



# Reproducing the city of the spectacle: Mega-events, local debts, and infrastructure-led urbanization in China



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## ARTICLE INFO

### Article history:

Received 11 September 2015

Received in revised form 8 January 2016

Accepted 9 January 2016

Available online xxxx

### Keywords:

Urbanization

Urbanism

Mega-events

Local debts

China

Guangzhou

## ABSTRACT

Existing studies of the growth of Chinese cities and the escalation of local debts have been done in separation. This research examines the growth and transformation of Chinese cities in relation to the practice of hosting mega-events as a means of capital mobilization and the expansion of local debts. An investigation of the case of Guangzhou, the host city of the 2010 Asian Games, has identified an interesting trajectory in which hosting mega-events has been actively pursued as a strategy of capital accumulation to stimulate infrastructure-driven urbanization. The municipal government has managed to mobilize resources from commercial banks to finance infrastructure projects and foster urban spatial restructuring through the establishment of a series of local government financing platforms (LGFPs). Because land was used as the main assets injecting into LGFPs and as collateral to obtain bank loans, the revenue generated from land sales has been of great significance to support LGFPs. However, the uncertainty of the real estate market has made land revenue volatile, resulting in looming local debts. Findings of this research cast doubt over the long-term sustainability of China's event-driven urbanization and further advance theoretical understanding of the diverse trajectories of urbanization in the era of global urbanism.

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## 1. Introduction

In recent decades, an important line of theoretical enquiry in urban research has dealt with the sophisticated interrelation between the production of the urban built environment and the process of capital accumulation (Christophers, 2011; Harvey, 1985; Lin & Yi, 2011). The process of urbanization is believed to be closely connected with the provision of various transport and communication infrastructure in an attempt to respond to the inherent contradictions of capital (over)-accumulation by unlocking the movement of production factors (Harvey, 1978). The thesis of the urbanization of capital has been applied to China where the practices of urbanization have been described as a model with the Chinese characteristics that are state-directed, infrastructure-driven, and debt-financed (Harvey, 2012). According to this thesis, the process of the accumulation of capital usually takes the form of a cycle that covers a long period of time so as to make a balance between the speed of capital accumulation and urbanization growth. However, unlike the urbanization process in Western countries in the nineteenth century, the practice of urbanization in contemporary China is believed to be overshooting a normal process leading to a state of over-accumulation with a high likelihood of a debt crisis

(Harvey, 2012; Ong, 2014; Zhou, Zhang, & Shen, 2015). In this perspective, the debt crisis that is taking shape in China is a representation of the over-accumulation of capital where the means of capital accumulation was enhanced through a state-led accelerated urbanization and excessive infrastructural development.

Although many studies have suggested that capital accumulation in the urban domain has played an important role in building up China's soaring local debts, the existing literature suffers from a separation between those concerning the size, growth, and risks of local debts (Feng, 2013; Li & Lin, 2011; Lin, 2003; Sano, 2014), and others focusing on a macro-level interpretation of China's urbanization (Lin, 2011; Oi, 1999; Savitch, Gross, & Ye, 2014; Shin, 2014a; Wu, 1997; Wu, 2010; Xu, 2013). Very little has been written to document and explain the interrelationship between the production of the urban built environment and the accumulation of local debts in China's rapidly expanding cities. Meanwhile, the practice of Chinese urbanization has continued to change in form, style, and fashion, ranging from setting up special economic zones and industrial parks to fostering new urban districts and central business districts and prompting real-estate development and urban renewals (Qian, 2011; Ren, 2013; Zhang, 2012; Lin, 2015). One of the popular and influential strategies recently adopted by many Chinese municipal governments has been to host mega-events such as the Olympics, Worlds Fairs and Expositions, and Asian Games as a means to obtain capital for urban infrastructure development (Timberlake, Wei, Ma, & Hao, 2014; Shin, 2012).

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Hosting mega-events has significantly stimulated urban infrastructure investment and boosted urban transformation, but it has also led to a soaring local debt that undermines the long-term interests in economic sustainability and social stability. According to the report of the Beijing Olympic Research Center, the total cost for the Beijing Olympics was estimated at about 290 billion yuan, of which two-thirds were invested in infrastructure development, including metro, highway, airport, and road constructions (Fowler, 2008). The infrastructure-related spending is equivalent to 43% of Beijing's total urban fixed asset investment for the years of 2005–2007 (409.7 billion yuan). The construction of the Olympic stadium alone has brought about a huge debt that will take almost three decades to pay off.<sup>1</sup> Theoretically and practically, the interrelationship between the reproduction of the urban built environment, hosting mega-events, and booming of local debts appears to be a significant issue with great potentials to enhance our understanding of the new dynamics of urbanization.

This study attempts to probe into the changing nature and dynamics of China's urbanization through an analysis of how hosting mega-events has been actively pursued as a means of capital accumulation to finance the development of the urban infrastructure and reproduction of the urban space. The objective is fourfold, namely to (1) identify the extent and structural composition of local debts; (2) analyze the motivation of Chinese municipalities to practice the mega-event strategy for fostering infrastructure investment; (3) examine the mechanism in which the mega-event strategy finances urban infrastructure investment; and (4) evaluate the extent to which the mega-event strategy has contributed to the expansion of local debts and the reproduction of the urban space.

