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SESSION 4: INVESTING IN CITIES

THE CASE OF CHINA

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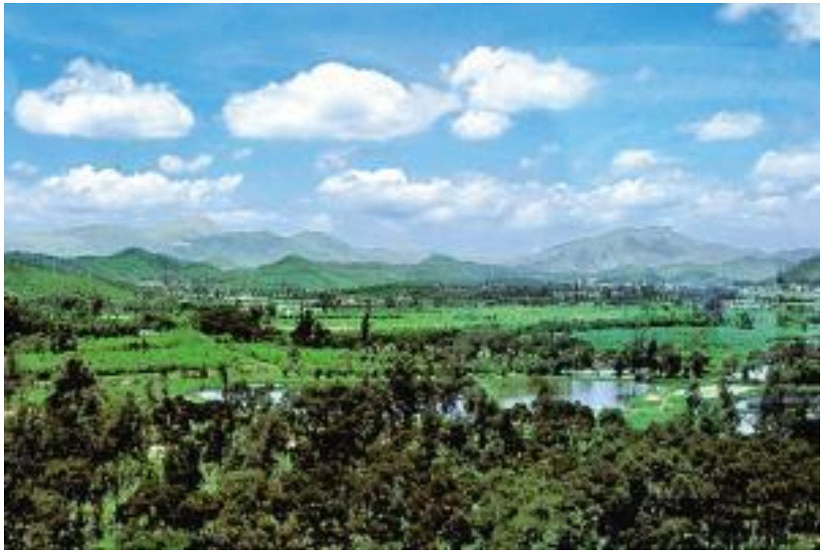
1990

2015

Shanghai Pudong

Shenzhen

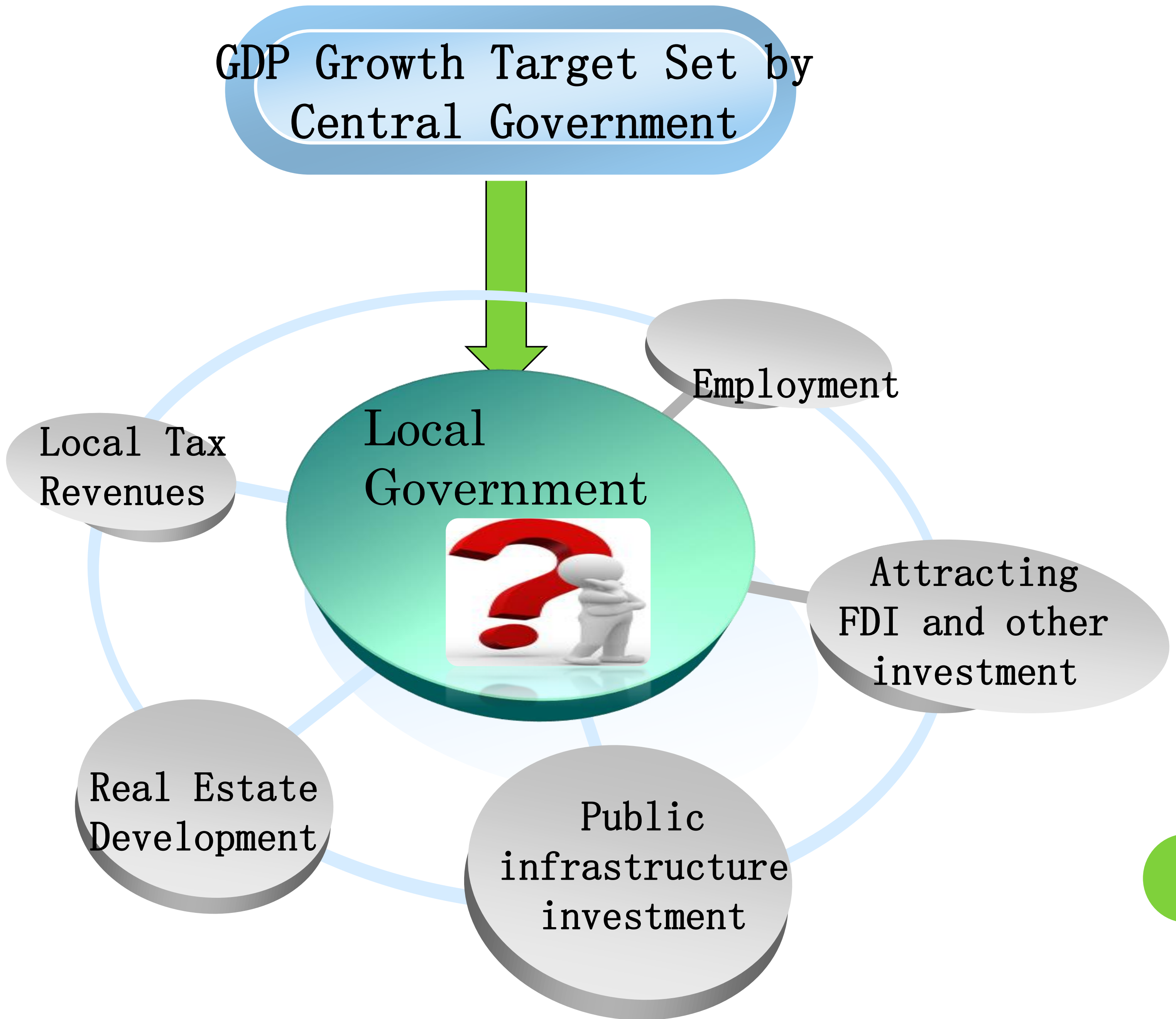
1980



2015

Country Background

- China is politically highly centralized
- But fiscally it is only half-decentralized, with the central government holding taxing power
  - Tax revenues: Central 46%, Local 54%
  - Revenue expenditures: Central 15%, Local 85%
  - Local governments are not allowed to borrow by the Budget Law until recently
- Land policy: Urban land is owned by the state (represented by municipal governments), rural land is collectively owned by the villages, and only the state has the power to convert rural land for urban use
- User fees for urban infrastructure services are generally accepted by the public, but for many types of services user fees do not fully cover costs


