

Urban infrastructure in china



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This paper consists on of issues with public finance within the area of infrastructure. My focus is on China's development and how it is on the rise of becoming an economic dynamo. China is aiming to make its country's global trade and capital flows a powerful force in worldwide management. I will be going into depth about the rapid increase in need for urban infrastructure and what China is doing to fulfill these needs. The issue of infrastructure funding has become more and more of an issue throughout the years. This paper will highlight the many advantages and issues that come with China's infrastructure funding. It will also further discuss the mechanisms that allow China's funding to flow smoothly throughout the local governments and the increase in how " many citizens, administrators, and politicians are interested in increasing public participation in these public decisions" (Susel, King, Feltey 1998).

A. Introduction: Urban Infrastructure in China

Infrastructure is the " internal facilities of a country that make business activity possible, such as communication, transportation, and distribution networks, financial institutions and markets, and energy supply systems" (Businessdictionary 2017). Infrastructure, according to empirical and theoretical studies such as Agenor and Moreno Dodson (2006) and Anderson et al (2006), in Yingying Shi's article, " promotes growth through several channels. It has become one of the number one sources of enhancing factor productivity" (2013). The public nature of infrastructure allows the government to use it as a monetary tool. However, the roles and effects infrastructure plays across countries varies extremely. The relationship the government and the private sector have is at the very center of the problem

determining how to finance infrastructure. EIB PAPERS says, “ it is for the public policy to decide which types of infrastructure to put in place at which network size, to govern the planning and licensing activities and to set the regulatory framework, which determines *inter alia* the price of using the infrastructure services” (EIB PAPERS). China’s economic growth has caused the development of finance landscape to become very dynamic. With the hasty increase in the need for infrastructure China’s biggest concern has become funding. This is affecting the welfare of the citizens, but is also persuading the progress of the society. According to Chengxin Cao and Zhirong Jerry Zhao, “ one of the most important reasons for the slower infrastructure growth is low government spending on infrastructure, which is caused by limited resources of urban infrastructure” (2011). Over the years, the main source of money was converted from mostly financial allocation and local taxes, to land transfer fees. This has caused China to pick up the speed on building infrastructure through their country.

B. In Support of Urban Infrastructure in China

China is today’s number one country that is on the economic rise. It is expected to continue this for several decades. James F. Hoge Jr. states in his article “ A Global Power Shift in the Making” that China’s economic rise will continue if, “ it can manage the tremendous disruptions caused by rapid growth, such as internal migration from rural to urban areas, high levels of unemployment, massive bank debt, and pervasive corruption” (2004). However, because of China’s economic expansion it has become a major consumer of oil, metals, timbers, gas, and fish. This causing it to need more infrastructure.

With new infrastructure projects put into place more citizens are becoming employed. According to M. Jae Moon, “ the idea of pay-for-performance has been adopted by many of the public agencies as a new means of enhancing motivation and improving organizational performance in the public sector under the performance management and recognition system” (Moon 2000). With this put it place in motivates the workers in China to strive to achieve their goals with infrastructure. Jorge Martinez, Baoyun Qian, Shuilin Wang, Li Zhang, and Heng-fu Zou state, “ capital investment in infrastructure is the shared responsibility of the central government and sub-national governments, both levels playing equally important roles” (2014). According to the World Bank (1995) in Yingying Shi’s article, “ China’s infrastructure investment was about 6. 5% of its GDP in 1993, well above the average level of 4% GDP for developing countries. By the year 2009, investment in infrastructure sectors, energy, transport and telecommunications, water and sewage, etc, had reached to about 15% to 20% for the coastal provinces and municipalities” (2013). Today China’s new infrastructure consists of new expressways (one that is about two-thirds the length of the United States Interstate Highway System), airports, railways, and rerouting its rivers. Their public sectors’ granted reforms gives the local governments autonomy on their own spending such as these new infrastructures being built. According to analysis by KPMG and Anne VanderMey, “ last year China invested \$207 billion in road construction and upgrades” (2013). The highway construction is an important part of China’s efforts to create jobs, and helping transport supplies and goods from factories to ports. “ Many of China’s economic goals hinge on efficient transport: The shift from rural to urban living has necessitated vast investments in transit, both in cities and the country”

(VanderMey 2013). With the increase in connectivity through China, they hope they will be able to tap into the immense spending potential of its growing middle class.

Without China and its economic growth, the rest of the United States would not be the same. That is why it is a large asset for infrastructure to be put ahead of any other investment, because it is a necessity. The United States needs China to have more means of transportation and different paths, so that they can receive important goods. “ The nature of infrastructure investment, which requires large sunk costs and whose benefits in general cover a large number of people, is considered best with public provision” (Shi 2013).

