy unrest of 1989 he had been sentenced to 12 years in prison for "counter-revolutionary" behaviour (he had organised a protest against the bloody crackdown in Beijing). Thanks, he believes, to foreign pressure on China he served less than three years, but recalls jail as "hell". His punishment, he says, included having to watch condemned prisoners being shot.

The rapid growth of a middle class in China increases the risk, as the party sees it, that more people like Mr Cao will begin to find their political voice. Unusually for a man who makes his living from property, Mr Cao says that as mayor he would have

The biggest middle-class protests have been mostly about factories producing paraxylene (PX), which some fear might release poisonous fumes

tried to control soaring prices. He thinks a property tax would help, but would be opposed by the many corrupt officials who own expensive properties.

Many argue that China's new middle class is largely in favour of the political status quo; many of its more affluent members are officials, former officials or closely in league with officialdom. But the economic make-up of middle-class China is rapidly changing. McKinsey, a consultancy, reckons that in 2012 only 14% of urban households belonged to what it calls the "upper middle class" (with an annual household income of 106,000-229,000 yuan, or \$16,000-34,000, in 2010 real terms) and 54% to the "mass middle class" (with an income of 60,000-106,000 yuan). By 2022, it estimates, the upper segment will have expanded to more than half and the mass part will have shrunk to 22% (see chart 7). With this rise of what McKinsey calls "sophisticated and seasoned shoppers" will come demands for a bigger say in how their cities are run. "Unmet, these demands could raise social tensions," as the World Bank and China's Development Research Centre observed in a joint report in 2012. A second joint report by the two organisations, "Urban China", published in March, called for comprehensive reforms.

Very few are challenging the party politically, but growing numbers are getting involved in campaigns to protect their neighbourhoods from government projects that might affect their health and comfort or the value of their property. Such protests occasionally take on a political hue, providing cover for a wealth of grievances about the opacity of city management, the high-handedness of officials and pervasive corruption.

The biggest middle-class protests have been mostly about factories producing paraxylene, a chemical used in the production of polyester. Since 2007 large-scale protests have erupted in five cities over plans to build such facilities, the main concern being that the factories might release poisonous fumes. The fears are probably overblown, but reflect widespread and profound distrust in officialdom. The demonstrators' ability to gather in public places in their tens of thousands, with the help of mobile text messages and microblogs, has highlighted the weakness of China's censorship system. PX, as the chemical is often called, has become a cover for poking at the party. Those of dissident bent gleefully count off the cities that have witnessed PX protests: Xiamen in June 2007, Dalian in August 2011, Ningbo in October 2012, Kunming in May 2013 and Maoming earlier this month.



Zhou Min, a restaurant reviewer in Kunming, is one of them. She says she used not to care about politics. But in response to the protests in her city last May the police detained dozens of activists. Officials even briefly attempted to stop the sale of medical face-masks for fear they

might be donned by demonstrators. "Now I've changed my mind," says Ms Zhou, who was herself interrogated by police, accused—falsely, she says—of being an organiser. "If only we had the vote, then we could veto projects like these," she says, visibly angry. During the recent anti-PX protests in the southern city of Maoming police used tear gas and batons against demonstrators.

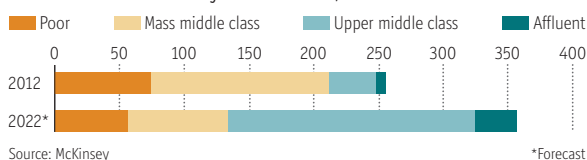
Most of the time urban China displays few obvious signs of discontent. Since the late 1990s the party has managed a period of rapid middle-class growth, along with huge urban expansion thanks to an upsurge of migration, with remarkably little unrest in the cities. Protests have been far more common in the countryside, mainly against the government's seizure of land from farmers. The mostly peaceful PX protests have been a rare exception to widespread middle-class quiescence.

