

Introduction

Urbanization in China and technology innovation in the United States are two major events in contemporary times, which will have enormous impact on the future development of human history.

Urbanization is a process of transformation from rural life to a life in cities. It has been an engine of the growth in China since the economic reform started in 1978 and will be a crucial driving force of the economic and social changes in the twenty-first century. China was a rural society until the recent past. About 80 percent of the population were still living in the countryside in the late 1970s, not much different from the late Qing Dynasty (1616–1911). A rapid change has happened since then. Hundreds of millions of peasants poured into the cities over the past 30 years and over half of the population live in urban areas now. The suddenness of the change seems to defy some economists' belief that 'nature does not take great leaps' (Mokyr 2000; Darwin 1859).

How did this happen? What is the driving force of this process? What are the obstacles to this process? What is the meaning of this urbanization to China and the world? This book is an attempt to answer these questions. To do so, urbanization is put in a larger framework of the economic growth in China and in the world. The role of urbanization in this growth process will be located and the linkages between urbanization and the stages of growth will be analyzed.

In particular, I will argue that China has two stages of development: the first is overseas market-oriented, and the second is domestic market-oriented. China is in a process of transformation from the first to the second, and urbanization is the key link between the two. China's first stage of development since late 1970s has been export-oriented, targeting the overseas market. An export-oriented manufacturing and trade sector was set up, using foreign capital and domestic rural labor, which is largely separated from the domestic market, importing raw materials, processing and re-exporting to the world market. This is the take-off stage of the Chinese economy in the late twentieth century. However, this first stage of China's economic development is not sustainable. A large country, such as China or the United States, needs to root its industry in its own market in the long run. How can China transform from an

export-oriented economy to a domestic market-oriented one? The answer is urbanization.

Urbanization allows the foundation of a domestic market, with two sub-stages: city building (construction) and the formation of a domestic market. The first sub-stage started in the late 1990s, and has made much progress. A large number of buildings have been built in the old and new urban areas. However, not much progress has been made with the second sub-stage, the building of the domestic consumption market. The construction of the cities has created a large demand for raw materials and investment goods, which impacted the world market. If China can overcome the obstacles of domestic consumer market building in the near future, it will be one of the world's central markets and be able to overthrow the existing world economic order. The Chinese economy will become domestic market-oriented and the exports to China will be extremely important for other countries. The main obstacle toward this is institutional, including the income distribution and residency regulation. To overthrow these obstacles, China needs to relax the residency regulation and give the rural immigrants country-wide citizenship in the next decade. 'Liberation of the peasants' will be the next target in the near future, which will create a huge domestic market.

Government plays an important role in China's urbanization. Since ancient times, Chinese cities have been the administration centers of the government system, as well as the economic and cultural centers. Cities are at the administrative level in the current political structure. In this system, some cities are at higher administrative levels than the other cities. However, urban society has been less developed compared to the state and its administrative system. The future of Chinese cities is thus decided in a game played between the central government and its local counterparts. Successful urbanization in China means finding a proper relationship between state and society, between government and market. The objectives should be to keep government power in check, while maintaining internal solidarity and security in the process.

A large number of books and papers deal with the issue of China's urbanization, in English and in Chinese, for example Vernon Henderson's (2009) paper on China's urbanization, and Yan Song and Chengri Ding's (2007) book on urbanization in China. More research can be found in Chinese, for example: China Development Research Foundation (2010), Gu et al. (2008), Wan and Cai (2012), Chen et al. (2009), Chen (2012) and Tong (2011). These provide detailed analyses of all the important aspects of China's urbanization, and provide their suggestions on how China is achieving its urbanization.

Some books are more general urban economic textbooks, for example

McDonald and McMillen (2011) and O'Sullivan (2009); or focused on China, for example Hu (2005). These books provide general principles of urban economics and/or a detailed analysis on China's urbanization.

Other research is about certain special fields related to China's urbanization, for example: Ren (2012; the housing market), Chung and Lam (2004; government administrative system), Kim and Nangia (2008; infrastructure), EIA (2011, 2012; environment), Dong (2004; history of construction in Chinese cities), Hui and Huo (2007; rural labor transfer), Hu and Guo (2010; grain demand), and many more. These researches provide knowledge and analyses of the special fields, which are needed in estimating the future of China's market and its impacts on the world economy. See also Cai et al. (2009), Chan and Zhang (n.d.), Cheng (2007), Fleisher and Yang (2006), Hua (2013), Lin (2012), National Bureau of Statistics (2009e).

Professor Qiren Zhou, Professor Zhaofeng Xue, Professor Janguo Xu, Professor Lixing Li and Professor Min Wang of the National School of Development (NSD), Peking University, did a lot of field surveys and policy research on China's land market, property rights and land reform, transferring first-hand materials into theory and policies. Guoqing Song, Feng Lu, Yiping Huang, Miaojie Yu and other colleagues of mine at NSD, led a large-scale research on China's international macroeconomic relations, from which I benefited a lot while writing this book. In general, the research of Professor Justin Yifu Lin, Professor Yang Yao, Professor Xiaobo Zhang, Professor Shuanglin Lin, Professor Hemao Wu, and many other colleagues at the NSD on economic development and the Chinese economy also made a significant impact on this book. Professor Barry Naughton, a leading China specialist, emphasizes the complexity and difficulties in achieving China's urbanization on many occasions in his published work, from which I benefited a lot (Naughton 2006).

Chinese names are given throughout the volume in a style that has been used in the West for a long time: the given name without a comma followed by the family name (i.e. Xiaoping Deng). Commas are to be used only to invert the author's name (or name of first author if more than one) in the References list (i.e. Deng, Xiaoping). The book uses simple economic theory, for example, factor allocation, transaction costs and scale economy, and illustrates some basic points with statistics, charts and case studies. Part I of the book deals with the urbanization itself, discussing the trend and current status of urbanization in China, industrialization and urbanization, the massive migration from rural areas, construction and the housing market, and the social problems caused by urbanization. Part II focuses on the impact of China's urbanization on the world market, discussing the raw material markets, consumer markets and production-

factor markets. Part III is about the policymakers' decisions, including relating to the trade-off facing China and the world, to give the reader a more realistic idea of how complex the problem is and what challenges the leaders are facing.

