



Urban land marketization in China: Central policy, local initiative, and market mechanism



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ABSTRACT

Market-oriented reforms in transitional economies have often been considered top-down institutional arrangements dominated by the state. This study simultaneously views urban land marketization in China as a bottom-up process, which is consisted of two important elements; namely, a pivotal and active role played by municipal governments as well as a variety of market mechanisms used by municipal governments to maximize their interests. A systematic analysis of prefecture-level land supply data during the period 1999–2010 reveals that urban land supply marketization level in China has reached approximately 35%. The differences of the land marketization levels between well-developed coastal regions and underdeveloped interiors have not emerged until recently. Multivariate analyses using a panel data model show the significant effects of the policies formulated by the central state to promote urban land marketization. Land supply strategies adopted by municipal governments are more motivated by their interests to maximize long-term profits in economic growth and tax base expansion and less motivated by the prevailing notion of immediate land finance. Economic growth and the accompanying industrial upgrading are significantly favorable for urban land marketization, which is expected to improve naturally with regional development. Local governments have learned well to make the best of market mechanisms to achieve their own goals. Thus, effective central policies should fully consider the interests of local governments and the law of the market.

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1. Introduction

In the recent history of global development, China's remarkable achievements in urban and economic development have represented a major milestone. Within a period of three decades, China has rapidly emerged as the second largest economy measured by gross domestic product (GDP), the largest "world factory" with an unparalleled scale of industrial output, and the first-ranked exporter in the world (NBSC, 2013). Meanwhile, Chinese cities and towns have provided jobs and settlements for approximately 30% of new urban residents of the world in the first decade of the new century (United Nations, 2012). Correspondingly, the urban built-up area has expanded dramatically from 22,439.3 km² to 40,058.0 km², or by 78.5%, over the decade (NBSC, 2011). In such a transitional economy, interactive roles played by emerging mar-

ket forces and powerful central and local states are essential for the interpretation of the changing economy and society.

These great transformations observed in Chinese cities have been extensively attributed to the market-oriented reforms launched in the late 1970s (Harvey, 2005; He and Wu, 2009; Liew, 2005). The neoliberal reforms characterized by the increasing role played by market forces in resource allocation and economic activities have stimulated the vitality of urban and rural economies, accelerated the movement of capital and population, facilitated the efficient utilization of economic resources, and generated continuous economic prosperity and urban development. Although market reform has often been treated as an exogenous factor, contextual embeddedness is also emphasized by neoliberal scholars for understanding its formation logic and operation mode (Brenner and Theodore, 2002). Moreover, although the state has been inferred by the neoliberal framework to retreat from economic regulation, its effective interaction with the market may be important for the legitimization and operation of neoliberal experiments in transitional economies. Systematic investigation on these issues remains

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scarce in existing literature regarding ongoing market-oriented reforms in China (He and Wu, 2009).

In contrast to the emphasis placed by neoliberal scholars on the role played by emerging market forces in regional development, several other political economists have interpreted the profound economic and urban transformations in China because of the developmental state (Liu et al., 2008; Oi, 1995). Under the cadre evaluation system of this centralized bureaucratic state where economic growth and fiscal revenue are two essential criteria for determining the political promotion of government officials, the major work of local governments at every level has turned out to be attracting foreign and domestic investment with all resources and preferential policies to accelerate urban economic growth and local fiscal expansion (Tao et al., 2010; L. Wang, 2014). Moreover, growth competition among developmental local governments has been enhanced significantly by the restructuring of the central–local relation characterized by fiscal recentralization and duty decentralization since the mid-1990s (Cheung, 2009; Liu et al., 2008; Zhang, 2006). Although regional development competition has led to inefficient utilization of economic resources, unsound industrial structure, environmental disruption, and social instability, it has enabled and maintained the superficial economic prosperity in post-reform China (Montinola et al., 1995). Despite the extensive literature on developmental state, relatively fewer studies have discussed its local operation. First, the changing central–local relation in China has been viewed as a unique reform process and extensively discussed from a theoretical and institutional perspective (Oi, 1992; Ran, 2013; C. Wang, 2014; Yang, 1994; Zheng, 2006). Yet the practice of this changing relation, particularly at the local level, has not been fully examined by previous studies. Second, although the interactions between governments and the emerging market have been increasingly understood, the integrated analysis of central–local relation and state–market interaction has rarely been situated into local–specific political economic contexts (Kostka and Hobbs, 2012; Li and Zhou, 2005; Nee, 1992; Zhu, 1999). Last, spatial heterogeneities in regard to varied market conditions, different reactions of local government and diverse outcomes of central policies, have not been sufficiently examined at the local level. In this sense, further investigations on localized outcomes of mutual interactions among the central state, local governments, and market forces have the potential to provide new insights for the role of developmental state in China's ongoing practice of reform and development.

