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CHINA'S URBANIZATION AND HUKOU REFORM

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PARTICIPANTS:

Opening Remarks:

CHENG LI
Senior Fellow and Director, John L. Thornton China Center
The Brookings Institution

ZHOU ZHIXING
Chief Executive Officer
Consensus Media Group

Panel Discussion:

HU BILIANG
Dean, School of Development Studies
Beijing Normal University

HUA SHENG
Honorary Dean, School of Economics & Management
Southeast University

LI GUO
Senior Agriculture Economist
Agriculture and Rural Development Sector Unit
The World Bank

DAVID DOLLAR, Moderator
Senior Fellow, John L. Thornton China Center
The Brookings Institution

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P R O C E E D I N G S

MR. LI: Well, good morning. My name is Li Cheng, I'm a Director of the John L. Thornton China Center, here at the Brookings. Welcome to our event on China's Urbanization and the Hukou Reform.

It is hard to overestimate the importance of today's topic, China's urbanization process over the past three decades, has been the most rapid in human history. In the early 1980s only 20 percent of China's population lived in urban areas, now it's about 54 percent. Today China is the home to 5 of the world's 10 most populous cities.

Urbanization was, is, and will continue to be what the Chinese leaders call, the engine of China's robust economic growth. But as China is in the midst of transforming her economy, or her economic development model, from the export-led growth economy, driven by cheap labor at a huge environmental cost, to a new consumption-driven, innovation-led, and a service sector-centric model, the next phase of the China's urbanization will confront, multiple new challenges.

PRC hukou -- PRC is a hukou system, the Chinese version of segregation that prevents migrant workers and their families from accessing social and educational services in urban areas will go through a profound change. Hukou reform is closely entwined with many other crucial reforms; such as financial reform, housing reform, fiscal reform, and land reform. It also raises environmental, demographical and social political concerns, and has already led to heated intellectual and policy debates in the country.

Today we will hear from our distinguished panelists, about what the next phase of China's urbanization will look like, and how the negative implications of urbanization can be overcome. We are so honored to have two leading Chinese experts

on the subject.

Professor Hua Sheng, honorary dean of the School of Economics & Management in the Southeast University. And Professor Hu Biliang, dean of the School of Development Studies at Beijing Normal University. They will be joined by Dr. Li Guo, The World Bank's senior agriculture economist in agriculture in the Rural Development Unit. The moderator for their panel is my esteemed colleague, David Dollar, the China Center's resident economist, and the former country director for China at the World Bank.

Now I would like to mention that the Dean Hu Biliang and the Dean Hua Sheng, are part of the Chinese delegation led by Zhou Zhixing of the Consensus Media Group, who I will introduce in a minute, and who will offer his brief remarks.

The delegation includes prominent PRC scholars in various fields. I would like to ask each of them to stand up and be recognized.

Professor Chin Hui, would you please stand; as we know he is a leading historian on peasants and also many other issues; and Professor Mao Zhenhua, from Renmin University. Professor Xu Zhangrun from Law School of Tsinghua University; Professor Jin Yan from China University of Political Science and Law; last but not least, Professor Li Yinhe from the Chinese Academy of Social Sciences.

By the way, Professor Li Yinhe, known as the China's first sexologist, will be featured as the keynote speaker at our event on Women, Sexuality and Social Change in China, tomorrow morning at 9:00 a.m., here in this same auditorium. You may need to arrive at 8:00 a.m. in order to secure your seat, you know, because who doesn't want to talk about sex first thing in the morning.

Finally, I would like to introduce my friend Zhou Zhixing, the Head of the Chinese Delegation that is with us today. So, he's the Founder and CEO of the Consensus Media Group, whose Leaders and Financial Digest Magazines, are among

the most influential journals in China. He began his career at the Central Party Literature and Research Office, before starting his own business. Mr. Zhou also worked for Phoenix TV, where he was in charge of the website and founded (the school) -- called Phoenix Weekly, a very important magazine published in Hong Kong, but widely circulated in China, and so as its first Editing Chief.

The Consensus Net, a digital platform focusing on China's domestic politics, history and global affairs, has become an important venue for scholarly change policy debates. This interactive online magazine has the model to seek consensus in the area of great change. To seek consensus through public discourse is critically important for China today, as it becomes increasingly prolific in so many ways.

It has also become one of the biggest challenges for the Chinese Leadership, this has -- I'm reminded of what a French President, Charles de Gaulle, once said, I quote, "How can you govern a country which has 246 varieties of cheese?" So this is the challenge that China faces today.

Ladies and gentlemen, please join me in welcoming the man who has built such a wonderful platform in Chinese public discourse, to seek consensus, while respecting diversity, Mr. Zhou Zhixing. (Applause)

MR. Zhou: (Speaking in foreign language). Sorry I return my English knowledge back to my teacher, so I need help.

Thank you very much, the Brookings Institution, for having me, and also I would like to express my gratitude to my old friend, Li Cheng, and also I saw my old friend Dr. Lieberthal, yeah.

Well, I came to Brookings many times but this is the first time I'm standing at the podium. I know I was given this honor because my distinguished colleagues are here, otherwise Dr. Li Cheng would not have me standing here.

And also this delegation is co-sponsored by Consensus Network, and also Innovation and Development Institute based in Shenzhen, and last year in November, the Institute -- the Innovation and Development Institute sponsored a forum called Innovation Forum, and the theme for that forum is How to Govern a Country.

And in my delegation, Mr. Muldin Hua is the Dean of Innovation and Development Institute, and he told me that they are going to hold another forum this year in autumn, and so I welcome everyone to come to Shenzhen to participate in this forum. And Shenzhen is ranked the number one in the -- city of innovation in China.

Is that okay, Mr. Mao? Our visit to the USA at this time is a continuation of our ongoing mission, and that is to build a bridge between the East and the West, so both sides will come closer.

I know a lot of Americans are interested in the affairs in China, and many of you, or more or less, know the problems in China just like we -- in China we know United States faces problems as well. So our mission is very simple, that both sides, we and you, we learn from each other the good points, and then we help each other to overcome the problems.

I don't want to take too much time, so next I would like to invite our distinguished experts from our delegation to make their presentation. Thank you.

(Applause)

MR. DOLLAR: Good morning. I'm David Dollar from the Thornton Center here at Brookings. I'm very happy to moderate this session. This is a fantastic topic, as my colleague Li Cheng said, in some ways China urbanization is the fastest we've ever seen in history, the urban population went from about 200 million people at the beginning of the economic reform, to 700 million people 30 years later.

But in another sense, urbanization has actually been slow in China. You

know, as Li Cheng said, the urban population including migrants now is 54 percent of the population, and that's actually quite low for China's stage of development. When South Korea was at this stage it already was 70 to 80 percent urban, so we can anticipate that probably another 200 or 300 million people become urban in China over the next 10 to 20 years.

And we all know about the hukou system, and it makes sense that if there's a system restricting movement, that's probably one of the reasons why the urbanization rate is somewhat low in China. So a lot of talk now about reforming hukou, to me the key topics here are hukou reform, more generally the process of urbanization, and then that ties to the whole issue of land use.

So we are very happy to have this outstanding Panel. From China we have Hu Biliang, Professor and Dean of the School of Development Studies at Beijing Normal University. Their bios are on the material, so I'm not going to waste time with a long introduction. Hua Sheng, Honorary Dean at the School of Economics & Management at Southeast University. And then my former colleague from The World Bank, I'm former, he's still at The World Bank, Li Guo, a Senior Agriculture Economist, and someone with long experience working on land and agricultural issues in China.

So I've asked them each to start with about seven minutes of remarks on this topic, and after that, I'll take a few minutes to ask them some questions, but then we'll open up and make sure there's plenty of time for interaction with the audience. So we'll go in the order we've got here, which is Hu Biliang first.

MR. Hu: Thank you very much, David. I'm very, very happy today to be here by chance and to meet some good friends, old friends, like David Dollar, he used to be the country director, the bureau chief, and also chief economist of The World Bank in Beijing. And also my boss, Peter Bolton? I saw him. When I was working with The World

Bank, Beijing Office, he was exactly my boss, and he was my advisor.

He was the chief representative for The World Bank in Beijing, and at that time it was the early in the 1990s. We are happy to see you. And also, Li Guo, he used to be -- we met each about thirty years ago, so good friends. And I'm also very happy to meet some old -- new friends (inaudible), I read, very intensified, his writings from time to time, from many years ago. I'm very, very happy, so today I feel they are the happiest people -- man in the world. So, thank you very much for all the organizers to your -- your having me here.

