



# Industrial land development in urban villages in China: A property rights perspective



Yani Lai <sup>a</sup>, Yi Peng <sup>b,\*</sup>, Bin Li <sup>c</sup>, Yanliu Lin <sup>d</sup>

<sup>a</sup> Dept. of Building and Real Estate, The Hong Kong Polytechnic University, Hung Hom, Kowloon, Hong Kong, China

<sup>b</sup> Post Doctor Fellow, Department of Real Estate and Construction, The University of Hong Kong, Pokfulam, Hong Kong, China

<sup>c</sup> School of Geography, Earth and Environmental Sciences, University of Birmingham, Edgbaston, Birmingham, UK

<sup>d</sup> Spatial Planning Section, Faculty of Geosciences, Utrecht University, The Netherlands

## A B S T R A C T

### Keywords:

Property rights  
Dual land ownership system  
Land development  
Urban villages  
Shenzhen  
China

The rapid urbanization of China during the past decades has led to the emergence and development of urban villages. Existing literature has largely focused on the lack of state regulations in the development of urban villages. This paper comprehensively identifies and investigates the institutional constraints on land development in urban villages in China based on a property rights framework and a comparative study on two representative cases in Shenzhen. The key institutional constraints on the land development in urban villages include 1) land insecurity caused by the possibility of government expropriation, 2) unequal access to credit because of unequal land rights, and 3) absence of state regulations on collective land transactions because of the lack of *de jure* property rights. These institutional constraints weakened the land-related investment incentives and ability of villagers, and resulted in inferior infrastructure and poorly constructed environment in urban villages.

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## Introduction

The rapid urbanization of China during the past decades has led to the emergence and development of urban villages. Urban villages were originally rural villages located near the big cities in China. The rapid urban expansion process (Han, Yoshitsugu, Xin, & Hidefumi, 2009; Lin, De Meulder, & Wang, 2011) has authorized the local state for urban development to take over some of the village land, while leaving some of the lands under the control of villagers. The villagers converted their agricultural land for urban use to capture the increased land value in the urbanization process. The landscape of these villages has dramatically changed in the urbanization process of China, which is not only different from their original appearance as rural villages, but also distinct from the newly developed urban areas. These villages are literally called *chengzhongcun* in Chinese, and “villages in the city” or “urban villages” in English (e.g., Tian, 2008; Zhang, Zhao, & Tian, 2003). The term, “urban villages,” is used in this study to facilitate simplicity.

Abundant literature has contributed to the understanding of urban villages. The formation and development of urban villages are largely shaped by the urban–rural dual land system in China (Hao, Geertman, Hooimeijer, & Sliuzas, 2012a; Tian, 2008; Wu, Zhang, & Webster, 2012; Zhu & Hu, 2009). Compared with other newly developed urban areas with state land, urban villages with collective land are characterized by congested built environment, poor housing conditions, and low quality infrastructure, and therefore wasteful land use (Po, 2012; Tian, 2008; Zhu & Hu, 2009). A cross-sectional analysis using citywide data from Shenzhen by Choy, Lai, and Lok (2013) indicated that collective land in urban villages suffered from sub-optimal industrial development. The economic performance of industrial development on collective land is inferior to that of state land in terms of industrial land value and industrial value added per unit of land (Choy et al., 2013).

This finding raises the following question: Why is land development in urban villages inferior? Previous studies emphasized the informal development of urban villages because of lack of state regulations (Liu, He, Wu, & Webster, 2010; Wang, Wang, & Wu, 2009; Wu et al., 2012; Zhu & Hu, 2009). Some studies argued that the absence of land use planning on collective land is the key determinant of sub-optimal development of urban villages (Liu et al., 2010; Tian, 2008; Zhu & Hu, 2009). This perspective provides useful insights to the understanding of the development of

\* Corresponding author. Tel.: +852 5376 3152.

E-mail addresses: [Lai.Yani@connect.polyu.hk](mailto:Lai.Yani@connect.polyu.hk) (Y. Lai), [pengyihz@gmail.com](mailto:pengyihz@gmail.com) (Y. Peng), [BXL281@bham.ac.uk](mailto:BXL281@bham.ac.uk) (B. Li), [y.lin@uu.nl](mailto:y.lin@uu.nl) (Y. Lin).

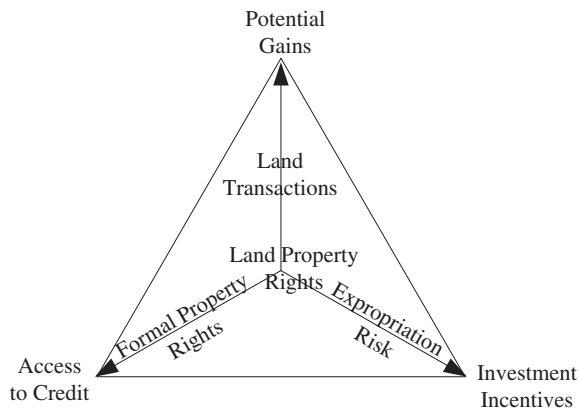


Fig. 1. The conceptual framework for understanding the role of land property rights in land development.

urban villages, but it failed to identify other important institutional constraints to urban villages imposed by the current dual land ownership system. The development behavior of villagers was not examined in existing literature. This study provides a perspective from property rights to understand the development of urban villages, with special attention to industrial land development.