In the voluminous studies on neoliberal reforms and developmental states, the emerging market has been commonly considered as a given institutional context which changes with the holistic reform pace. The causes and processes of marketization *per se*, as well as the effects of developmental states on marketization, have rarely been discussed in existing literature. From this perspective, investigating the formation and practice of marketization would be conducive to establishing a more comprehensive understanding of the functioning mode of the developmental state and the overall process of reform and development in Chinese cities.

The important yet unresolved issues identified above, in particular the dynamics of marketization and the role of developmental state in this process, can be effectively interrogated through the lens of ongoing development of the urban land market in China. Land system has played a crucial role in forming a neoliberal reform scheme because of its pivotal position in an economic system. Thus, the establishment and development of the urban land market are important perspectives for investigating and evaluating the reform practice of a transitional economy (Swyngedouw et al., 2002; Wolford, 2007; F.L. Wu, 2010). Moreover, land has been such a profitable resource that the interests of states at multiple levels and various market forces intertwined with each other in land development, especially in rapidly growing economies where the

scarcity of land resource emerges and the price takes off in a short period (Borras, 2003; Hui et al., 2013; Liu and Lin, 2014). Therefore, the interactions among these actors could be observed and scrutinized systematically from the perspective of urban land marketization. Finally, urban land marketization in China is an ongoing process in which the interests and behaviors of all relevant actors could be closely examined. Although the urban land market in China has developed continuously in terms of the volume of land conveyance, the income local governments gained, and its contribution to local finance since its first launch in the late 1980s, its significant involvement in urban and regional development has not been the case until the late 1990s. Since then, the capitalization of urban land has become not only the main source of local public finance but also the primary engine of economic growth and urban development in modern China (Cao et al., 2008; Lichtenberg and Ding, 2009; Lin, 2007; Lin and Yi, 2011; Liu and Lin, 2014; Wu, 2003; Xu et al., 2009; Zhou, 2010). This phenomenon presents a rare opportunity for researchers to understand land marketization in a broader political economic context as well.

The development of the urban land market in China has already been extensively documented. Most of the existing literature has been focused on reviewing the reform course of urban land system, estimating fiscal revenue that municipal governments gain from the land market, and evaluating the effects of the land-centered development model on economic growth, urban transformation, social stability, and ecological security (Ding, 2003; Lin and Ho, 2005; Liu et al., 2005, 2008; Zhu, 2004). Relatively less has been written on the nature and dynamics of urban land marketization *per se*. In most previous studies, the state–market relation has been arbitrarily treated as a zero-sum game without probing into practical interactions between the emerging urban land market and reforming land authorities. Moreover, since top–down land reform measures are often viewed as a given institutional context for local land development, researchers rarely attempted to understand *de facto* diversified local implementations of central land policies. In other words, few has used systematical and reliable data to examine local heterogeneities nested in the operation of central policies which commonly aim at promoting urban land marketization. In addition, although many scholars have acknowledged the central role played by land development in facilitating urban economic growth and fiscal expansion, little has been documented on the variegated strategies adopted by different local governments which intend to maximize their benefits associated with urban land marketization.

To fill these gaps, the central question for theoretical and empirical inquiry in this research essentially concerns the way in which land marketization is initiated in China in the broad context of state power reshuffling and state–market relation reconstruction. Is urban land marketization a top–down institutional arrangement dominated by the central state or a bottom–up process promoted mainly by the local authorities? Have the central land policies aiming at improving land marketization been implemented effectively and efficiently by local governments? What are the exact roles played by local states in this process? How does urban land marketization vary through time and across space? How has the uneven landscape of land marketization been shaped by the central–local power reshuffling? What are the relationships, if any, between the extent of land marketization and the level and structure of economic development, land scarcity, and degree of openness? The aforementioned issues have significant implications for not only a better understanding of the nature and dynamics of urban land development in China but also the investigation of the formation and development of markets in developing countries undergoing neoliberal reforms.

In this study, we attempt to examine the ongoing practice of market reform in Chinese cities by examining the pattern and

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