So just -- David mentioned that, and also he, you know, asked me to give some comments about hukou system reform, was because I had this speech in National Committee of United States-China Relations in New York. You know, I had a whole talk about being the new urbanization and the impetus to the future of the family in China. So I don't want to repeat what I told you in New York, and you may read some of the news about that, I'm going to focus on hukou system reform.

I tried to give you three points for your comments and reference; number one, my general judgment about hukou system reform. Generally speaking, the situation is getting much better, you know if -- so that means the hukou has been one-and-a-quarter family households within the registration system, has been relaxed a lot, now than before.

But we need to also, you know, at the same time to see your changes among different cities, different types of cities. It's quite different. If you knew (inaudible), you know, the government intended only to, you know, relax the control of the hukou, for the people moving into more cities, mostly maybe the medium-sized cities, but not for the big cities, particularly for cities like Beijing.

I think the control even more, you know, severe now than before, more

restrictive control like the 4 big cities, like Beijing, for example, as you know that, over the past many years, you're not -- you know, immigrants into Beijing was about -- you know, normally more than 1 million for many years, but gradually it reduced to about, you know, 0.8 million, but now it's less than 0.5 million.

So the control for the big cities, you know, is more severe than before. But for the small cities, and the small towns, or medium cities, the government is encouraging the people, you know, move into these types of small cities, but they don't have any interest in moving. Right? Because you know, lack of social services; and the public provision is not comparable with the big cities.

And also, you know, lack of opportunities in these kinds of cities. So they want to stay there. So by the governing improve -- you know, encouraging them to go there, so there's contradiction always between the government, and what the government is thinking, and what the people are thinking. You know, so that's a general situation.

So the second point, what's the main problem? Now, there are two problems, the first problem is, I think you'll see -- to ignorance, the first ignorance is the government neglected the importance of the market role in the process of urbanization. So the government was -- you know, think urbanization is a government-planned process. It is the government-designed the process, you know, it's not a market process.

So this is the older mentality for years, but the situation has been still going on. Even, you know, look at in your plan, which was issued last year, the state's new urbanization planning 2014 to 2020, it's the old mentality. The government plan, we are going to do this, and to do that, but you know, maybe the people don't think a lot this way, they ignore the importance of the role for markets into the process of urbanization; this is one ignorance.

The other ignorance, the government ignores to improve the social services, social -- you know, the public goods, and provisions into the -- in their medium-sized cities and small towns. At the same time the government is encouraging people to stay in there, without, you know, better services, or the improvement of the services, to the people in the small cities, right? So that was a contradiction with, you know, the people and the government.

So these are two ignorances, and then my suggestions to focus on two improvements. You know, by linking with the ignorances. The first improvement is the government needs to improve the macro environment for -- macro environment for the market to play a more important role in the process of a new urbanization. So this new round of urbanization based on the market regulations, based on -- the market works, right.

So, I think this is very critical, you know, what to think, what the government, you know, should do, but they don't think about the people, don't think about the market, you know.

Okay. So the government of people to follow the logic, when you think about urbanization, actually, it's kind of a market that's force driven. The factor flows into certain places, what are concentrated, what are expanded. That depends upon the government -- market, not depended by the government. So, the government to improve the environment to allow the market to play more importance in process of urbanization; this is one improvement.

The second improvement was of by linking with ignorance, it's the government needs to improve the public goods provision, and public service provision in the small and the medium-sized cities, so people have, you know, make small towns and small cities, medium-sized cities to be more attractive to the people, so you don't need to

force the people, you know, to do this or to do that.

So the people they can make decisions by themselves, because of they are rationale people. So these three points I would like to share with you for your comments and reference. I would like to stop here.

MR. DOLLAR: Thank you very much. Very interesting, and exactly on time. So, thank you very much. Hua Sheng?

MR. Hua: Yes. Good morning, ladies and gentlemen. I'm very honored to be with you here. And, yeah, coming here reminds me that it has been 24 years since I came to U.S. the last time, so I notice no familiar face here. The last time we were invited by the State Department to discuss what happened in China in 1990s.

I'm an economist focused on the mechanism design. In the 1990s, and I -- and with my colleague we put forward a Dual-Track Pricing System, which was accepted by the Central Government and influenced the Chinese Economic Reform process throughout.

And the number two is about the State Asset Management System. It works not so well, and I haven't got time to help them to sort it out. The third one is the topic today, the urbanization, and actually in China you can notice it's called the New Urbanization. This was put forward by me 10 years ago, you may remember 10 years ago, in 2005, the Chinese Communist Party issued a document, and going to launch a movement called a New Rural Development, or New Rural Construction.

I wrote a letter to the General Secretary and the Premier at that time, Hu and Wen; I said, this is not a good idea, because the new rural development was an old concept under Chairman Mao, and now the world has changed. Now China needs industrialization and the urbanization to modernize China. So what is important and is not, the new rural development. Yeah, it is good and important, but not so important for

the whole nation.

So, I said, the new urbanization maybe should be focus of the government. And actually the new urbanization, including a few concepts, one is about hukou reform; that is household registration reform. The second concept is about the land, the land reform. The third one is, constant with the financial reform, especially how to -- financing the government budget.

The three things are combined together, but these would not endear? the new leaders coming to office with the idea again to accept. So, now the thing is how to sort out problems with a combined plan. Yeah, just I have heard people now quite clear, in terms of international comparable standard, China's urbanization, right, is well below the comparable economy at this stage. And so in this sense, and I'm afraid a little bit different from Li Cheng, China's urbanization process it is not the rapidest, it is the biggest in terms of the human shift in world history, but not the rapidest, because South Korea, Taiwan and Japan spent less time to reach 55 percent of urbanization.

So that's actually the main problem or the main imbalance in China today. During the past -- a few years ago, I think, when I put forward the suggestion, that at that time many people both in academic circle, but also in government believe that China's system, what I mean is the farmers, who have double status, both they work in city and also they have land in their village, is a very good model, it's special characteristic of the Chinese economy.

It's actually why -- make China become most competitive in the world. And also that's why China has the freest labor market, it seems to me, in the world, and that is the key reason why China to become the so-called world factory. So not until the second generation of agricultural work, and migrant worker growing up; yeah, there is the shift in the government, also in academic circle.

That is, the people realize we have to seriously deal with the migrant worker's problem, yeah, because the second generation of migrant workers they have no skill or knowledge about the agriculture. And they have no intention to return to their hometown. So it will become a big trouble for the government and for the social stability. I think this is one of the very important reasons why the government will listen to the idea of the new urbanization. That means it might need to sort out the problems, yeah.

Also, the hukou system is not something new or invented by the Chinese Communism Party, it's a long history in China, yeah. The problem was, it was very popular in the period of Warring States, a few hundred years BC, and as an instrument serves for tax counter-corruption purpose.

So, you know, after the Chinese Communism Party took power there was no migration control at all, but the internal logic of the (inaudible) economy demands to control the human resources, so that's why it was set up in 1958, and the hukou system actually was gradually relaxed in 1994, because it was the first time the Chinese Government allow the agro -- agriculture, the rural residents to find a job in the city. And to (inaudible) so they can feed themselves.

So you can see the main concern for the Chinese Government always, the supply of the food. So, with the family farming in China called Household Responsibility System, saying we have plenty supply of adequate food, and also surplus of labor. At that time I was a farmer in the countryside for many years, during the Cultural Revolution.

So, since then things began to change, but the thing is, agricultural worker, they have no urban status, or no urban hukou, and so they are -- yeah, they are in a under-class position. There is no housing and no social benefit on its own cause.

So now, the thing is how to deal with this. The new -- the government

actually has pushed forward the hukou reform, and officially we began to take two approaches. The number one is to separate the social benefits with the hukou, because without social benefit hukou is meaningless, it's meaningless, okay. So, the idea is very good, and the Government Leader is very easy to accept it, because it's -- complied to the Chinese economical reform, as a gradualist way.

So that's one approach. Another approach is, to set up a marketing system, if you have accumulated at a certain point you can directly get to the urban hukou. So the two approach looks very good on paper, but the trouble is, so now what the Chinese Government, they are facing with is the real problem. For number one, to separate the social benefits from hukou.

The problem is for the pension and the medical care, is already separate from the hukou, is combined with the employment, even you are employed, you have to pay the pension contribution, and things like this, and then you can get all the pension and the medical care better than U.S., in China. But you see it's, because the agricultural worker they stay in one place in very short time, they move very quickly.

So they don't care about their benefit in remote -- for the future, for the employee -- for employer it's good just to pay a little bit more salary without social benefits. So, as a matter of fact, majority of the migrant worker, have no social benefits. It's not -- the law of the regulation prevents this, it is the economic logic, yeah, becomes a reality. So that's number one.

