China's Ghost Cities

China's Ghost Cities: How Rapid Urban Expansion Ran Ahead of Demand

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Key Facts

Cost: Programme cost unquantified; Ordos city debt alone reported at ~RMB 300bn (~US$47bn) by 2012

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Executive Summary

Over two decades, Chinese local governments built hundreds of new towns and districts ahead of demand, financed by land sales and off-balance-sheet borrowing. Ordos Kangbashi, designed for a million residents, held a fraction of that for years and became the global symbol of the phenomenon. Vacancy figures are genuinely contested - China publishes no official vacancy rate - but independent surveys and satellite positioning data point to tens of millions of unoccupied homes. This investigation examines how fiscal design, not incompetence, produced overbuilding on a continental scale, and what programme leaders should learn about building supply against speculative rather than real demand.

Executive Lessons

- Follow the Incentives, Not the Master Plan

Every actor in China's new town boom - mayor, LGFV, developer, bank - behaved rationally under the incentives they faced. If your programme's governance rewards starts and land sales rather than occupancy and cash flow, you will get starts and land sales. Audit the incentive map before you audit the plan.

- Speculative Demand Is Not Demand

Chinese households bought empty flats as stores of value because capital controls and thin capital markets left few alternatives. Sales figures therefore overstated end-user need by a wide margin. Any business case built on absorption rates must distinguish occupancy demand from investment demand - the second can vanish overnight.

- Off-Balance-Sheet Debt Is Still Debt

LGFVs existed precisely to keep borrowing off municipal books. The result was a debt stock whose true scale even Beijing struggled to measure. Financing structures that place liabilities outside conventional municipal budgets should be treated as a red flag in themselves, not a clever optimisation.

- Absence of Data Is a Decision

China has never published an official housing vacancy rate, leaving policy makers, lenders and households guessing at the scale of oversupply. When the sponsor of a programme declines to measure its most embarrassing variable, outsiders should price in the most unfavourable plausible range.

- Build-to-Order Beats Build-to-Forecast

Districts that filled - usually those attached to existing job centres and transit - were demand-led; the failures were forecast-led. Phased release tied to occupancy triggers would have stranded far less capital. The same staging logic applies to any capacity programme, from railways to server farms.

- A Slow Recovery Does Not Cancel the Failure

Kangbashi now houses over 100,000 people after government offices, universities, hospitals and other institutions were relocated there.. That was an administrative salvage operation, not market validation. Programme evaluation must discount recoveries that depend on the state moving its own demand into the building.

Timeline

- 1994: Tax-sharing reform centralises revenue in Beijing while leaving spending duties with local governments, making land sales their decisive income source.
- 1998: Housing reform ends welfare allocation of homes and creates a private residential property market.
- 2003: Construction of Ordos Kangbashi New Area begins, 23 km from the existing city of Dongsheng.
- 2008-11: A RMB 4 trillion stimulus and relaxed credit trigger a surge in LGFV borrowing and new town approvals

nationwide.
- 2009-10: Al Jazeera and TIME document the near-empty streets of Kangbashi; 'ghost city' enters the global vocabulary.
- 2011-12: Falling coal prices hit Ordos; property values collapse, developers default and the city is left servicing debts reported near RMB 300 billion.
- 2013: The China Household Finance Survey reports a 22.4 per cent urban housing vacancy rate - roughly 49 million empty units.
- 2014: The National New-type Urbanization Plan (2014-2020) targets 60 per cent urbanisation while urging better-quality, demand-led development.
- 2015: Baidu's Big Data Lab publishes a positioning-data study mapping systematically under-occupied districts across dozens of Chinese cities.
- 2016-12: Beijing adopts the line 'houses are for living in, not for speculation', signalling a policy turn against investment-driven demand.
- 2020-08: The 'three red lines' policy caps developer leverage, cutting off the refinancing model that sustained pre-sale construction.
- 2021-12: Evergrande formally defaults, exposing the pre-sale funding chain and leaving prepaid buyers of unfinished flats across the country.
- 2023-09: Former statistics official He Keng says even China's 1.4 billion people could not fill its empty homes, an unusually blunt official-adjacent admission.
- 2023-24: Kangbashi's population passes 100,000 after government offices, schools and hospitals are relocated there - still far below its planned capacity.

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