GDP Growth Target Set by Central Government
Local Government
Employment
Local Tax Revenues
Attracting FDI and other investment
Real Estate Development
Public infrastructure investment

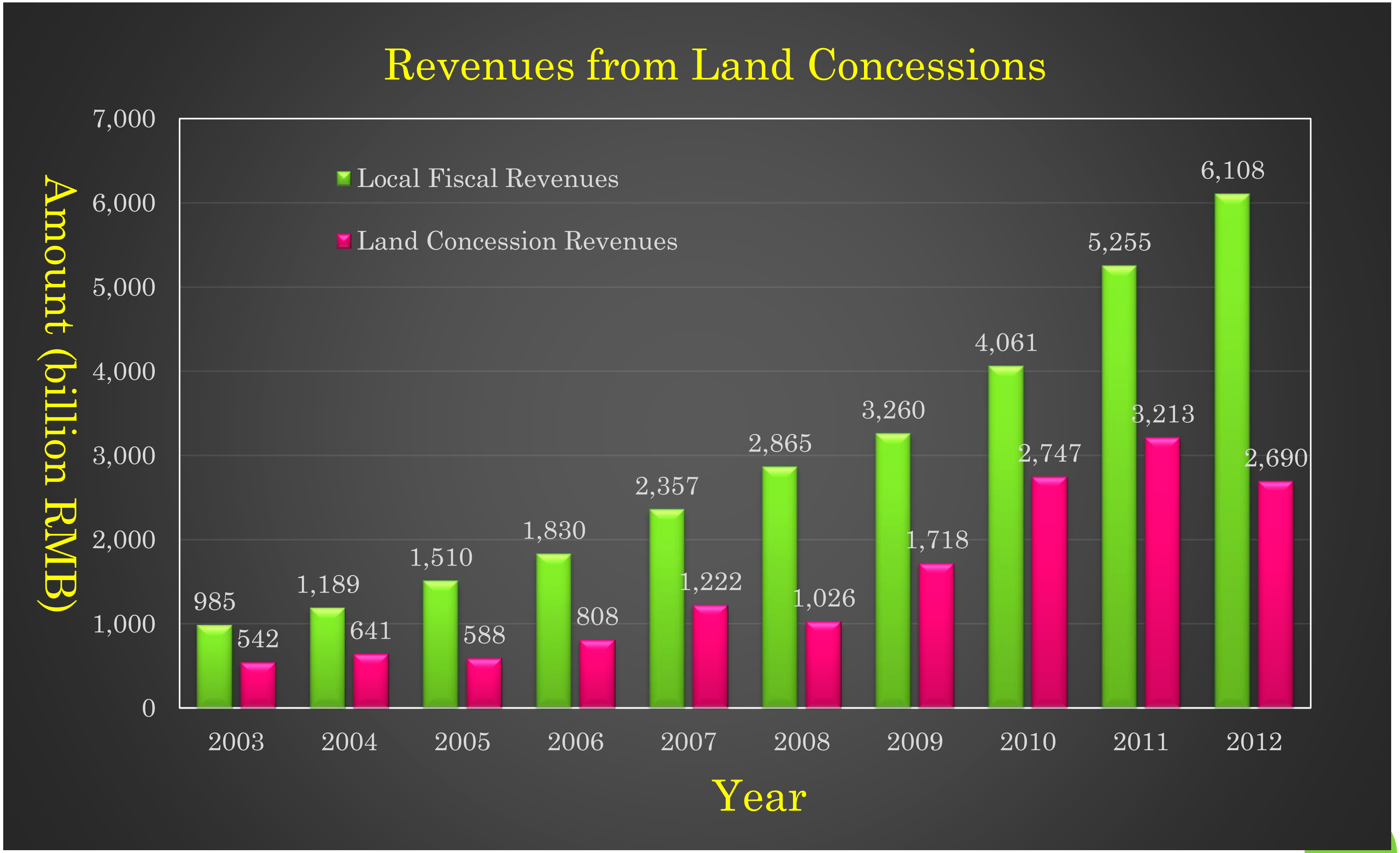
City governments respond to incentives under policy constraints…

constraints

solutions

1. No tax power
2. Not allowed to borrow directly

1. Land concessions
2. Borrow through urban financing platform
3. Boost real estate and other businesses


Revenues from Land Concessions
Local Fiscal Revenues
Land Concession Revenues
Amount (billion RMB)
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
985
542
1,189
641
1,510
588
1,830
808
2,357
1,222
2,865
1,026
3,260
1,718
4,061
2,747
5,255
3,213
6,108
2,690
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
Year

But the urban infrastructure finance model causes a number of urban problems…

PROBLEMS

Urban housing prices

Housing vacancy rate

Local debts

Inefficient and Wasteful land use

Social tension

The new round of economic reform announced by the central government attempts to deal with these problems…

- Land reform: to form a construction-land market that unifies urban and rural areas, and allow the sales, leasing an demutualization of rural, collectively owned buildable land under the premise that it conforms to planning
- Taxation: to accelerate property tax legislation
- Municipal finance: the newly amended Budget Law permits local governments to issue bonds within the limits set by the State Council, but prohibits other forms of local government borrowing

Thank You!