

In Urbanization Period: The Impact of Fiscal Policy Changes on China's Economy

Yichen Liu

*Wenzhou Semir United International School, Wenzhou, China
liuyichenessay@lsu.edu.gn*

Abstract: This abstract delves into the profound impact of urbanization and financial policy changes induced changes on China's economy. In the context of China's rapid development, urbanization has emerged as a force reshaping the urban-rural economy landscape. The research methods employed include a comprehensive analysis of the long-term development of urbanization and the impact of financial policies in the meantime. The results show that urbanization and financial policy have significantly pumped economic growth. It has led to the promotion of the development of secondary and tertiary industries. The expansion of cities has increased the demand for real estate, construction, and services, driving up investment and consumption. Additionally, urbanization has facilitated technological innovation and knowledge spillover enhancing productivity. In conclusion, urbanization in China has been a crucial driver of economic transformation and growth. The findings of this study not only enrich the theoretical understanding of the relationship between urbanization and economic development but also provide practical implications for future urban planning and economic policies, which can better guide the sustainable development of China's economy in the context of continuous urbanization.

Keywords: Urbanization, fiscal policy, Chinese economy.

1. Introduction

The development of China's urbanization started in 1949, that was during the period of national economic recovery and the First Five-year Plan, with the emergence of new industrial and mining cities. The urbanization rate of the population has increased. It then steadily expanded and in 1979 after the reform and opening up, the household contract responsibility system was implemented in rural areas, releasing a large number of surplus labor forces.

Which then pushed the rapid growth stage (1996-2011), the goal of reforming the socialist market economic system was established, and a large number of rural populations continued to transfer to cities [1]. Since then the process of urbanization has transformed from agricultural. By the end of 2023, the urbanization rate of the permanent population was 66.16%, and more attention was paid to the quality and efficiency of urbanization. The trend of urbanization is likely going to develop deeper between cities and countryside, to improve the balance of basic facilities and public services. During the time of urbanization, fiscal policy changes have shown an important influence on China's economy. It has provided cash support for building roads for the city, energy, and improving the city's infrastructures. Leading the social capital to participate by using ways like financial subsidy will lower the pressure of financial cash and can improve the efficiency and quality of setting up basic

facilities [2]. The investment in public basic services has ensured that farmers that have just moved to the city can get access to the service that the citizens have. This boosted the speed of the transfer of agriculture to urbanization. The fiscal policy has let technology improve and increased professional training to society. All of the above has shown the important position fiscal policy has in which changing of urbanization. The impact is significant. It supports the development of urbanization, in different sectors like industrial, population management and land capitalization. The purpose of this essay is to research how the urbanization and changes of the fiscal policy have balanced in a good position. And how has this affected China's economy?

2. The theory of urbanization in China

There are many theories of urbanization, including Growth Pole Theory, Agglomeration and diffusion Theory, Industrial Gradient Transfer Theory, Point-Axis development Theory, and Metropolitan Area Theory. The basic idea of all is to think that the city is a magnetic field because its size and market effect can attract a lot of the surrounding technology knowledge and labor resources. The city has a growth of the economy. Urbanization is to improve citizen living standards, sustainable resources, and quality. China needs to consider the actual conditions, to save resources and develop scientifically. By using the law, economy, and administration, use the resources effectively and reasonably. Try to bring as little damage to the environment as possible. To have a high quality and effective way of building up urbanization. Try to control the demographic in big cities and balance the third-tier cities [3].

The development of urbanization starts from the economy. The economy needs to be stable to push urbanization, it can improve resource management efficiency leading to upgrades in industrial. The transformation of industrial structure dominating. The industries drive the concentration of the population, giving working opportunities. Usually, the development of urbanization has three stages. First, in the slow initial stage, when the urbanization rate is under 30%, the development of the industrial foundation is weak. Next, the accelerated Middle Stage, when the urbanization rate is between 30% and 70%, is when the industry develops rapidly, attracting a large number of rural populations and expanding the urban scale.