Number two, about directly the marketing system, the point is, for the big cities, they set up very high standard, it's very difficult to accumulate the points, yeah, it's easy for people like overseas scholars, like us, but it's extremely difficult for the agricultural worker. So, because every hukou account for a big sum of money, this estimate, even being small to middle-sized cities, it needs something like around

USD20,000 to pay for one hukou.

And in the big city, it's much more. So, the local government has no incentive to do this, and the point here is, the land, selling land, the cattle land from the farmers, and selling it in the housing market, that is the main financial resources for Chinese local government to finance infrastructure in the city -- of the city. So, the main thing is to provide low-cost housing to the migrant workers; that is the key of the hukou reform, land reform, financial reform.

But just in this place, that's the fragile part of the Chinese Government. The local government is -- yeah, that's like their main financial resources, if they provide the low-cost housing, that even become more difficult, because even at the moment, they are in big trouble over the high debt.

And for the Central Government, they pay more attention to the so-called shanty town generation, and that is the real -- to indicate to really -- be it the problem area within the city. Yeah, it's good but it's not for the agricultural worker -- Okay, I will finish it here.

So I think the main challenges to the Chinese economical growth lies here in fact, the migrant workers and their families. Of course, most of their family members is in the hometown, so we have more than 60 million children left behind in their village. So that is something which is really shocking.

But how to deal with this? Yeah, the money, the land reform and hukou reform, they are combined together. And China (inaudible) the agricultural work. The urbanization rate actually stands before 36 percent of the whole population. It's very low level, yeah, it's an underdeveloped country. You know, it's a very backward country level. So, China's economy at this stage cannot support the economic rules with so low urbanization rate, and that's the key of it. Okay. I will stop here. Thanks.

MR. DOLLAR: Thank you very much, Sheng Hua. I expect you to learn a lot this morning. I already learned that the registration system goes back to the Warring States period. So, I find that fascinating. I wonder if Confucius wrote anything about the hukou system. I'll ask them that later. Li Guo?

MR. GUO: Okay. Thank you very much, David. First, I'm very happy to be here to meet some old friends, and I also have an opportunity to make some new friends. And I really appreciate this opportunity to exchange views on urbanization, as well as hukou reform.

I'm an Agricultural Economist, and I, you know, work on rural development, poverty reduction, and policy dialogue, and agriculture is more (inaudible) development in China and the East Asia countries as well as some African countries. So I think you will not be surprised I will approach this issue from rural development perspective, because eventually the core issue is how to -- you know, urbanization is how to deal with, how to treat this 300 million, 400 million farm workers, migrant workers.

And also, I think it's very important to keep that in mind. You know, when we talk about urbanization, we should also ask the question, what's the impact on China's agriculture and rural development, because there is a question whether the current status, the current level of the rural development and agriculture, can support further urbanization or not. What's the implication?

So, I think it may be useful to have a little bit of background, you know. What we saw today in terms of urbanization, hukou, large-scale urban -- migrant workers, actually is a result of quite a successful story in terms of rural development in terms of over economical development. So in the past 35 years, you know, starting with the -- in late 1970s, or early 1980s China, you know, dismantled People's Commune, and introduced people, Household Responsibility System, and increased agricultural

productivity.

Then create, you know, very vibrant, dynamic towns, village -- enterprises sector, and then follow up very -- how to say -- how the very fast overall country growth and the social transformation. So then we reach to current status, our current, you know, situation, then we are facing urbanization on a larger scale of the migrant workers.

So, by pointing out this background, I just want to draw very important difference between China and many other developing countries, because they work on -- African countries, the Southern part of Africa, I saw they have a very high urbanization degree like in South Africa. You know, 65 or 70, but that kind of high degrees of urbanization actually is a result of a serious underdevelopment of a rural sector.

So basically, we observe the situation in some countries, it's just migrate rural poor to urban poor, and we all know actually urban poverty is much more difficult to deal with, as in China situation is a little bit different.

And so in terms of China's urbanization, I think the previous two Panelists already, you know, point out, somewhere around early 1980s, we have only 18 or 20 percent and then last year I just checked it, if I come walking into this auditorium I check the website, and the Statistic Bureau says, by 2014 urbanization degree is 54.77.

So, Hua Sheng also made a very good point, that's by where you live, you know, live more than six miles, then you count as urban population, but if you actually look at hukou, by hukou category actually it's a real urbanization degree, it's only about 38 or 37, so there is about 18 percentage points difference. So this 18 percentage points actually represent 250 million people.

So now we have 750 by that definition, by where you live, 750 million urban population, but by hukou, actually, it's only you have to deduct 250 million from

there. Then by 2030, we expect there another 150 million people will move to urban area, basically each and every year, about 1 percent or maybe a little bit higher, accelerating rate.

But the big picture -- big picture like that. So that's a -- so lots of challenge, so I think the first is the government -- fully appreciates the importance of urbanization, and also understand how important to treat migrant worker and existing urban residents equally. For example, you know, if you read NDRC, National Development and Reform Commissions; new development -- A New Urbanization Plan, and issued the last year, early last year.

Actually they give a very high status in terms of importance, attach great importance of this issue. They say that's an opportunity for China, you know, as an engine for, like Li Cheng mentioned, it's an engine for next round of economical growth. An opportunity to upgrade in China's economical growth model, and also opportunity to promote, you know, more balanced original development as well as opportunity to -- a golden opportunity to modernize China's agricultural sector.

So in terms of a challenge, you know, again from agricultural to rural development perspective, I think it's very -- first of all, we should never under -- I know, maybe you compare with Japan, South Korea, now slow, in terms of from 35 percent -- 30 percentage to 52, 50 percentage of 55 percentage where we are slower than Japan, but we have to take into account that China's, you know, large-sale population size.

So I think that will be a long process. It maybe take another 20 or 30 years, so you know, the People's Congress in March, some very senior government officials says, it make take three to four generations, based on what they observed before 1949, before the Communist Party took power. One farmer household moved to Shanghai, after they actually settled down, and they become real -- behave real like, you

know, urban residents, it took them three or four generations.

So the first challenge is a long process. The second challenge I think is very complicated, we should never underestimate the complexity, because this involves not only hukou, hukou is a piece of paper, but actually has implications on land management, property finance, housing, education, medical services, and urban administration, administration is so -- it's a mixture of so many challenging area a government has to move, you know, meaningful reform to achieve their goal.

So this is a process, I think it's full of negotiation and compromise, and between different interest group, between local government and the central government, the government of course, the central government can play a very important role but this is a negotiation process, and a compromise process.

As we all know -- as we all know, you know, now it's about 14 or 15 provinces, the public abolished the two type hukous, everyone, you know, is just treated the same, but in reality they didn't treat them -- they enjoy the same benefits. So, as again, that's another just a piece paper -- a piece of paper issue.

Now, also, another challenge is, 80 percent of the urbanized people, actually their employment come from private sector. So I say that we definitely need to have a very enabling environment to foster the private sector development.

Another one I think is very important, and many people ignore that, is how to treat farmers land rights during the process. As we all know, in Chengdu, in Chongqing, some areas, you know, the pilot area, they ask the farmers to give up their land rights, give up in exchange for public service, in exchange for -- you know, I think that's not right, definitely. That's against the law.

You shouldn't give up your property rights in exchange for some government service. So, I think one indicator, to evaluate the success of the urbanization

as well as urbanized -- hukou reform is how you treat farmers' land rights.

Another is a -- the final one is actually the impact on agriculture, because as we all know, as 250 million, 400 million people moving to cities, their incoming -- their consumption structure change, and has a huge implication on agriculture outputs; whether China's agriculture sector can match the challenge or demand, that's a question. So we have to keep that in mind. Let me stop here. Okay.

MR. DOLLAR: Okay. Thank you very much. It's very interesting. So let me start the conversation by asking each of them a question in turn, and then we'll have plenty of time to turn to the audience, so we start with Hu Biliang.

So I took from your comments that you are in favor of kind of a more market oriented approach. So in some ways it kind of anticipates the question I want to ask you, but I'm going to go ahead and ask you anyway, because I want to press a little bit into this.

It seems to me this idea of encouraging people to move to third and fourth-tier cities is actually quite risky. You know, the big productivity gains come from people moving to the most productive cities, and presumably kind of a more market-oriented approach would lead to that. And given China's demographics, the workforce is actually going to start declining in cities like Beijing and Shanghai unless there's a steady stream of migrants, you know, coming from the countryside.

