

A Choice of Urban Life-Style for China

Lawrence J. Lau, Ph. D., D. Soc. Sc. (hon.)

Kwoh-Ting Li Professor of Economic Development

Department of Economics

Stanford University

Stanford, CA 94305-6072, U.S.A.

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Phone: 1-650-723-3708; Fax: 1-650-723-7145

Email: LJLAU@STANFORD.EDU; WebPages: <http://www.stanford.edu/~LJLAU>

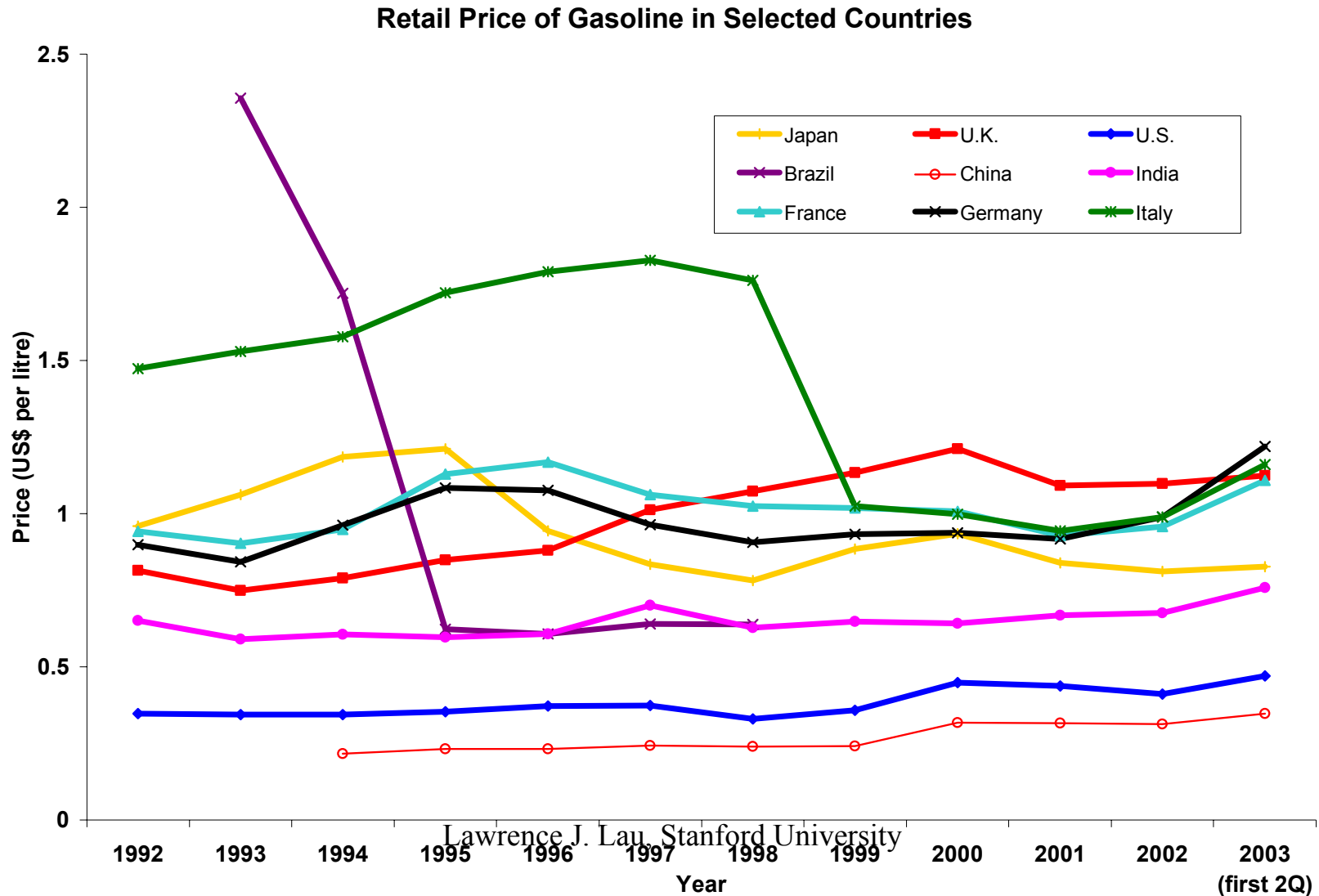
A Life-Style Choice

- ◆ One of the most important policy choices with long-term implications facing China is what can be described as a choice of urban life-style: Does China want its existing and future cities to be like Los Angeles and San Jose, where automobile ownership is a necessity, or London, New York, Paris and Singapore, where automobile ownership is a genuine choice?
- ◆ It is critical for China to maintain a viable alternative to the automobile as a means of daily urban travel for the vast majority of the middle class, in addition to bicycles and walking.
- ◆ However, such urban life-style choices must be made early. Once made, they cannot be easily reversed. For example, it is far too late for Los Angeles and San Jose to try to become a city like New York—the low density and the sprawl have basically made such a change impossible.
- ◆ Mass transportation requires a collective choice as well as integrated urban planning on density, land use, spatial distribution and transportation routes. It cannot be left alone to the invisible hand of the market.