Looking on the dark side

But the mood in China's cities could be changing. Middle-class urban residents look ahead with greater anxiety: about the slowing of China's growth; about the harmful effects of air pollution and contaminated food; about rising house prices that are making middle-class dreams of property ownership ever less achievable; about the burden of looking after an ageing population that is growing ever faster; and (especially among recent graduates) about the difficulty of finding a job. Richer Chinese worry about whether they can protect the wealth they have accumulated in the past few years. Could a marginalised urban underclass turn against them? Could an anti-corruption campaign such as President Xi Jinping's current drive land them in jail? Growing numbers are voting with their feet. When in 2012 and 2013 researchers at Shanghai University surveyed nearly 2,000 people in urban areas of Shanghai and five provincial capitals across China, nearly one in five said they would emigrate if they ▶▶

A thicker upper crust

China's urban households by income bracket, m



▶ had the chance. Those in the wealthiest cities were most eager to leave. In Shanghai one-third said they would go if they could, and in Guangzhou nearly 40%. Hurun Report, a company that monitors China's rich people, said in January that 64% of nearly 400 Chinese with personal wealth of at least 10m yuan (\$1.6m) that it surveyed were emigrating or planning to do so, compared with 60% a year earlier.

With his talk of a “Chinese dream”, Mr Xi has prompted debate among his countrymen about how far they feel they are from a dream state. A survey last year by the Chinese Academy of Social Sciences (CASS) on attitudes to the “Chinese dream” found that only just over half of the 7,300 respondents believed they lived in a “good society”. Equality, democracy and being rich and powerful were rated most highly as the hallmarks of such a society. The party itself bandies around such terms, but Li Chunling of CASS says that what China's middle class understands by democracy is closer to Western ideas.

China's leaders clearly worry about this, as evidenced by the cottage industry that has sprung up to produce translations and analyses of Alexis de Tocqueville's work on the French revolution, “The Old Regime and the Revolution”, published in 1856. This was prompted by a recommendation of the book in 2012 by Wang Qishan, who is now a member of the Politburo's Standing Committee. Exactly what drew Mr Wang to the book is not known, but Chinese media have focused on one of its main arguments: that revolution is more likely to occur when an authoritarian society begins to reform than during its period of maximum repression. *China Daily*, a government-controlled newspaper, notes that copies of the book have been prominently displayed in the Beijing bookshop of the Communist Party's main training school for senior officials. New versions carry blurbs such as “Recommended by Wang Qishan”. One is subtitled: “Why Does Prosperity Hasten the Advent of Revolution?”

The possibility of revolution still appears remote, but the risk of larger-scale social unrest in urban areas is growing. To divert attention from trouble at home, China's leaders may be tempted to flex their muscles abroad. ■

A new society

Pushing the boundaries

The rapid move to the cities has handed Xi Jinping a daunting challenge

FEW OUTSIDE CHINA have heard of Sansha, the country's biggest city. Its administrative area is 150 times larger than Beijing's, or roughly the size of Kazakhstan. Yet Sansha's population is no bigger than that of a village and consists mostly of fishermen. Its government is on an island too small even to fit in an airport; the military airstrip stretches out into the South China Sea, where most of the city's watery territory lies. It is a city only in name, set up to assert China's claims in a vast swathe of sea encompassing some of the world's busiest sea lanes. If Shanghai inspires awe, Sansha causes alarm.

The city was created (in bureaucrats' minds, though probably not the fishermen's) seven years ago and upgraded in 2012 to “prefectural level”. Its tiny land area comprises about 200 islets clustered in three groups that are bitterly contested. Two of the groups, the Spratlys (Nansha in Chinese) and the Paracels



(Xisha), are claimed by Vietnam. The third, known as Zhongsha in Chinese, includes Scarborough Shoal, which is claimed by the Philippines but has in effect been controlled by China since 2012. Some of the Paracels were controlled by South Vietnam until 1974, when it was expelled after a battle with China. It was on one of these, Woody Island (pictured), that the party installed Sansha's legislature, which duly elected a man likely to be the country's least busy mayor.

An empty threat

Sansha is one of China's most bizarre, and unsettling, attempts at city-building; an undertaking motivated by a desire to stake out territory and scratch the itch of nationalism. Some 2.6m of the South China Sea's total area of 3.5m square kilometres are said to be under the city's jurisdiction, giving access to a wealth of resources: an estimated 5m tonnes of harvestable fish and huge reserves of oil and natural gas. Parts of the vast area are also claimed by five other countries. The creation of Sansha was intended to rebuff them.

China's spectacular urban-led growth in recent years has been changing the way the country behaves abroad in important ways. First, it has been fuelling a voracious demand for imports of commodities, from oil to iron ore. More than half of China's supplies of both are now bought from abroad. As a result, much more of China's diplomatic attention is being focused on cultivating relations with commodity-exporting countries, mostly in the Middle East, Africa and Latin America (several of them no friends of the West).