This approach develops a conceptual framework to understand the role of land property rights in land development. This framework includes three aspects 1) land security and investment incentive, 2) land rights and access to credit, and 3) land rights and land transactions. The institutional context of land development in the urbanization process of China is based on existing literature and policy reviews to incorporate the conceptual framework. Based on data sources that include fieldwork, planning documents, and land cadaster information, a comparative analysis on two representative cases in Shenzhen is conducted to illustrate how incomplete property rights play roles in the industrial land development process and affect the land development outcomes in urban villages in China.

The remainder of the paper is organized as follows. Section Two develops a conceptual framework to understand the role of land property rights in land development by reviewing the most significant and credible empirical and theoretical works. Section Three discusses the institutional context of land development in the urbanization process in China to incorporate the conceptual framework. Section Four discusses the research methodology and data sources. Section Five utilizes the conceptual framework to conduct an empirical analysis of industrial land development in urban villages using the case of Dongfang-tantou area with a comparative perspective to the state-led land development in Bagualing area. Section Six concludes.

### Conceptual framework

The importance of a complete and definitive set of property rights in determining incentives for economic behavior and performance has gained a high level of scrutiny after the formation of the New Institutional Economics perspective at the end of the 20th century. A property right is the exclusive authority to determine how a resource is used, whether that resource is owned by the government, by collective bodies, or by individuals (Alchian, 2008). Property rights can be viewed as an attribute of an economic good. This attribute is often referred to as a bundle of rights, including: 1) the right to use the good, 2) the right to earn income from the good; 3) the right to transfer the good to others; and 4) the right to enforce property rights rules (Eggertsson, 1990). The role of

property rights in land development is a central issue in institutional economic analyses. The change of land property rights affects land development and economic performance (Besley, 1995; Field, 2005; Galiani, 2010; Goldstein & Udry, 2008).

By reviewing the most significant and credible empirical and theoretical works, a conceptual framework is established to understand the role of land property rights in land development, as shown in Fig. 1. The channels of land property rights that affect land development are classified into three categories. First, well-protected land rights can improve land-related investment incentives by reducing the expropriation risk. Second, well-defined property rights over land can facilitate land transactions in land markets, and thus, potential gains from trade could be earned. Third, formal rights over land can improve the investment ability of landowners by increasing landowner's access to the credit market.

First, various empirical and theoretical studies show that secure land rights can enhance investment incentives by reducing expropriation risk, whereas weak protection of land property rights leads to low investment (Alston, Libecap, & Schneider, 1996; Besley, 1995; Brasselle, Gaspart, & Platteau, 2002; Deininger & Jin, 2006; Do & Iyer, 2008; Galiani, 2010; Goldstein & Udry, 2008). Do and Iyer (2008) found that improved land rights led to significant increases in the share of total area of multi-year crops and increased irrigation investment after land reform in Vietnam. Deininger & Jin (2006) suggested that government's actions to increase tenure security and transferability of land rights can significantly improve rural investment and land productivity. Contrary to these results, a recent theoretical study argued the possibility for a landowner to overinvest in the land when property rights are incomplete or unclear (Amegashie, 2011). However, this argument has yet to be verified convincingly by empirical studies.

Second, well-defined property rights over land can facilitate land transactions in land markets. Thus, potential gains from trade could be gained. Besley (1995) established the theoretical model to explain the relationship between land property rights and transactions in land markets. Several empirical studies were conducted to validate this theoretical model. Macours, Janvry, and Sadoulet (2010) found that incomplete property rights sharply reduce the level of transactions in the land rental market in rural areas of the Dominican Republic. Griffith-Charles (2004) found a substantial increase in land sales over the entire country after the land titling program specified the land property rights in St. Lucia. Lanjouw and Levy (2002) claimed weak property rights in urban areas could inhibit land transactions by increasing transaction costs in rental and sales markets. Galiani (2010) found that house rentals are facilitated by titling in the urban slums of Argentina.

Third, formal rights over land can improve the investment ability of landowners by increasing their access to the credit market. This link was emphasized and forcefully espoused in De Soto (1989, 2000, and 2001). De Soto (2001: 48) argued, "What the poor lack is the easy access to the property mechanisms that could legally fix the economic potential of their assets so that they could be used to produce, secure, or guarantee greater value in the expanded market ... assets need a formal property system to produce significant surplus value." A large number of empirical studies examined this link in rural areas. Some studies found that land reforms created for establishing formal property rights over land increased the access to credit and reduced credit constraints (Feder & Feeny, 1991). However, other empirical studies provided opposite evidence. Boucher, Barham, and Carter (2005) showed that access to credit remains limited after land reforms were implemented in Nicaragua and Honduras. Field and Torero (2006) found that property titles failed to increase credit access among the urban poor after a nationwide titling program was implemented in Peru.

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