



A spatial and temporal analysis on land incremental values coupled with land rights in China



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ABSTRACT

Land incremental value (LIV) refers to the increase in land value through processes of land acquisition, leasing, and real estate development that result in land revenue gains for stakeholders. However, the imbalanced distribution of LIV in China is causing severe disparities between key stakeholders. To effect reasonable and fair LIV distribution requires estimations, on a national scale, of proportionate LIV shares of stakeholders. This paper presents a theoretical framework linking stakeholders' land revenue and LIV based on land rights. Our analysis of the spatial patterns, temporal evolution, and distribution of LIVs in China revealed the following. In 2010, the average LIV distribution ratio for collectives/farmers, local governments, and developers was 2, 18 and 80%, respectively, of the total LIV. LIV values were higher and gaps between different types of LIVs, according to stakeholders, were wider in eastern coastal provinces compared with central and western China. While LIVs of collectives/farmers and local governments increased between 2005 and 2010, the gaps between them also widened. Our spatial analysis revealed that this trend was particularly prominent in the eastern coastal area. This paper examines the reasons for this imbalance in LIV distribution and the resultant problems. It suggests that developing a public service orientation within the government and reducing excessive land acquisitions may help to ease imbalances in LIV distribution.

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Introduction

The land transfer system of state-owned land in China has undergone significant fluctuations (Ding, 2003). Prior to 1949, land transactions occurred frequently. However, the subsequent launch of land reforms resulted in the adoption of a system of free land allocation. Land use and distribution were essentially decided through consultations between government agencies and the allocation of rights between them (Tian, 2004). This led to extensive wastage of land resources and constraints on their optimal allocation. In 1997, state-owned land use rights were first sold by tender in Shenzhen, thereby violating the law that did not permit the transfer of state-owned land use rights (Yeh & Wu, 1996). The Constitution and Land Management Law subsequently endorsed this reform in land transfer. A new land use rights system which included compensation was gradually evolved, culminating in a compensated, time-limited, and flowing land transfer system (Ding, 2003).

With the implementation of the new land system, the land market gradually matured and land asset values became increasingly apparent. This implied flexibility in the uses and types of land, promoting optimal allocation of land resources that yielded optimal land incremental value (LIV) from land transfers. In this paper, we define LIV as an increase in land value resulting from rising land prices and an increase in surplus profits from land use, development, and management processes (Brown-Luthango, 2011; Gao, Zhu, Wang, & Zheng, 2006; Zhu & Cao, 2012). These processes include land acquisition, leasing, and real estate development and so on. For stakeholders in processes of land transfer and development, LIV essentially means revenue obtained from the above processes. Different stakeholders gain proportionate shares of land revenue from the LIV process (Ma & Qu, 2006; Tan, Qu, Heerink, & Mettepenningen, 2011; Zhu & Cao, 2012).

However, imbalanced distribution of LIV between stakeholders has increasingly led to acute contradictions in practice. These include the following: (1) Transfer of farmland from farmers to local governments through land acquisition entailing low compensation, has resulted in growing injustice and social tension (Ding, 2007; Tan et al., 2011). (2) Advancing industrial and urban development calls for more land for construction obtained through

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massive acquisitions of agricultural land (Phuc, van Westen, & Zoomers, 2014; Tang, 2011; Xu, Tang, & Chan, 2011). Rent seeking has led to excessive expropriation of agricultural land by local governments, which in turn has increased grievances and social tensions (Phuc et al., 2014). Local governments also depend excessively on land-related finance and gain substantial profits from the land leasing system (Lichtenberg & Ding, 2009; Wang, Du, & Cui, 2008). (3) With the sharp rise in housing and land prices in recent years (Chen & Liu, 2011; Du, Ma, & An, 2011; Wen & Goodman, 2013; Wu, Gyourko, & Deng, 2012; Zhang, Cheng, & Ng, 2013), intense speculation in the land and housing market has increased (Thien Thu & Perera, 2011). Speculators acquire more profits and LIVs through repeated buying and selling of properties, while increasing the price during each transaction (Thien Thu & Perera, 2011). Therefore, the matter of how to allocate appropriate LIVs is of widespread concern (Bi, Zhu, & Zou, 2003; Ma & Qu, 2006; Tan et al., 2011).

Previous studies have undertaken theoretical and empirical analyses of LIVs. Researchers have applied different theories such as game theory, institutional economics theory, and property rights theory to describe and define the relationships and contradictions between different stakeholders regarding LIVs (Bi et al., 2003; Di, Hao, & Zhu, 2006; Hui & Bao, 2013; Tan et al., 2011). They have analyzed the causes and consequences of LIV distribution, as well as institutional innovations. Some of the problems in the LIV operating mechanism include abuse of public trust in land acquisition, low compensation standards for land acquisition, and inadequate protection of the rights of landless farmers (Jiang & Xu, 2011; Sun & Song, 2011). Further, the main reason for irrational LIV distribution is price distortions resulting from failure of governance (Ma & Qu, 2006) and from defects in property rights in the land system (Di et al., 2006; Mao et al., 2008; Shen, Zhu, & Bi, 2004). Therefore, researchers have proposed recommendations for the reform and innovation of the land acquisition and leasing system (Ma & Qu, 2006; Mao et al., 2008; Zou & Oskam, 2007) and land leasing system (Wang, Tao, Wang, & Su, 2010; Xie & Lu, 2001).