The following part of this paper is organized into three sections. It begins with a critical evaluation of current scholarly enquiries into the issue concerning China's urban development and the growing significance of local debts. This is followed by a clarification of the methodological issues including definition, research sites, data sources and research design. Attention is then turned to an empirical investigation of the practices in Guangzhou as an important case to examine the role of the Asian Games in the process of infrastructure-driven and debt-financed urbanization. The final section summarizes the major findings of this research and discusses their implications for future studies and policy-making.

## 2. Theoretical context

Recent decades have witnessed a drastic expansion of local debts in China and it has been the subject of heightened scholarly interests and extensive documentation. Given the economic and political significance of the subject matter, many researchers have made important attempts to understand the explosive growth of China's local debts primarily at the national level. Some researchers have placed their emphasis on the supply of capital under the current fiscal and financial systems, while others have stressed on the demand created by infrastructure investment during the urbanization process (Jiang & Xu, 2014; Li & Lin, 2011; Lin, 2003; Ong, 2012; Tsui, 2011; Xu & Xun, 2013; Yang & Li, 2013; Zhang & Barnett, 2014).

In the first perspective, the structural mismatch between the central and local governments in fiscal revenue and expenditure is identified as the main cause of the rapid expansion of local debts (Jiang & Xu, 2014; Li & Lin, 2011). An empirical study of China's public debts conducted by Xu and Zhang (2014) maintains that local government debts are primarily the result of the deficiencies in the fiscal and financial systems, in which local governments bear a significantly shrinking public budgetary income and taxation revenue but unreduced expenditure responsibilities for regular public service expenditures and infrastructure investments.

In a similar vein, a research conducted by Lin (2003) showed that unreported local public debts, mainly at the township level, were caused by the 1994 tax reform. Furthermore, the tightened restriction over direct borrowing from the formal banking system in recent years has intensified the debt crisis. This restriction has led local governments to search for non-bank financial institutions<sup>2</sup> to finance urban projects, which consequently resulted in the rise in local debts (Li & Lin, 2011; Zhang & Barnett, 2014).

Another group of researchers placed the emphasis on the demand of infrastructure investment for public finance as the motive for local officials to raise funds from the banks. They stressed that the urban-oriented regime of capital accumulation in the form of infrastructure construction and fixed asset investments has forced local governments to become proactively engaged in infrastructure-driven urban developments (Shin, 2014a; Wang, 2014; Wu & Gaubatz, 2013). Yang and Li (2013) pointed out that several key institutions, including fiscal reform and the cadre evaluation systems, had created an environment under which local governments are drawn into an economic development model driven by infrastructure investment, and this had in turn led to the expansion of local debts (Yang & Li, 2013). The viewpoint of local governments' impulse for infrastructure investment as the fundamental cause of local debts has also been shared by Tsui (2011) and Xu and Xun (2013).

Despite their different analytical angles and perspectives, existing studies of China's local debts share a common approach focusing on the phenomenon at the national level without any disaggregate analysis at the sub-national and, especially, municipal levels. In reality, in response to the changes of the fiscal and taxation systems as well as restructuring of the urbanization model, local governments in different places have opted for different strategies to deal with their investment needs. Yet the existing literature is surprisingly silent in the documentation and interpretation of the different approaches adopted by local governments and their different trajectories of development.

Among various local strategies, abundant evidence has indicated that hosting mega-events has become an increasingly popular strategy adopted by local governments to soften the budget constraints caused by state fiscal retrenchment policy (Cochrane, Peck, & Tickell, 1996; Cornelissen & Swart, 2006; Essex & Chalkley, 2004) and stimulate urban restructuring (Andranovich, Burbank, & Heying, 2001; Bondonio & Guala, 2011; Burbank, 2002; Chalkley & Essex, 1999; Chen & Spaans, 2009; Hall, 2006; Short, 2008). In the process of preparation for mega-events, local governments can mobilize the needed capital for the public investment conducive to the pursuits of economic and political ambition. Hosting mega-events has been practiced as a catalyst to alleviate budget pressure and support a wide range of urban infrastructure projects (Andranovich & Burbank, 2013; Cornelissen & Swart, 2006; Essex & Chalkley, 1998; Shin, 2012). Without seriously investigating the actual practices of local developmental strategies such as the hosting of mega-events it would be difficult to unveil the picture showing the increasingly sophisticated dynamics of the growth of China's local debts and phenomenal urbanization.

## 3. Data and methodology

This study intends to explore the logic behind the growth of China's local debts and the popular local practices of hosting mega-events as a means to facilitate urban development and capital accumulation in the context of an ever-changing competitive institutional environment. What are the main contributors to China's booming local debts? What is the institutional framework that has set the stage for the pursuit of urban development and capital accumulation in China? How has the

<sup>1</sup> Branigan, T. (2012). London 2012: Legacy of Beijing is that Bird's Nest will take 30 years to pay off. *The Guardian*. <http://www.theguardian.com/sport/london-2012-olympics-blog/2012/jul/26/2008-olympics-birds-nest-beijing> (accessed 26 July 2012).

<sup>2</sup> These institutions include local trust and investment companies, highway or transport corporations, the urban development investment corporations and so forth.

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