Last is the mature Later stage. When the urbanization rate exceeds 70%, the urban development speed starts to slow down and become stable while more attention is on the quality and connotation, and the gap between urban and rural areas narrows, tending towards integration. The purpose for developing urbanization can be considered from two perspectives; one is the economic face and the other is society development. On the economic, urbanization pushes industry upgrade, giving industries enough labour to give out productivity. Impacts the consumers to buy goods and services. As people transfer to be the city's citizens it brings changes in consumption in areas such as housing, education, medical care, and culture. It is an important driving force for economic growth [4,5].

3. The evolution of fiscal policy during urbanization

In the process of rapid urbanization, fiscal policies have undergone significant adjustments. With the expansion of the urban scale and the continuous influx of population, the government needs to balance the scale of fiscal expenditure and optimize resource allocation to meet the growing demand for public services. The adjustment of fiscal policy not only involves optimizing the expenditure structure but also includes precise support for key areas of urbanization. From international experience, fiscal expenditure can usually be divided into two categories: one is productive expenditure, such as infrastructure investment, industrial support, etc., which directly promotes economic growth; The other type is non productive expenditure, such as education, healthcare, social security, etc., aimed at improving the level of social welfare.

To promote the urbanization of the agricultural migrant population, fiscal policies provide guarantees at multiple levels. In terms of housing, the government has improved the affordable housing system, increased subsidies for the construction of public rental housing and affordable housing, and helped low-income groups and migrant workers solve their housing problems. In the field of education, fiscal policies have optimized the funding guarantee mechanism for compulsory education, implemented the "money follows people" funding method, and ensured that children of migrant workers receive equal education.

In terms of medical security, by raising the financial subsidy standards and promoting the integration of the basic medical insurance system for urban and rural residents, the floating population can fairly enjoy basic medical services. To enhance the comprehensive carrying capacity of cities, fiscal policies focus on supporting infrastructure construction. For example, the central government allocates funds to support key cities in carrying out flood control and drainage capacity improvement projects to reduce urban waterlogging risks. In addition, fiscal funds are also used for the construction of affordable housing, the renovation of old residential areas, and county-level commercial facilities (such as logistics networks and charging stations) to improve the urban living environment and commercial facilities.

In recent years, affected by the COVID-19 pandemic, fiscal policies have played a key role in stabilizing the economy and promoting consumption. In 2020, many local governments issued large-scale consumption vouchers for the first time to stimulate residents' willingness to consume, drive the recovery of the service industry, and thereby promote GDP growth. This measure reflects the flexibility and pertinence of fiscal policy in responding to sudden public events. Due to the significant differences in economic development levels among different regions in China, fiscal policies still need to address the challenge of regional balanced development. In the context of exchange rate policy being influenced by China's role as a "receiver" rather than a "maker" of exchange rates, cross-regional labor mobility may face challenges such as price levels and wage differences in different regions. This requires further optimization of fiscal policy in areas such as transfer payments and social security linkage to promote coordinated development of population and economy.

4. The impact of fiscal policy adjustments on the Chinese economy

The fiscal policy has pushed the Chinese economy in various directions. It pushes economic growth. Increasing the government investment and managing a larger size of government debts, pulls the demand and prompts economic growth. With more demand, people's spending of consumption [6]. The fiscal policy has also increased the citizens' income, which has pushed the potential of buying. In terms of industry, fiscal policy has increased investment in technology, helped businesses to provide technology upgrades, and pushed industries to go for clean, high-tech, and automatic. For new industries, fiscal policy has given tax subsidies, new energy, and new materials, which makes the industries potential economic growth points. For the consumption market, fiscal policy has lowered the risks of debt crisis, thus stabilizing the local economy development and increasing market confidence [7]. The investors are more likely to invest in the market, intensifying the market vitality. Urbanization has the same effects of the adjustments the fiscal policy has accomplished. Urbanization has also promoted different objectives. Enhancing productivity efficiency by concentrating the factors of productivity. The businesses can benefit from economies of scale. The more population increases the income for the fiscal government, which helps the government broaden the tax base. The cash the financial government gains will be able to be spent on public services and basic environment infrastructure.