The Gasoline Tax and the “Gas Guzzler” Tax

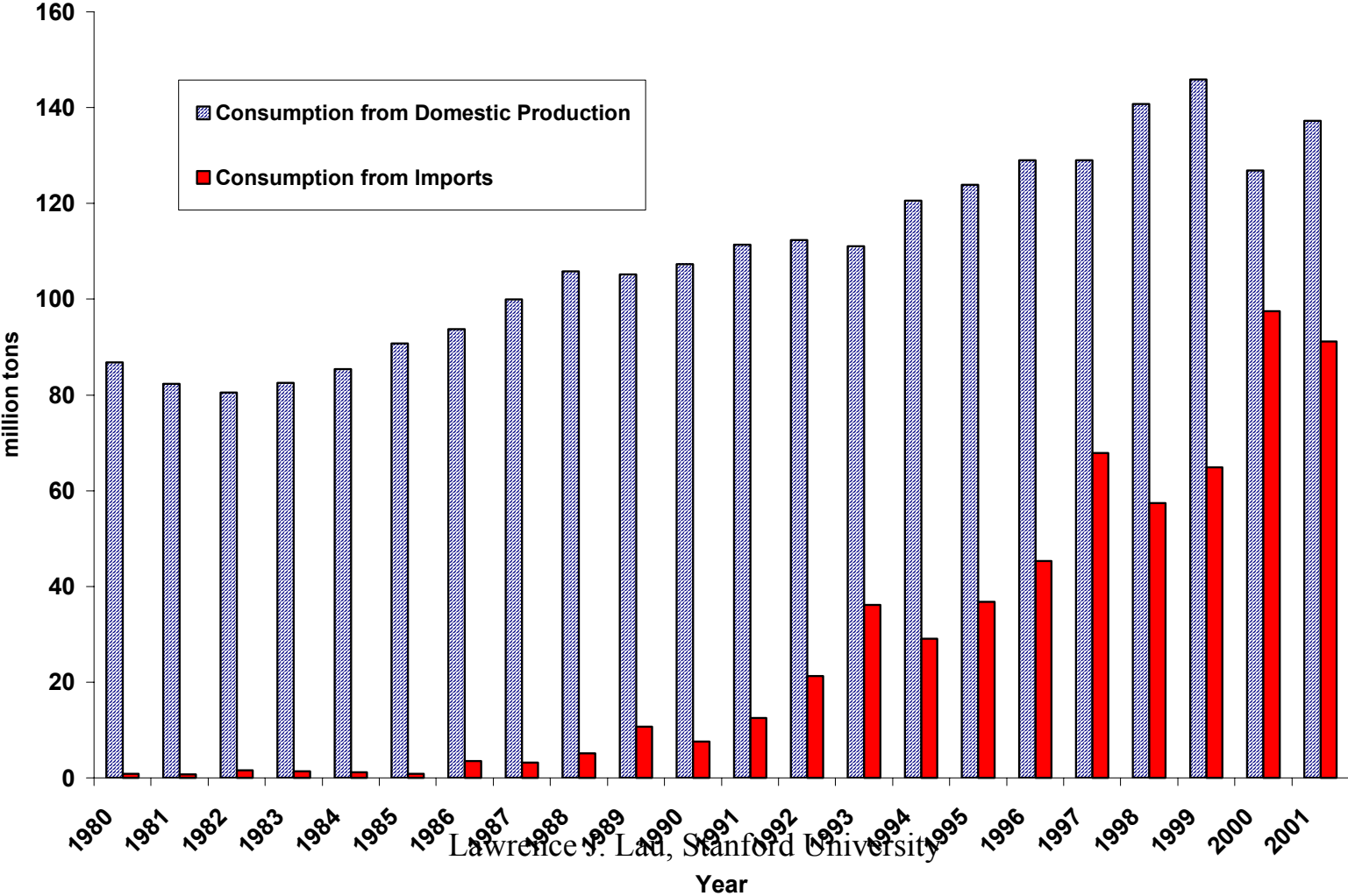
- ◆ There is huge pent-up demand for new affordable automobiles—annual domestic demand is now estimated to be 4 million units in 2003.
- ◆ Automobile assembly lines are now operating in at least 23 provinces, autonomous regions and municipalities. More are coming.
- ◆ The gasoline tax and the “gas guzzler” tax can be used as instruments to reduce the externalities generated by the use of the automobile (e.g., congestion and public health (including loss of productive time), local and global environmental pollution), enhance long-term sustainability and reduce over-dependence on oil imports.
- ◆ China has the lowest retail price of gasoline of all major economies, developed and developing.
- ◆ Such taxes as the gasoline tax and the “gas guzzler” tax are likely to be progressive in China because only high-income people are likely to have private automobiles. It may therefore be viewed as another means of “redistribution”

Retail Prices of Gasoline in Selected Countries



Oil Consumption in China

Petroleum Consumption in China



Lawrence J. Lau, Stanford University

The Implementation of the Gasoline Tax and Other Measures

- ◆ The gasoline tax can be flexibly structured so as to maintain the retail price of gasoline (in real terms) at a stable level, independently of the short-term fluctuations in the world price of oil.
- ◆ The proceeds of the gasoline tax can be used to finance public investment in mass transportation.
- ◆ Automobile fleet efficiency standards can be usefully supplemented with the gasoline tax and with a license fee that is linked to the fuel efficiency of the automobile (a gas guzzler's tax).
- ◆ Access fees to the central business districts during peak periods are also an option.
- ◆ The promotion of a car rental industry and the encouragement of ride-sharing.

Implications for Industrial Development

- ◆ Providing urban residents with a viable and workable system of mass transportation does not necessarily mean that they will not have the opportunity for automobile ownership. Nor does it imply that the domestic automobile industry cannot be effectively developed. (Look at Japan.)
- ◆ There are between 50 and 100 Chinese cities with populations in excess of two million. The market for mass transportation systems is so large in China that China can become the world leader in the supply of such systems. China can start by developing and supplying its own domestic mass transportation systems.

Conclusion

- ◆ It is in the long-term interests of China to pursue a balanced and integrated strategy in planning for its industrialization and urbanization and supplying its transportation needs, taking into account all the externalities.