So I would think over time, you know, the incentives might change. But my question for you really is, are people responding to this new openness in third and fourth cities? It's early days, but are people actually moving to third and fourth-tier cities? Those happen to be cities where we also know there are lots of empty apartments, so potentially this could be an attractive policy. People moving to cities where there is a lot of housing available, presumably housing prices are going down.

What I worry about, the real question I want to ask is, what are those people going to do for work? You know, that's what I worry about, is what are the employment opportunities in third and fourth-tier cities? You know, there's been some talk about, you know, some of the manufacturing base kind of moving westward and into third and fourth-tier cities, I'm very skeptical that the government can direct manufacturing investment into places like this.

So I worry there's a risk that people might start moving, and in fact there's really no employment for these people. And/or they, in fact, don't respond, so it's more free to move to third and fourth-tier cities, but perhaps nobody is actually doing that. So I'd like to hear a little bit more about that.

MR. BILLANG: Okay. I think the migration is a very selective process. You know, some people moving into different places, not determined by the government, even sometimes, you know, they are not determined by themselves. I like to stay in Washington, D.C., I like to stay in New York, right? If I cannot find job, if I'm not capable to find in a job, I'm not capable to pay the cost of living. I cannot be there.

So this why the open society, like the urban city system, without hukou, this kind of a system, in U.S. is working very well; right? That's purely depends on number one, depends on the market regulations. The market, you know, determines where you do the selection by yourself, as I mentioned you are making decisions, making the market worse.

So this is why I focus very much on the market forces in the process of the selection of migration. The other point I'll also mention that, is the government function to provide better services. So when you get -- get banished, so this is the equilibrium between the government action and the market action. So, but we pay very much attention to the over -- you know, overdone by the government, over the past

years, but you elected to the importance of the market, so from now on, we need to do that, their job.

And the other factor, if you think about the China situation, is because why people saw a very -- they have a very strong motivation to move from rural to the urban areas, as Hua Sheng just mentioned that, because the government, you know, discriminated, long time, urban bias policies. They put much, much, you know, energy or investment into the -- into cities for their urban residents without any reasons.

But they discriminated, on the other hand, to their farmers. You know, who contribute or not to the primary accumulation of industrialization and urbanization in the initial stage of the founding of New China, right. So this is the policy, a lot of fear for part of the people, so this is the Dual System working in China, is very, very unfair, one country two systems. So this is what a lot of people say; right?

The two worlds, one country two worlds; so these two things, when you - - were you to think about that, if we got we can -- (inaudible) where, think about the urbanization hukou system from these two ways, so I think it's a situation where we are gradually getting improved.

MR. DOLLAR: Well, it naturally leads to the question I want to ask you, if you want to comment on this, but the question I was going to ask you is very closely related, Hua Sheng. You mentioned that remarkable statistic which I've seen before, that there are 60 million left-behind children in China. So, children where both parents have moved to cities, they are typically living with grandparents and going to rural schools, and despite the big effort to improve rural schools they are a much lower quality than urban schools.

Now what I worry about, so first there's an ethical and equity issue. But aside from that, there's a practical economic issue. As I said, the urban population

workforce is going to decline in China because of the demographics unless you have continuing rural-urban migration. So a lot of the new workforce in the cities will in fact be those 60 million children, you know. Many of those 60 million children who are studying in the countryside are going to move to cities.

So the question is, as China moves up the value chain in manufacturing and it becomes more of a service economy, it needs various skills and college-educated, you know, potentially this could really become a macroeconomic constraint for China. From the point of the country as a whole, I think it's in your interest to invest in those children, and the easiest way to do that, in fact, is to educate them in the cities. It's easier to provide quality education in the cities.

But you, yourself, pointed out that local governments have no incentive, right, an individual local government has no incentive to take in a lot of these people and spend the money on educating them, as you develop a freer labor market, you know, a lot of that benefit could easily diffuse because you study in one place, and then you move somewhere else to work. So it's kind of a classic externality problem from the point of view of the local government.

You also briefly mentioned the issue of what you call financial, which I think mostly you were thinking about fiscal -- you know, fiscal issues. So the question I want to ask you is, there have been some good ideas about fiscal reform in China, and changing the incentives for local government, right. So it seems very much in China's interest to have fiscal reform to make sure local governments have the resources to educate all the people there, and provide health services, et cetera.

It wouldn't be that hard to do the fiscal reform, there's talk of changing the incentive for local government, you know, are you -- do you see that these changes are actually going to come about? Can you give us some sense of progress on whether

this will address some of these problems?

MR. SHENG: I don't know whether I can answer you this question, because I spent four years, write two books to analyze things like this, and it seems to me the most important is to set about a mechanism which can work in the Chinese context. So that's what I'm doing, during the past 30 years. So I think, yeah, all things related, and yeah, how to finance the migrant worker and their families. Okay.

The point is they have -- the money have come to -- from the land, yeah, because urbanization, the land around the city value increased sharply. And now the increasing of land value in the cities captured by the land developers, okay, and also the government, local government -- well the local government is using the money to finance the city development.

And so the main problem is, all these migrant family, they have land, but in a remote area in their villages. According -- yeah, it was very little even in a free market, just like in the U.S., yeah. The remote area agriculture lands, it was very little, but all the land in the city, or surround the city, value will increase tremendously. So I look carefully into the experience of Japan, South Korea and Taiwan, and I think they offer a valuable lesson for us.

That's why only the East onshore regions become a developed economy. I think the secret is here, we should be attending to here, we should -- to study their example, for all these three areas, there is no slum, large-scale slum, they have transformed majority of the population into the citizens within less than 50 years.

So I think what China should learn from them, although China is a huge country and it's not comparable, but in terms of farmer land, in China it's very similar to Japan and South Korea, and Taiwan. So the population, as a whole, is not a problem. The thing is the percentage. Do you see? So I can't give you an answer here, and yeah,

I think we -- yeah, let's keep on.

And we should look to stress, and I have to -- Also I want to draw your attention to is, because the big scale of China; that is a real problem. That is, in many developing countries, or developed countries, there is large percentage of population concentrate in the capital, or in the business center. Okay. In this, the (inaudible), say, 20 percent -- even 30 percent is not something surprising.

But for China, even 10 percent of the population concentrated, let's imagine in Shanghai or in Beijing, that's more than 100 million people. Okay. That's equivalent to ecological disaster.

So I think the Chinese leaders worry -- yeah, it's worth consideration. But the current reform, and they have the land reform, experimental reform, is going to carry on for the next three years. It's very bad -- it's very bad direction, yeah, and I think we need to (inaudible) this. Yeah.

So, now the thing is how to set up Backlist, which it can motivate all the people? In the local government, the central government, and also in business circle, and transform the migrant workers and their families become citizens; the urban citizens and with -- proper founded, and come from the land, the value of land increase. Yeah. So that's a mechanism.

According to my experience during the past 30 years. Most important is, you set up a mechanism combine all the people's interest, it can work. Like the Dual-Track Pricing System. Look, it sounds in the first -- in the first place, it sounds -- to some seem ugly, but it will work very well. Yeah. For some it's a tool for the anti-corruption campaign, so the new job is to set up a mechanism, how can it work to control corruption in a country like China, emerging economy with a Authoritarian State. Okay. I'll stop here.

MR. DOLLAR: Thank you very much. Li Guo, you mentioned the issue of farmer's property rights over land. So, I read recently that the average density of Chinese cities has actually gone down. So we've emphasized this tremendous increase in population but the percentage increase in land, has actually been greater.

It's really quite remarkable, right. And I think it's related to the incentive that local government has to dispossess people on the outskirts of the city, pay below market compensation, it's a way to accelerate development, it can also be a source of corruption.

So I guess my question for you, because I know you've studied the land issues. Is this what's essential a property rights issue? You know, is this changing? Is this improving? Is there hope to reduce this land intensity of China's urbanization and have a kind of more typical pattern, where, you know a more typical pattern of people actually moving to the existing urban space; whereas, in China, a lot of additional urban space is being created on the outskirts of the cities?

MR. GUO: Yes. I think in terms of, first, you know, the population density or land intensity. I agree with the judgment. Actually, when you look at what happened, for example, South Korea, the capital city of Seoul, even Guangzhou reaches a population density, as South Korea capital city, then Guangzhou can attract additional 400 -- no, 4.1 million, I read one report, I think that's a -- from my perspective, that's convincing.

So it's very important to -- how to say -- to let the economeration effects of the big city come out and benefit, you know, the wider population, and promote additional economic development, that's one point.