The above studies have focused on how to achieve a reasonable LIV distribution for the relevant stakeholders. However, basic research is required to estimate LIVs and their proportionate distribution among stakeholders. Existing studies have empirically quantified LIVs and shown that farmers are in a weak position within the LIV distribution system (Chen, Tan, & Zhang, 2009; Ma & Qu, 2006; Shen et al., 2004; Wang, He, & Gao, 2006; Zhu & Cao, 2012). As the primary land providers, farmer or collectives have gained only 1/17.2 to 1/17.4 of government revenue in 35 sample cities (Shen et al., 2004; Wang et al., 2006). Wang et al. (2006) also found that land acquisition compensation fees in Kunshan, Tongcheng, and Xindu Counties were 15.9, 15.6, and 28.5%, respectively, of average land supply prices. Calculations of LIVs in two cities showed that the farmers or collectives gained less than 10% of land transfer revenues (Ma & Qu, 2006). However, this recent research only focused on localized case studies (Chen et al., 2009; Liang, 2009; Ma & Qu, 2006; Wang et al., 2006; Zhu & Cao, 2012) and did not include total estimations and spatial characteristics of LIV on a national scale. In addition, these studies focused on LIV distribution between collectives/farmers and governments, but did not include developers.

Land is evidently an important factor in production. Economic relations and property relations pertaining to land are key to determining LIVs and their distribution (Di et al., 2006; Tang, Mason, & Sun, 2012). The duality of urban-rural institutions in China has resulted in the separation of urban and rural land market linkages. Consequently, state requisition is the only channel for converting rural land into urban land, and the conversion of collectively owned land for urban use is not permitted (Choy, Lai, &

Lok, 2013). This results in differential prices and rights relating to state-owned and collectively owned land (Ding, 2003), and causes the uneven distribution of LIVs. Therefore, it is necessary to calculate fairly apportioned LIVs based on the land rights of concerned stakeholders to facilitate more efficient LIV allocation.

In this paper, we estimate LIVs for each of the primary stakeholders in China: collectives/farmers, governments, and developers, at the national scale. LIVs apportioned to stakeholders were calculated based on a theoretical analysis of forms of land price and of the LIV generation mechanism. We analyzed the spatial patterns and temporal evolution of LIVs, and their distribution. Furthermore, we evaluated the reasonableness of actual LIV distribution, and explored a mechanism for LIV distribution.

Methods and data sources

The theoretical framework of land transfer

Land transfer, development, and management processes, which include changes in land rights and land use types, yield corresponding LIV and land revenue for stakeholders. This study provides an explanatory theoretical framework for the above processes. Different stages of land transfer and use result in different LIVs. By incorporating a review of laws relating to land transfer, the framework linked land revenue and LIV for concerned stakeholders based on land rights. From the perspective of stakeholders, we defined three types of LIV. The detailed contents of the framework (Fig. 1) are discussed in the following section. Collectives and farmers gained LIV I from land acquisition; local governments gained LIV II from land leasing; and developers gained LIV III from real estate development.

LIV for collectives and farmers

Article 10 of the Chinese Constitution (2004) stipulates that: “Land in the rural and suburban areas is owned by collectives except for those portions which belong to the state in accordance with the law; house sites and privately farmed plots of cropland and hilly land are also owned by collectives.” Further, farmers’ land use rights are guaranteed and secured in the long-term through the Law on Land Contract in Rural Areas (2002). Thus, while collectives possess land ownership rights, farmers possess land use rights. Moreover, these two types of land rights cannot be separated.

According to Article 2 of the Law of Land Administration (2004), the state may expropriate land owned by collectives for public interest purposes. The transfer of land property rights means that collectives and farmers lose the land they require for their living. Therefore, the government should pay them sufficient compensation for these transfers. Article 47 of the Law of Land Administration (2004), states: “Compensation for requisitioned cultivated land should include compensation for land, resettlement subsidies and compensation for attachments and young crops on the requisitioned land.” Upon completion of the land acquisition process, the land transferred from the collectives and farmers to the government becomes state-owned land. The compensation is the resultant revenue acquired by farmers and collectives at this stage, which is much higher than farmland prices, and creates LIV I.

LIV for local governments

With rapid economic and urban growth in China, land acquisition has become the primary means for meeting increasing demands for land for infrastructure provision (Ding, 2007). The Law of Land Administration (2004) stipulates that: “The state may, in the interest of the public, lawfully expropriate lands owned by

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