



The land finance model jeopardizes China's sustainable development



Heran Zheng^a, Xin Wang^a, Shixiong Cao^{a, b, *}

^a College of Economic Management, Beijing Forestry University, No. 35, Qinghuadong Road, Haidian District, Beijing 100083, PR China

^b College of Urban and Environmental Science, Northwest University, No. 229, Taibai North Road, Xi'an City 710069, PR China

ARTICLE INFO

Article history:

Available online 16 June 2014

Keywords:

Urbanization
Land finance
Land revenue
Population migration
Tax policy

ABSTRACT

China is undergoing rapid urbanization accompanied by rapid urban development and migration of rural populations to the cities. Because local governments are selling land to compensate for an unbalanced tax system that provides them with insufficient budgets, urban expansion is booming around the country. However, this form of land finance has grown out of control, in some cases producing uninhabited “ghost towns”, without any feedback from institutions that would limit the problem. Simultaneously, social problems have arisen from a failure to compensate the land's former residents for loss of their land and future livelihood, thereby jeopardizing China's social stability. This under-recognized contradiction created by urbanization is endangering China's environment and its socioeconomic development, and will endanger other developing countries seeking to emulate China's urbanization model.

© 2014 Elsevier Ltd. All rights reserved.

Introduction

Since the 1980s, China has been experiencing rapid urbanization accompanied by processes such as the migration of huge numbers of individuals from rural areas to urban areas, rapid expansion of cities, and construction of new city districts. By 2011, 51.3% of China's population lived in cities, versus 17.9% in 1978 (NBS, 2012). This influx has been a fundamental driving force for the massive urban construction that has occurred throughout China. From 1990 to 2000, the area of urban construction land increased by 78.7%, from $1.22 \times 10^4 \text{ km}^2$ to $2.18 \times 10^4 \text{ km}^2$, and increased equally rapidly from 2000 to 2010, reaching a total of $4.05 \times 10^4 \text{ km}^2$ (Wang et al, 2012). The country had 670 large cities in 2007, up from 69 in 1947 and 223 in 1980, and had 89 cities with a population of 1×10^6 or more, versus 37 in the United States and 32 in India (Normile, 2008).

However, urban construction has increased faster than the urban population. China's Urban Statistics Yearbook reported that the coefficient of elasticity for the urban construction land (the rate of increase in urban construction area divided by the rate of urban population increase) has increased from 1.71 during the period from 1990 to 2000 to 1.85 during the period from 2000 to 2010; that is, the urban area has increased at nearly twice the rate of the urban population increase. The area of cities at the prefecture level (i.e., cities equivalent to large regional municipalities in the West)

expanded by 70.1% between 2001 and 2007, whereas the associated population increased by only 30% (Gao, 2011). Meanwhile, the rate of increase in the residential area has been much faster than the increase in the urban population (Fig. 1), implying an increasing number of vacant apartments. Fernando (2010) reported that there are estimated around 64×10^6 vacant apartments in China, which could house as much as 15% China's population in 2009.

It is not surprising that a new phenomenon of particular concern has arisen: the emergence of grim “ghost towns”, which are often architecturally spectacular but deserted because nobody can afford to live there or because crucial infrastructure such as grocery markets has not been provided (Powell, 2010). For example, the government of Ordos City invested almost 5×10^9 RMB (about 800×10^6 USD) to create the Kangbashi District in 2004, which was designed to provide homes to 1×10^6 people. However, by 2008, only 30 000 people had settled in this district (Woodworth, 2012). Such incidents are becoming increasingly common in Chinese cities due to a problematic urbanization model in which governments enthusiastically encourage construction projects without evidence that there is demand for the resulting properties. In Yan'an City, for example, the local government plans to make space for expansion of the city through the removal of a mountaintop. To encourage urban sprawl, the city's government plans to invest hundreds of billions of RMB between 2012 and 2022 to remove 33 mountaintops and create almost 80 km^2 of flat land suitable for urban construction, without regard to the risk of ecological degradation (Fig. 2a).

* Corresponding author. Tel.: +86 10 6233 7038; fax: +86 10 6233 7674.
E-mail addresses: zhengheran@foxmail.com, 348020801@qq.com (H. Zheng), wangxinzhangjiawan@163.com (X. Wang), shixiongcao@126.com (S. Cao).

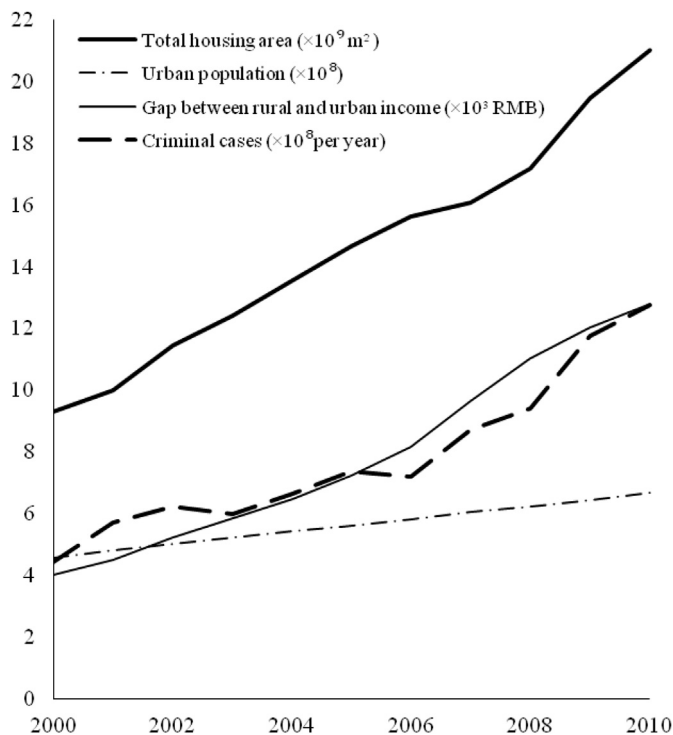


Fig. 1. Changes in the total urban population, total housing (residential) area, crime rate, and the income gap between urban and rural residents in China since 2000. Source: China Statistical Yearbook (NBS, 2002–2011).