The Second one, in terms of land reform; yes, I think that we -- I am optimistic, you know, by understanding about the positive direction. Maybe speed of the

reform appears very slow and, for example, they say, in the past five years, they've always say, you know, we will reform the land acquisition, but actually the land acquisition has never been meaningfully reformed.

And also now, as they start to say, oh, that's -- you know, rural construction land enter the market directly instead of going through government acquisition. So, you know, the reason why I'm optimistic it's because now they start to pilot this, actually pilot this in 33 counties and in different areas. So, I hope the pilot will be national representative and will -- and they plan to conclude the pilot by 2017, so then they were -- toward the lessons into the policy formulation and decision-making process. Yeah.

MR. DOLLAR: Okay. Thank you very much. Now we can turn to questions to the audience. Please introduce yourself. I think what I'll do is I'll take three before I go back to the Panel. I'd like to avoid all three panelists answering every single question, because then we don't get enough done. So we'll start here. Okay. And please introduce yourself.

MS. YUNG: Thank you. My name is Lee Yung. About urbanization, I think it's a civil and I will talk to them as three related issues. First is whether they want to develop based on a public-private partnership which, very often, in the United States, in Africa there is a misuse and abuse.

And secondly, related this monitoring of government policies, how do they really treat the rural area, the land ownership? How do they really take away their land values? They maybe, say, your land originated in some part -- you know, 100 percent market value, but then they reduced to -- they say, about 50 percent, by some manipulations.

And the third one is about hukou registration. Now why do you do this?

Whether there's institution or private -- privacy or they have some kind of threat, or some kind of -- they way they want to enforce their policies or they will take their opponents prisoners, political prisoners. So how do you deal with the issues?

MR. DOLLAR: Okay. I'll keep track. And the gentleman back there?

MR. JONES: Yes. Bill Jones from Executive Intelligence Review. In connection with the new normal, the Chinese Government of course issued the One Belt One Road Policy, which will be the focal point, one of the developing points of the economy. I'm wondering, as this thing grows, it seems to me that the second and third-tier cities will become more important because they will be placed on a main corridor of economic development between Europe and Asia.

And I was wondering, how do you see that affecting the urbanization process as a whole? It seems to me that there will be an acceleration and will provide more opportunities, but I would like your opinion on that.

MR. DOLLAR: Good question. And I'm going to call my colleague, Ken Lieberthal, but there will be plenty of time to get to everybody who has got their hands up.

MR. LIEBERTHAL: Thank you. Very, very interesting Panel. I have three questions if I can, but they are generally very short answers required. One, when you talk about the plans for urbanization in the next five to 10 years, how many people -- how much the urban population will grow. This is a bit of definitional question. As current migrants in the cities who still have rural hukou, obtain urban hukou, does that count as urbanization?

In other words, do they count as the increase in urban residence? Or is it only people that will be moving into the cities, that are envisaged, when you talk about the additional number, you know, the additional rate of urbanization? That's number one. In other words, it's a definition, I've already talked about, ongoing in-migration, or are you

also counting simply the change in hukou of people already there?

Secondly, a lot current urban migrants have parents and kids in the countryside. To what extent is the next stage of urbanization envisaging, not only bringing the kids into the cities, but bringing the parents into the cities? So it's completion of families that will have a lot of repercussions for the requirements for provision of property, goods, and also for employment and productivity.

And then finally, the discussion has really been in terms of migration to second and third-tier cities versus to the larger cities, but China faces enormous differences in the capacity to sustain urban growth in terms of things like available, usable water supplies. I haven't seen it -- I haven't seen urbanization plans differentiated in terms of the resource base, especially for water. And so my question is, is that being factored in, and if so, how does that affect the comments that you've made? Thank you.

MR. DOLLAR: Ken, can you give the mic to the gentleman next to you, and you'll start the next round, if you just hold the mic. Okay? I'm trying to be efficient. So what we'll do, is we are going this way, and then the next round we'll come back. Okay now. So you pick out what you want to --

HU BILIANG: Okay. Take all the questions in one, okay.

MR. DOLLAR: -- and I'll take the -- anything leftover I'll have to answer. Okay?

HU BILIANG: Thank you. I find -- Just to pick one of the questions. You were asking three questions; one question regarding to PPP, private-public partnership. So mechanism in the process for urbanization, were (inaudible) in this kind of a mechanism before, because all the infrastructures given by the government finance. And there was again, who were -- the urbanization pushing for, you know, based on the finance from the government before.

This is the old model, but now Premier Li Keqiang, (inaudible), especially the Finance Minister, Lou Jiwei, last year mentioned very clearly, whether to use the PPP model mechanism, to your -- to promote urbanization from now on, the second round of urbanization, which is now called the new urbanization. Right?

So that means more and more investment opportunities in the cities, like infrastructure facilities; the subways, you know, transportation system, can be done by the private people, you know, the private investors, you know, usually done by the government, companies; right? So now, I think this is a good sign, or a big study from last year, so this is not a problem from now on.

Your question, One Belt to One Road, you know, so I think that was very, very good, a very positive -- very positive for developing the western part of China; particularly, five, or underdeveloped provinces, Shanxi, Gansu, Ningxia, Xinjiang, and Qinghai. Right?

So along with the increase, I think -- I think of increase of the transportation, capacity, the people -- the flow of the commodities, matrons, and also flow of the people, among different countries in the western part of China, and by linking with China and Europe, so that will be very, very positive to support the over-developments of the whole Western part of China.

We spent -- as you know that we spent almost 20 years, 50 years, to development of Western, you know, part of China, and you are now efficient, for result to come out so far. I think this round of the strategy, as you mentioned that, One Belt One Road policy, will be absolutely, you know, to increase the -- or will be positive for the development of this regime.

And the final question is made by, Mr. Lieberthal. By the way, I read your book, Governing China. Thank you very much, you know. The question, you just

mentioned that -- what's the question?

SPEAKER: Asia.

MR. DOLLAR: But maybe we should --

HU BILIANG: Okay. Hold on.

MR. DOLLAR: I'm guessing Hua Sheng wants to weigh in on this.

HU BILIANG: Sorry. Sorry.

MR. DOLLAR: And there's a good question for Li Guo; yeah.

MR. SHENG: I will directly go to his question about whether to change the registration of rural hukou to urban hukou it means something and subsistence. I think -- yeah, the answer is affirmative. Why the government -- don't want to give local urban hukou to their migrant workers? You know, migrant workers including, not only the people from countryside, but also from the other small towns or cities.

And the reason is, if you give them, the urban hukou, you have -- you are obliged to provide all this benefits, including, the most important thing is low-cost housing. That's very costly. So that's why they cannot provide local hukou to the migrant workers.

MR. SHENG: Not only for the agriculture worker, but also from other migrant citizen, from small city our towns, or middle-sized city or towns, yeah, so that's why we have so strict control in the big city like Beijing and Shanghai.

But count it carefully from now on, because the central government began to stress the importance of urbanization then, local government began to learn a new way to deal with it, the reason we report it is, some local government simply change their rural resident hukou, into an urban hukou and then nothing else changed. The all stayed in the village, and how can they retain their land, the way is every family, change one to two persons into a urban hukou.

So later on if you find the urban hukou, in terms of urbanization right, increase very quickly, you have to think it out again. So that is a TV interview, TV report on the Chinese central -- CCTV. So I think, yeah, to answer the question, local cohesion, very, very important with the local urban hukou, because that is an instrument to discriminate the people other than the local urban residents.

Without this, you cannot discriminate people. And I think the Chinese Government began to make effort to encourage people to the small -- yeah, as you mentioned; the third and the fourth-tier cities. I think the -- I would think this effort will be fair. Yeah, because -- and we can see, all these migrant workers, they choose the cities or towns, or place to go driven by market force. Yeah. They calculate it very carefully, yes. And usually that goes with family, or even with the whole village of the residents, come to Shanghai or some places.

Okay. So the thing is, for Chinese Government, I think yeah, what you mentioned is important, the water and the environment sustainability, so they should consider -- take this into consideration, and to select certain middle-sized or even big cities with water and environmental conditions to develop.

So that means we have to shift the focus of investment around the inner -- the core area of the big city, like, let's say, Beijing, within the four rings. And to find the other -- to set up the other local centers around Beijing with the plenty water supply or the other resources.

So I think you cannot prevent people to move into big cities, and also the East -- the Coast area. We can see from the other countries, yeah, the reason is very simple, because you can find a job with good income, and attraction there, rather than in the small city and the towns. I believe many villages and many small cities and towns, where it is noted, during the process of urbanization. So, if you put too much money into

these places; that will be a big waste. I'll be 10 seconds.

MR. DOLLAR: Ten seconds. Okay.

MR. SHENG: Ten seconds.