Second, China is now much more worried about the security of its supplies. It feels uneasy about leaving America to patrol vital shipping lanes such as those through the South China Sea. And third, China's growth has given it much greater confidence, increased by the West's economic malaise in recent years. The country is asserting itself more visibly, especially in nearby seas that have long been under America's sway.

Mr Xi himself also happens to be a far more confident leader than his predecessor. He has not been afraid to take steps that raise tensions with American allies, notably Japan and the Philippines. This suggests to some in Asia that China has had enough of America as the region's dominant power and is beginning to do something about it. Certainly the risk has increased that a small incident might escalate into a bigger conflict. For ▶▶

► now, however, Mr Xi does not appear to be spoiling for a fight. China cosies up to America's rivals, most notably Russia, but it also sees its economic interests, and hence its strategic ones, as closely linked with America's.

It is developments inside China, in real cities, that should worry the outside world more. Urbanisation, especially over the past decade, has handed Mr Xi a daunting legacy. When his predecessor, Hu Jintao, came to power in 2002, urban China was far less of a challenge. The country was recovering well from the Asian financial crisis of 1997-98. Its north-east had been wracked by large-scale protests by workers laid off during the massive downsizing of the state sector from the 1990s, but Mr Hu kept the region largely quiet by directing dollops of cash to it. The internet was still the preserve of a small urban minority.

A harder place to run

The picture today is very different. Economic growth is slowing. As this special report has explained, rapid urbanisation has spawned two huge new social forces: a middle class and an underclass. Both are much bigger than they were a decade ago; both are suspicious of, and sometimes hostile towards, each other; and both often distrust the Communist Party.

Just in the past five years social media such as Sina Weibo and WeChat have connected hundreds of millions of Chinese in a conversation held in near-real time, much of it less than flattering about the party. More than 60% of urban residents now use the internet. The shoots of civil society are beginning to grow; small, scattered groups are working on everything from helping HIV/AIDS sufferers to cleaning up the environment. The security apparatus keeps close tabs on them but rightly worries that urban China may be changing too fast for it to keep up.

Double-digit growth for much of this century has not only made many ordinary Chinese better off but bestowed breathtaking riches on the families of some members of the political elite (including some of Mr Xi's extended family). This has proved impossible to cover up. Mr Xi's anti-corruption efforts risk causing strife among political clans eager to protect their privileges. He may be China's strongest leader since Deng Xiaoping, but urbanisation has fuelled the growth of other, often countervailing, powers too: large state-owned enterprises that have gorged on property and commodities, local governments bloated by reckless borrowing to build ever bigger cities, and an internal securi-

ty apparatus that now spends more than the army, most of it on policing cities.

Mr Xi and his team have correctly identified the need for a better approach to urbanisation: one that will help ease social tensions which have built up over the past decade, bring local governments into line and make big SOEs contribute much more to welfare and share more of their markets with the private sector. They have been making encouraging noises about the need to reform the iniquitous *hukou* system, strengthen farmers' property rights and make cities more "liveable".

But Mr Xi needs to go much further. The party still cannot bring itself to talk of a "middle class" (too unsocialist-sounding), much less acknowledge that its aspirations are more than just material ones. In January a famous actor, Huang Bo, introduced a new song about the "Chinese dream" on state television's most popular show of the year, the Spring Festival gala. It was called "My Needs Are Modest". The middle-class fantasy it described (without naming it as such) was an advance on the usual calls for selfless devotion to the nation, but it was still politically sterile: "I can earn money, and still have time to go to Paris, New York and the Alps. I stroll through the shopping mall and go skiing in the mountains. Days like these are so carefree."

Optimists still wonder whether Mr Xi might eventually allow a little more political experimentation. At the party's 19th congress in 2017, five of the Politburo Standing Committee's seven members are due to step down, leaving only Mr Xi and Mr Li, the prime minister. Of the replacements expected to join them, at least two are thought to have liberal(-ish) leanings. But few observers are holding their breath.

In 1997 China's leaders set a goal of making China "moderately well off" by 2020, just in time for the party's 100th-birthday celebrations the following year. Judgment on whether this has been achieved will be passed while Mr Xi is still in office. As long as China's GDP keeps on growing at about 7% a year (as is plausible, possibly even making China's economy bigger than America's by then), it will not be hard for him to tick off the economic targets. But the party has said that "moderately well off" also means a more democratic China, and one that respects human rights. Ignoring those aspects risks antagonising the constituency that has become most vital to sustaining the party's power: the urban middle class. Mr Xi would do so at his peril. ■



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Huang Bo's modest needs