China's rapid urbanization has been accompanied by increasing risks to society, the economy, and Chinese cultural institutions. The risks include growing stress as a result of high land prices, the emergence of unsustainable land use and financial policies, and the associated risks to social security and the environment. Although this appears, at first glance, to be a Chinese problem, the urbanization has played an essential role in China's exceptionally rapid economic growth, suggesting that any adverse economic consequences will have profound effects around the world as well (Roberts & Kanaley, 2006). To identify lessons that can be learned from China's experience, we explored this phenomenon using government statistics and a review of the research literature. We have organized the paper into four sections to present our results: First, we review the evolution of Chinese urbanization policy, with a focus on the land supply system and the real estate market. Next, we discuss the land finance model (*tudi caizheng*) that is based on this land supply system and the related policy changes. We then examine the socioeconomic and land-use impacts of this government-oriented urbanization based on the land finance model. Particular concerns involve the land price (the risk of a real estate bubble), the loss of agricultural land (a threat to food security), and the social impacts (instability). Based on this analysis, we conclude by proposing recommendations on how to make the urbanization process safer and more sustainable both in China and in nations around the world that hope to emulate China.

The evolution of urban development in China

Land supply system reform

During the Mao era, China was dominated by the communist ideology and its political promise to eliminate private ownership. Under this ideology, all land was the common property of the Chinese people and legally belonged to the public. The land supply during this period was strictly under government control, and the government prohibited market transactions and allocated land to state-owned enterprises or government agencies at no cost (Li & Ma, 2009; Lin & Ho, 2005). The system inevitably led to excessive land claims by government agencies and state-owned enterprises, causing low efficiency and even misuse of the land (Li & Ma, 2009).

After the institutional revolution in 1978, the land allocation system gradually started to change to allow both foreign and private investors to acquire land use rights, an important component of economic reforms. In 1988, the land supply system established a key principle: that the right of land use can be transferred in accordance with relevant legislation, a principle that became a constitutional amendment. Subsequently, the Land Management Law published by the central government conferred the public paid transfer of land-use right: 70 years for residential use, 50 years for industrial or mixed uses, and 40 years for commercial uses. This change divided the land supply market into three levels: the primary land market, which was monopolized by the government; the secondary land market, which involved transactions or leases between individuals and enterprises; and the tertiary land market, which involved transactions or leases among individuals and enterprises. The land supply system empowered local governments to requisite farmland from rural areas and to transfer land-use rights to the private sector, which directly resulted in the beginning of the "land finance" model.

Since the early 1990s, a series of political reforms conducted by China's central government related to decentralization made local governments promote local development, especially in terms of revenue and financing mechanisms. The extent of "land finance" was initially limited, because transferring the land always was at low price by contracting with the private sector. After China's

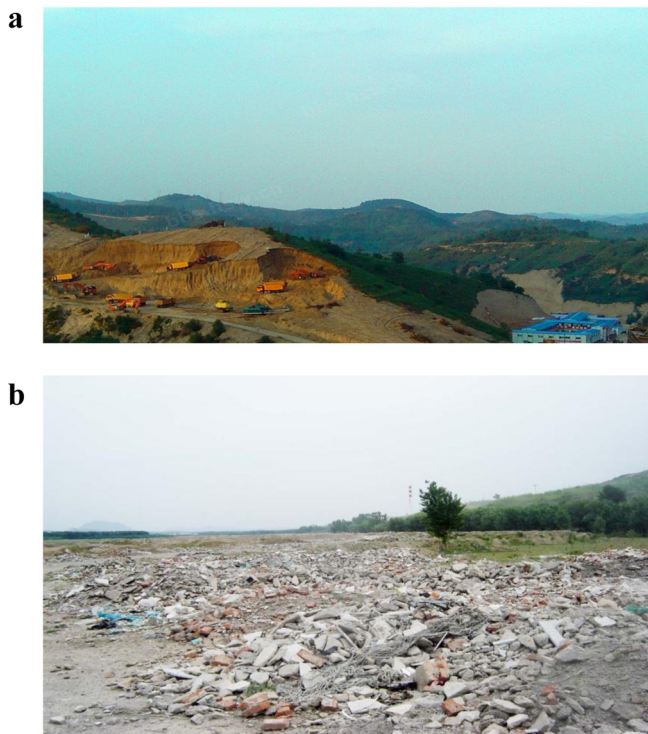


Fig. 2. a. The enthusiastic construction in Yan'an City threatened the fragile environment. b. The broken landscapes by construction waste can be seen everywhere in China. Source: <http://bbs.hsw.cn/read-htm-tid-3806783-page-e.html>.

Download English Version:

<https://daneshyari.com/en/article/1047759>

Download Persian Version:

<https://daneshyari.com/article/1047759>

[Daneshyari.com](https://daneshyari.com)