MR. DOLLAR: Ten seconds, that's alright.

MR. SHENG: Because these are the -- to carry the question back to my mind. Okay. Just 10 seconds. The new plan, urbanization plan, issued by the government last year, exactly one year ago, forecast very much, you know, the first time the -- you know, how to improve the building of stronger -- strengthen the capacity of sustainable development of the cities; which includes more efficient use of resources, smart city, you know, these kinds of things, right.

So, providing more job opportunities for the people, so resource management included into the new plan, this is good news for you, and also for all of us. Thank you.

MR. DOLLAR: Thank you. Li Guo, there was a question about your rural land values, and you may want to comment on water, and any of these other issues.

MR. GUO: Okay. Very good. I'm very happy this can -- no question left there for me to answer; but back to the land-taking composition.

MR. SHENG: It's because of (inaudible).

MR. GUO: Exactly. I think that's the reason why government will always put forward the land -- you know, the land-taking, the land acquisition reform. The background actually -- just, I know this topic a little bit more, you know, based on China's Constitution, urban land belongs to State, rural land belongs to village collectives.

So, which sounds very clear, however, the problem lies in this simple sentence. Because urban land, the urban boundary is changing, ever changing, so by this sentence, which means, whenever, you know, the urban land expanded to which

area, then the land has to be taken by government.

But because by land management law, the land taken by government calculates -- the compensation is calculated based on the agricultural output. The agricultural output, the times for the years, so that's your compensation, which is very, very low, particularly in, you know, suburban area, that's with the potential for urban use.

There's no way you can keep their living standard, so the government will realized that, and that's a big source or social unrest, so you have to reform the land acquisition. And there are apparently different ways of borrowing lessons from Taiwan, from Japan, from Korea, and also try to, you know, be innovative, and then realizing it has implication on, as you can see, on constitution. It's a very challenging topic.

Now, back to definition of the urbanization; yes, if you look at China's statistics bureau -- year book, this is the published urbanization into categories, aligned by residents, another one where you live, another one by hukou. And everybody knows if you just change your hukou without giving associated benefits it's meaningless. And that's the reason why I say, you know, that's one of the challenges in that regard so -- a piece of a paper issue, you know, just give a new book, a registration book. Actually you have to come with the book, some meaningful benefits, so that involves huge negotiation compromise.

MR. DOLLAR: Okay. Let's take another round.

MR. SHENG: Now, may I make a correction, yeah?

MR. DOLLAR: Okay.

MR. SHENG: About land reform in the suburb or the big cities, I think, yeah, according to the old regulation you come and say to the farmers with -- according to the agricultural product, around to 30 years it seems very low. Yes, you are right, especially in remote area when the government construct a big project, the compensation

is very low indeed, but surrounding the big cities are the cities which is very hard in terms of how to market, that comes in between has increased very quickly, and to sky high.

You can hear many people in the suburb, they've become very rich because they get the compensation, like to say, they are paying house for compensation. And in China, even you get, let's say, 10 or 20 million of Chinese yuan for compensation, you needn't to pay one single cents of money for tax. So that's why the Chinese Government is -- involved within very big trouble in terms of high debt.

Now this is a part of the reason, so I think talk about the land reform, we have to be careful, to distinguish the farmer in the small town -- surrounding small towns and remote area, and from the farmer surrounding the big cities. Okay.

MR. DOLLAR: Thank you very much. Okay. So I gave you the mic.

MR. APGAR: Sandy Apgar Urban Lands Institute. I must say from some years of being in Brookings conferences, this is the longest I have ever held a mic. A two-part question, first, with the enormous scale of your first-tier cities, have you found this dis-economies, inefficiencies in the scale itself? Has it measured what scope is there?

And secondly, with your comparisons which several of you have mentioned, have you compared China's first-tier cities with other urban agglomerations, Mexico City comes to mind, which has grown very rapidly and with certain similarities though many different systems? Thank you.

MR. DOLLAR: I'm going to take three, and I already said, when we answer we were going in the other direction. So I know Li Guo you are going to have something to say about the first. I think I need to go to the very -- way in the back to that gentleman who has got his hand up very high; because I don't want to discriminate against the back. Can we get a microphone back there?

SPEAKER: Thank you. Chen Weihua from China Daily. Two questions to Mr. Hu Biliang. The first one is from policy angle. How do you see that there are some voices in China calling for --

MR. BILLANG: Some what? There's some what?

SPEAKER: Some voices --

MR. BILLANG: Okay. Yeah.

SPEAKER: -- for some appeals in China, calling for deurbanization. For example, in Bishan Village, Anhui Province, there is a deurbanization project I think, and do you think that the urbanization is inevitable trend in China? The second question is, on the personal angle. Do you think -- how do you think that people can -- for example, migrant workers can overcome their identification recognition crisis in this urbanization trend?

And another question to Doctor (inaudible); what do you think that China can learn from America's urbanization process? Thank you.

MR. DOLLAR: Okay. And I already sent the mic over there.

MS. CHANG-BLOCH: I'm Julia Chang Bloch, President of the U.S.-China Education Trust. I have a very quick follow-up question to, David, your question to Dean Hu, about whether people are actually moving into the third, fourth-tier cities.

I'd like to throw in second-tier cities as well, because I read recently online, and I'm sorry I can't remember the citation, but there is a new trend, and I think a year or two old, where the graduates of 911 Universities, like Tsinghua, are actually not opting to stay in Beijing or go to the coastal cities, but they are actually opting to go and move into second-tier -- perhaps not fourth tier, but second or third-tier cities.

And the article was very vague about why, but they cited, you know, better opportunities to jobs, and of course the pollution in Beijing. So I want to ask, given

the discussions we've had this morning, is this information correct? And if it is correct, what are the specific causes of this kind of a movement, because I've never heard of that before?

And in addition, I wonder whether this indicates that the Chinese urbanites are beginning to, perhaps, find their living conditions in the first-tier cities not to be so attractive? Is this a general trend? Or, is this a very limited (inaudible) --

MR. DOLLAR: Can you hand the mic right in front of you to my boss, Li Cheng? We'll take one more in this round. Okay.

MR. LI: To your boss. Well first it's 211, not 911, yeah, 211. Yeah, 211.

MS. CHANG-BLOCH: Oh, 911 is what I was thinking of (inaudible) --

Mr. LI: No. 918, 918; 918 and 211 are two different concepts. Excellent Panel discussion, and like David, I've learned a great deal. Now, I have three questions for Panelists. The first for two (inaudible), that if I understand correct, there's a series of debates in China, in terms of strategy are for urbanization, where they emphasize what a premier league or Tsinghua, in the small township or small city. Or, this is really driven by market, maybe eventually will be -- go to large city. Do you see there's a serious debate in the leadership? And that's the first question.

Now second question is relating with the sequence of the reform, but also we talk about these reforms, so interconnected. And I think you, Li Guo, so to correct my mistake, that you are absolutely right. That it's not so much of a speed, but rather scale and scope, probably is quite remarkable. And thank you, I will see your interpretation in the future.

And so the sequence in your suggestion for the leadership it seems like that -- correct me if my observation is incorrect -- that urbanization is continuing but it's not the top priority at the moment. Maybe the financial reform, maybe private sector

development, service sector development is a priority, along with anti-corruption, et cetera

Now, another question for Li Guo, that in terms of the agriculture development, this argument with China's GDP and growth slowdown, and many people believe that the structure will profoundly change this argument, that agricultural products probably will -- or rural development will be the emphasis, whether you are willing or not willing. So therefore you see a lot of companies like a previously engaged in real estate now start to do agriculture products. Do we see there's a trend happening in China?

Thank you.

MR. DOLLAR: Okay. Thank you very much. So I said we'll start with Li Guo, and come this way on this round.

MR. GUO: Okay. Great. Many questions were addressed to them, so I'm very happy about that. Let me just respond, by my observation, again from rural development perspective. I just, you know, about three months ago, I visited Guangxi Province, a very remote, poor, one of the national-designated poor counties. I observed their urbanization process in that county.

About, say, for those young farmers born after 1980 or in 1990s, the younger generation, basically they don't have any farming experience, and in no way they will they go back to their home town, and about 30 percent of them, actually bought house in the countryside, and they bring their whole families with them, I didn't see -- I have to say, I'm quite optimistic, I didn't see the tension between the existing, you know, countryside residents and these newcomers, because they (inaudible) and they provider of services, and also in terms of education, everybody expects, oh, they may compete for educational resources.

However, because in urban area the population growth declined, actually

the new kids from rural area, you know, the school capacity has been there, so they can accommodate more kids. So it's not that severe in terms of -- you know, the pension. I don't know whether I answer any question or not, but it's my observation, I offer that.

