# CHINA'S "GHOST" CITIES

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# Executive Summary

1. Several Chinese cities are now notoriously known, not for their development, but for their impressive but empty skyscrapers, luxury apartments, magnificent squares and wide road. These “ghost cities” are a result of excessive housing and infrastructure construction, and speculation on property demand.

2. The situation is further exacerbated by the new Chinese leadership’s urbanization move to drive economic growth and reduce economic disparity between rural and urban areas.

3. Urbanization is regarded as the new engine for unleashing the benefits of the reform by raising the income of the rural population and achieving economic rebalancing through domestic consumption.

4. To the local governments, accelerating the urbanization process means more investment in infrastructure and housing construction. The state’s urbanization push has led local authorities to rush to build new cities and towns.

5. In China, the overemphasis on urban infrastructure investment is at the expense of providing basic social services and decent living conditions, and creating job opportunities. China’s urbanization literally became an inter-regional competition and campaign for city and town building.

6. China’s ghost cities are the byproducts of the Great Leap-style of urbanization and a consequence of land-centered urbanization which has outpaced the urbanization of people.

7. Land-centered urbanization is rooted in local GDPism, which in turn results in aggressive developmentalism and excessive investment among local governments.

8. Local authorities have poured massive investment into infrastructure and real estate projects to secure ‘fast economic growth’ and meet local GDP targets to secure officials’ political promotion.

9. The huge spending on real estate and infrastructure construction, based on borrowed money, translates to soaring local government debt which has already spun out of control. The issue could present a systemic risk to China if not adequately addressed.

10. Local government debt problems could be solved if its outdated tax and revenue sharing system between central and local governments is replaced with a system that ensures local governments’ financial capacity before infrastructure construction and social services provision are carried out. Local governments have to align expenditure with revenue resources.