C. Against Urban Infrastructure in China

China's economy is rapidly growing and changing every single day. To keep up with the changes money must be involved. One of the main challenges still facing China's fiscal system is the important local differences in fiscal resources across their sub-national governments. “ Regional disparities could be, to some extent, interpreted as the necessary cost to achieve other goals of economic reforms such as economic development and growth and more sub national autonomy; however, the costs of these disparities also have increased and could now exceed the potential benefits” (Martinez, Qian, Wang, Zhang, Zou 2014). It has become hard for local government to be able to finance all of China's expenditures (infrastructure), in fact, at the county level and central areas on the country they are in debt. The central government has tried to enforce the administration of extra-budgetary

revenues and make efforts to reduce illegal fees and add-ons. Because of this, extra-budgetary income and off-budgetary income have become major sources of incomes for China's local governments.

“ According to China's 1994 Budget Law, local governments are forbidden from borrowing in the capital market. However, given the still limited direct financing and indirect financing through intergovernmental transfers much of the actual financing of these sub-national governments' spending is through borrowing” (Martinez, Qian, Wang, Zhang, Zou 2014). Although borrowing money to help build infrastructure is a positive thing it is also very negative because it puts China more and more in debt each time a road or plane is built. “ In result, inefficient and risky projects arise that may not yield long run benefits and may not be plausible given the current and projected local economic conditions” (Shi 2013). We do not see it but several of the local governments in China are in a serious money crisis. This has caused a negative impact on the quality and quantity of basic public services for China. Many people believe that China has weak organizations of budget implementation, does not have control on their budgets, and that the financing model that upkeeps government-led infrastructure development is not supportable

D. Critique of both sides: Money for Infrastructure in China?

Almost everyone in the United States can agree that China is on its way to becoming the number one largest country that everyone depends on. In fact, from 2013 to 2015 China was the world's largest exporter. China is currently Americas biggest banker. The question is however, should China continue to

receive money to continue building infrastructure in their country. According to John Bachmann and Joe Burnett, “ infrastructure has opened the door to socio-economic development in China. Economic growth- facilitated in part by roads, water and power investments- has helped pull roughly 700 million people above the poverty line in the last 20 year” (2012). Not only is building infrastructure allowing each country to interact with one another, but it is also helping China citizens which is a very big deal. The money that is coming from China’s local governments is being put towards something beneficial. China has been able to succeed in infrastructure building because of its centralized political system. Each level is responsible for the higher level of government. So, if one level of government believes that money needs to be put towards a certain part of infrastructure, another part of the government can look and see if this would be a useful investment. The role of infrastructure changes depending on the economic conditions for instance:

“ Infrastructure investment has shifted from accommodating to the growth of an export oriented economy to a fiscal stimulus tool in the lagging area. China has indeed been leading other developing countries in infrastructure building. Infrastructure investment has become one of the most important pillars of China’s growing export-oriented and investment led economy” (Shi 2013).

While infrastructure financing in China can be beneficial to China and other countries it can also have a negative effect. Like I discussed earlier in my paper, debt is a major issue when it comes to infrastructure financing. China normally has received its financing from government loaning and land-

transfer revenues, but as revenues reduce, risks for the local governments have risen. According to Zuo Kun, “ China’s Ministry of Finance is working to promote the PPP model in infrastructure projects by identifying the respective rights, obligations, risks, and revenues of both public-and private-sector partners” (2014). The government hopes with this plan that they can build beneficial partnerships with the private sector and public projects.

E. Conclusion

As individuals, we are all given the freedom to voice our own opinions on topics such as infrastructure financing. On this topic, I believe that China should continue to be given money to proceed with their processes on building new and improved infrastructure. If the United States wants to continue to grow economically then we must benefit from China by supporting them one hundred percent. China may have public finance issues that are occurring within their government but with the help from the PPP mode and private investments in joint ownership the government debt will hopefully begin to decrease and will help solve other financing issues.

China is striving to create more and more means of infrastructure to help every nation possible and to help with this, the central government is determined to improve the urban infrastructure in any way, they see possible. I believe that for a country like China, who has built its economic growth on such low-quality equipment, is an achievement on its own. Looking towards the future, China should continue its five-year plan, “ Going Global Strategy”. According to WWF this plan, “ encourages Chinese companies to invest overseas” (2017). This will help China save money and

not put it to waste. I look forward to seeing China continue to grow economically helping each country in any way they can.

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