So, I think that's also the market force-driven. You know, nobody is asking them, you can only move to this, you can also of course go to Shanghai, go to Guangzhou, whether they choose to, I think they have their own calculation.

MR. DOLLAR: What about the first question on whether the diseconomies from Chinese cities becoming too big and congested?

MR. GUO: Oh, yeah. Their comparison, you know, the Mexico City, and Beijing whether -- you know, I'm not an urban specialist, and really hard for me to answer the question, I will leave it to that. Thank you.

MR. DOLLAR: Hua Sheng?

MR. SHENG: Yeah. I think take the urbanization as a whole, you have overlooked, okay, I think the main things that China now are facing is very low real urbanization rate, compared to China's economy at this stage. That is the big judgment. Of course, the rural life is attractive, and it's so on and so forth, and all these things talking, especially in developed world, but the main thing is, China, with only 36 or 37 percent of urban population there are real urban population.

What I mean is their living style, their consumption tendency, it's like an urban city running the rural residents, or for the majority of their agricultural migrants; although they are working in the city, but as their living style, and in their living conditions is more close to the family in the village.

So that's why China, shook off the demand, and in terms of service industry, because all these people living in the city, but they are spending their money in the countryside. And as they build housing in their hometown, but they never come back,

only once a year. Also, many people, many migrant worker, when they have enough money, they buy a house in their county town. Yeah, their (inaudible) is much -- is better than the setup -- they built a house in the village.

Yeah, it's a progress, but it still, it looks to me, is a great waste of the resources, because they work in the East Coast. They work in the big and the middle-sized city, but they buy a house in the county town. It's meaningless. So there, it's bad, because they will return to their home county when they are old.

So there's a lot of missed investment in China at the moment, and that is where the challenge is. And about the people in the big city, of course the city scale becomes extremely larger than there is -- of this economy; yeah, that's true. So I think the -- the choice is not by us, it's by the people, by all these migrants. Okay.

So I think the good idea is to set up more satellite cities, surrounding the big city, or in the East Coastal area, because you cannot drive people away from there. They'll find the jobs there, they figure that's good for them, so that's why they come. And so I think the challenge is how to redirect the investment from the big city to all these satellite cities, or second-tier cities. It's not only constant with the economy but also constant with the politics, yeah.

For example, the farmer's university in U.S., we can find in all the small or middle-sized towns and cities, but in China, all crowded in the big cities, but it's extremely difficult for them to move out. If you ask all the teachers, fellows in the university no one wants to move out, yeah. And they will ask you, why the Central Committee of the Chinese Communism Party move out first, and so on and so forth.

So it's very -- it's very difficult, yeah. So, now the main challenge lies here, yeah, I think the hukou reform there's some similarity, like the illegal immigrant in America. Yeah, there are some similarities here. I think the most important thing is

money. The cities want their labor, like America, they need immigrant labor, but the thing is, if you provide the equal living standard to all these migrants, that means you have to pull down the living standard of the urban residents, especially in the big cities, that has political implications.

That may change, and so I can see the difficulty here, in terms of debate, yeah. Actually the same is the debate in China, within the Government or within the Party is not the hukou reform. No one against -- no one is against the hukou reform, the hukou reform, yeah. Who will go stabilize them? They cannot lift out overnight. Just like in U.S. you can't lift the control of any illegal immigrant overnight.

I think the fierce debate is on the land reform, because land reform is the key of the interest, the financial resource; how to allocate the land revenue, the land value. That's mostly the important thing, that's constantly with the hukou reform, because obviously where the money come from. And it comes from -- with the fiscal reform, how to finance, how can the local governments -- can accommodate all these migrants?

In the meantime they still provide infrastructure without increase of the mounting debt. So that's a real challenge. So, yeah, many things discussed in the West, or in the Chinese newspaper is not real challenge. The real challenge is all these delicate and the subtle issues. So, the debate, especially in the -- around the Third Plenary Meeting of the 18th Congress, yeah, is on this issue.

Yeah, the communiqué also the Plenary Meeting of 18th Congress, applaud by the western commentators, and also in China academic circle, yeah. But the thing is, what they promised in the communiqué is not implementable. Yeah, so that's why they are so many corrections. So before that there is a serious debate within the government, yeah. I'm firmly against what's written on the communiqué.

I say, that's not even -- you cannot implement it. You promise something

but you cannot do it, then you will create more confusion. So that's why after the meeting, there are so many high officials come out and say, yeah, that's not our meaning, that's not our indication, and so on and so forth, that's why. So we cannot judge all these slogans all these reform measures by -- on the paper. You have to look into the Chinese context, what kind of mechanism can really work. Okay. I will stop here.

MR. DOLLAR: Li Guo wants to come in very briefly.

MR. GUO: Yes, because I -- Sorry, I forgot to answer the question from your boss.

MR. DOLLAR: Okay.

MR. GUO: Okay. Yeah. In terms of the sequence, personally I think the very important one is housing, second is education. Others, medical insurance, pension, I think because the private sector can step in, I think, the degree in terms of urgency it's not that -- you know, there is no comparison.

Then back to another question, you know, now whether you see there's a trend, you know, the capitals move to urban areas -- move to a rural area to buy farms to put, you know -- to buy land from farmers --

MR. DOLLAR: For commerce?

MR. GUO: No. No. To do farming, to do some commercial farming, actually that's a trend. I've already observed that and I come from Chengdu, and in my hometown, I saw a lot of friends, my friends, classmates; now they bought a 300, 400 (inaudible) farmland to do farming, and they hire back these villagers to do some job, they pay their salary. It looks like both sides are quite happy. A 10-year contract, a 15-year contract, each and every year, they convert, their compensation is 750 kilograms rice, and times the price as at that moment, so that's compensation, and it looks like both sides are quite happy. Thank you.

MR. BILLANG: So because of the --

MR. DOLLAR: No. No. You go ahead.

MR. BILLANG: Because of the limitation of the time, I'll try to answer your question one sentence, for question. Because of one question I find a very, very good question, so I like all the questions, so I'll try to answer all questions, one question in one sentence.

Two questions proposed by these Li Cheng, I think are very, very good questions. Why, you know -- what's the difference between Chengzhenhua and Chengshihua, I think my understanding is in the rural and urban university.

So this is the focus for Chengzhenhua, focus on integration, because you know, we are Dual System in China. It's a long time we try to integrate it to rural development, and urban development, so this is the descendant of the Council of the Chengzhenhua compared with the -- the Chengshihua which, you know, before more focused, or maybe only focused on city development; right?

The second question you proposed why, you know, the urbanization is no longer, maybe it's not that clear, the priority, now than before. I think the simple answer to your question is, you know, is new normal, because the new normal, you know, change in ideas, change in mentality, so the growth is no longer the most -- you know, the priority for the top leaders. But improve the quality, no longer where is the quantity, right; these are the two points relating to question.

Relating to your question the economy and diseconomy, my answer to the question is that in the initial stage of the development, this is very much relating to your two factors, one is the stage of urbanization. The second is the structure of the cities, of the urban -- in the urban area.

In the initial stage of the development normally, industrialization before

urbanization in this period of time; you know, urbanization they are very supportive to industrialization, you know, which we will see more positive impact, which is the economy, the urbanization economy, rather than diseconomy. And also another situation is, along with the improve -- of their improve -- of the structure.

So from their industry development to the service-dominated economy, and then we will see more economy rather diseconomy, right. The scale -- optimum scale of the cities, is a longtime debate and issue, because so far there is no, you know, firm answer to this question, so I just try to give the two factors, when you think about these kinds of issues. Of course, I don't have, you know, a firm answer to your question as well.

And you know, my answer to your question, you know, whether urbanization shows some new trends in the future? I think I pooled your questions with my friend from China Daily, the questions together. So (inaudible) it's not to see de-urbanization, it's not a good idea the de-urbanization at this stage, especially for a big, developed country, like in China. It's very stupid why you'd do that, but in the future, maybe, well it depends because of the cyberspace development, high city developments, you know, show a different way of better life in the more rural areas, or rather, you know, very concentrated in the cities.

So this is very possible the situation. Now in Western Europe, right, this is maybe the answer to the question, you know, by David Dollar. We learn more from, you know, urbanization, I mean, they are much from U.S. rather than Western Europe, so where you, too, will also get the values, and then (inaudible) for me, Western Europe, and then the presence of urbanization will be different. So now I'll pass it to David, and he's going to talk about that, because he is American. Okay. Thank you.