However, the drawbacks of urbanization are obvious. The pressure of supply in land, water energy resources blasts [8,9]. As the city is expanding, the land for agriculture is decreasing which threatens

the supply of agricultural goods. Overuse of resources for construction in urbanization will cause a shortage in natural resources, the industries won't be able to give out productivity, which the country's economic growth will be affected. As more people shift to the city, the basic services and infrastructure standards will increase, and the government will need to spend a lot of money on infrastructure and basic constructions. If the investment is not balanced with the population, the living standards and the city system will be impacted, and the economic growth will be limited. Urbanization can concentrate most of the resources but by then the countryside will not have enough resources to develop, and the differences between cities and outskirts can be widened further apart.

5. Conclusion

In conclusion, urbanization has various benefits and disadvantages, and the accessibility of urbanization should be considered carefully before taking action, including the situation of the specific city and the country's economy at present. The government starts to boost the economy through changes in fiscal policy and using basic theories in different stages. The transformation of the fiscal policy and urbanization cooperated very well which made it easy to increase the growth of the economy. In the future urbanization is going to continue by having aims of clean energy and the idea of recycling. As for fiscal policy, the subsidies and cash the public finance government offers to population mobility will increase. The balance between urban and rural areas will be adjusted, and the differences will decrease. The government needs to consider the cost while they process urbanization and predict future threats and have a plan to deal with uncertainties (such as pandemic). The income should be balanced, progressive tax should be added to wealthy people and people that are during poverty should get subsidies from the government. The financial government should give cash to those who just arrived to the urban areas. The government is planning to accomplish an urban-rural society without disparities, which will lead to a unified stage where there are no differences between rural and urban society.

References

- [1] Ji, L., & Zhang, W. (2019) *Fiscal Incentives and Sustainable Urbanization: Evidence From China*. *Sustainability*, 12(1), 103.
- [2] Li, Z., Zou, F., Tan, Y., & Zhu, J. (2021) *Does Financial Excess Support Land Urbanization? An Empirical Study of Cities in China*. *Land*, 10(6), 635.
- [3] Yao, S. M., Zhang, P. U., et al. (2014) *Theory and Practical Problems of China's New Urbanization*. *Geoscience*, 34(6), 641-647.
- [4] Yu, H. U. (2008) *An Empirical Analysis of the Relevant Relationship Between Urbanization Development and Fiscal Policy*. *Statistical Education*, (11), 60-64.
- [5] Wen, H., Lee, C. C., & Zhou, F. (2022) *How Does Fiscal Policy Uncertainty Affect Corporate Innovation Investment? Evidence From China's New Energy Industry*. *Energy Economics*, 105, 105767.
- [6] Cao, J., Dai, H., Li, S., et al. (2021) *The General Equilibrium Impacts of Carbon Tax Policy in China: A Multi-model Comparison*. *Energy Economics*, 99, 105284.
- [7] Liu, G., Yang, Z., Zhang, F., & Zhang, N. (2022) *Environmental Tax Reform and Environmental Investment: A Quasi-natural Experiment Based on China's Environmental Protection Tax Law*. *Energy Economics*, 109, 106000.
- [8] Shi, J., Yu, C., Li, Y., & Wang, T. (2022) *Does Green Financial Policy Affect Debt-financing Cost of Heavy-polluting Enterprises? An Empirical Evidence Based on Chinese Pilot Zones for Green Finance Reform and Innovations*. *Technological Forecasting and Social Change*, 179, 121678.
- [9] Xiang, L.J., (2025) *Citizenization of Migrant Workers From the Perspective of New Urbanization: Practical Considerations, Influencing Factors and Policy Thinking*. *Chinese Market*, (09), 1-4.