MR. DOLLAR: There was a question about what China can learn from

the U.S? So, my first reaction to that was in the area of urbanization, you are better off learning from the Europeans. The Europeans tend to have environmentally-friendly, well-managed, concentrated cities. The United States often has a lot sprawl, an automobile-based society, and it's debatable whether that works for the United States, but I'm pretty sure that's not going to work for China, frankly.

MR. BILLANG: That will (inaudible). Yeah.

MR. DOLLAR: So I would look at some of the European examples, but then from the point of view of the United States, I would say one of the important lessons, is the U.S. has always had very good labor mobility. You know, it is easy for people to pick up and move, and they can show up a day or two before school starts, and get your kids into school. You know, it's really not a problem.

But actually in the U.S., labor mobility has declined in recent years, and many economists think this is the reason why the U.S. economy is not performing so well, partly related to so many people being under water on their mortgages in the housing market so it's hard to move if you can't sell your house.

And then also, more and more states are having licenses and regulations for different occupations. So this is -- you know, if you are a hairdresser in one part of the United States, there's a slight disincentive to moving to the other parts because of this trend toward licensing more occupations, which doesn't seem like a healthy development, so I would say, learn the lesson there, make it easy for people to move around, that has big productivity advantages.

We have time -- I rule for two more questions from the back, the very gentleman at the very back that seems fair. And then this gentleman here, the one that's closest to me. Yeah. And then I think we are going to -- I predict we are going to have to wrap up, yeah.

MR. EBERSTADT: Nick Eberstadt, from American Enterprise Institute.

Thank you for this fascinating discussion. My question is about migration and urban labor markets, is there any information on the wage differentials today between migrants and non-migrants in the cities? To what extent can this be explained by educations and skills as opposed to, let's say, discrimination? And is there any information over time of how those trends have changed?

MR. DOLLAR: Okay. Excellent question, and then (inaudible) --

SPEAKER: Thank you very much for a very interesting conversation. I'm Tucker (Inaudible) from (inaudible) Japan (inaudible). I will ask about the election. It's probably election level, well, I mean, now it's very limited, there is a great limitation, so I mean, what I'm -- I'm sorry, is now the level of the election is submitted out, so soon there will the election (inaudible). So I want to ask you is; what kind of impression did urbanization give this kind of limit? Thank you very much.

MR. DOLLAR: Okay. I think we maybe have time for one more; so the gentleman who had his hand up, right there, with the blue shirt. This will be, by the way, your final comments. Okay?

SPEAKER: Thank you very much. My name is Kumar, I'm an Independent Consultant in the energy sector. I'd just like to draw some parallel with the experience that we have in India. When Indian -- a new government actually took place and they started their program on developing smart cities, and (inaudible) cities around the major metropolitan cities. One of the major problems that they faced was the land acquisition, and today itself, I mean, the preliminary session is going on, there is a strong farmer institution which is going in the country.

And one of the major criticism that is being faced by the government is that it doesn't matter what mode of compensation that you give to farmers today, whether

it's one time or two times the market rate, farmers are not financial savvy, this money is going to go away one day, and the major criticism is that, that you are basically, by taking away their land, you are basically depriving the farmers from traditional location, as well their regular income that they were having from their agricultural produce.

Now one of the answers, or one of the possible solutions that the government has come up with is that, that government will provide pensions to the farmers, and probably one job per family in that particular area. I wanted to know how is the Chinese Government is tackling this particular problem? Thank you very much.

MR. DOLLAR: Okay. Hua Sheng, why don't we start with you, because I've always been starting at the end, so that doesn't seem fair. So this is your last chance to comment, address any of these questions and any final brief remarks.

MR. SHENG: Okay. Yeah. I'll answer the first question about the discrimination in terms of salary, of migrant workers and the -- always the local urban cities. I think there's no difference at all. There is no discrimination at all according to my knowledge. But there is a difference here; the thing is the migrant workers, especially agricultural workers, consist of the bulk of the blue collar workforce.

So, they can get -- they can earn the same salary as the urban residents as a blue collar worker. But very few of them, because of lack of human capital can -- employed in the higher-pay sectors. So that's not some discrimination from the regulations. Yeah. As a matter of fact, let's say, a woman working in Beijing for a family as a babysitter and the look out to the home affairs earn more than their county secretary in their home county, their official income, yeah, it's much higher than, yeah, a county official income.

So I think the problem is -- the thing is, actually China has the freest labor market in the world, I think. Yeah, the people can move to anywhere to find a job,

and offered by employee, one employee offered the job, so they do not care about whether they are local residents or not, except for some government sector.

But now, majority of employment posts offered by the private sector, joint venture sector, so it doesn't matter actually, the influence is very little. The main thing is because the lack of education, and so they certainly can enter the high-paid industry. Okay.

MR. DOLLAR: Okay. Li Guo?

MR. GUO: Okay. Very quick. Yes, in terms of a wage difference, I also didn't, you know, personal knowledge of that -- I don't observe that; and then of course, engaging to different sectors, the different sector wage difference that's another question. In terms of election, yes, I would imagine, you know, the urban fabrics, you know, after 10 or 20 years, we'll change, and that will have implication around governance system.

So, now is the urban -- the rural election is very popular, the elections, like the village head, in the future, and that kind of a traditional world in the city will also be changed.

What's the last one? It's the financial saving in India. The practice in China, is yeah, you give the farmers compensation, of course you also as a -- how to say -- requirements, so one-third we'll give you cash, one-third we'll save as your pension, another third we'll pay some other medical service to buy other insurance. I think that's sort of the practice instead of just a lump sum cash to give to you, then that will be at your disposal -- completely, no, it's not that case.

MR. DOLLAR: Well, can I weigh in on that and then give you the last word, because I don't want to have the last word. But, you know, The World Bank has done a lot of infrastructure projects in China, in China they often involve the settlement and, you know, The World Bank has its own complicated resettlement policies. But when

I visited projects I always wanted to meet people who had been resettled.

And when I was in Hangzhou, you know, we met people in the resettlement, and they'd be given an apartment, in a really lovely apartment complex, so I met this old man in the park, you know, outside, and I'll talk to him about the resettlement process and all that, and then all of a sudden he said that he had to head home for lunch, and he got up and he started walking away from the apartment.

And I said, wait a minute, don't you live here? And he said, no, no, no, I own an apartment here, but I rent it out, you know, and I bought a little house, you know, a couple miles down the road. But he comes every day, you know, and he hangs out in the park there.

So our experience at the local level, you know, often the resettlement process; certainly there was negotiation about -- sorry, not in our projects, but in the kind of; the ones financed just by the government. There's no negotiation, I agree with Dean Hua that the compensation has risen a lot over time, but it's often an interesting package of and urban hukou, an apartment, and perhaps some money, which kind of address, to some extent, the issue of what happens if you just give people a lot of money and they may not know how to earn an income stream.

And now we are going to give you the last word. Okay?

MR. BILLANG: Okay. Thank you. Again, just a very quick, briefly directed to the questions. I think the first, to (inaudible), you asked a question, and it was at the same time he answered the question by himself. Because, you know, there are some differences there. Not discrimination, but because of the less educated, right, and there are also some (inaudible) certainly, asking about, was there discrimination there?

For the rural people migrants, they -- in most of their cities -- in many cities, and this is, you know, some of the cities are, if not most of them, you know, for

example, like in Beijing the migrant workers they are not allowed to work in some of the sectors, so this is the institutional constraint. So, less educated, institutional constraint make -- you know, make their salaries different between rural -- residents and migrants from rural areas. Okay.

The question, by your gentleman, friend, you are correct. I think, based on the current urbanization model, there is, you know -- there is no impact from each other, so that means the urbanization will not give the impact to your village governance, or village in action, good or bad, there's no.

But if the government of China tried to, you know, push forward the kind of a new way of urbanization, and I just mentioned, to you -- the question, you know, to integrate the rural and urban development with that, kind of with new urbanization where it gave a positive impact to your village election. So I think this is my brief answer to your question.

And the final question, I think, you know, David gave a very good answer to your question. So just as we are trying to saving time, I don't want to -- there's no need for me to answer the question. Thank you, sir.

MR. DOLLAR: Okay. Thank you very much. So I think we've had a really great discussion of fascinating and fluid topic on China. I find it encouraging just that there's so much debate among intellectuals but of course also among the policymakers and among ordinary people and the media about all these difficult issues.

They are not simple issues, but clearly, there's going to be continuing trend toward urbanization, there's going to be hukou reform, it's going to be fascinating to watch how it plays over the next 10, 20 years.

So, thank you very much for your participation. Let's give the group the big hand. (Applause)

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