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Sustainable land financing in a new urbanization context: theoretical connotations, empirical tests and policy recommendations

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ABSTRACT

This paper explores the theoretical connotation of sustainable land financing and examines its evolution in China. The empirical results demonstrate that the Chinese land financing sustainability index considerably fluctuated from 1999–2011, and has since remained relatively low. It is found that structure disequilibrium, lack of a driving-force mechanism, inefficient income and land financing instability considerably hinder the sustainable development of land financing. It is concluded that reform measures such as transforming local government revenue patterns, adjusting land financing structures and increasing land tax revenue can bring about an improvement. This is not only of theoretical value but also of practical great value for promoting the reform of sustainable land financing.

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1. Introduction

With the reinforcement of the new urbanization reform in China, the transformation from rapid growth of land financing to sustainable land financing has attracted the universal attention of the international community (Peterson and Kanavaga, 2010). However, there are still problems that need to be solved, such as “What is the theory connotation of sustainable land financing?” and “How is land financing sustainability measured?”

Land financing refers to the revenue gathered from land conveyance and taxation by the government to discharge its responsibilities in carrying out public policies or delivering public goods and services needed to perform specific functions (Zhu et al., 2012). The acceleration of urbanization in China has increased the reliance of regional and land financing on net revenues¹ due to one-time land conveyancing (Fig. 1). This has resulted in the

now denounced version of ‘land financing’, in the form of regional government behaviors that rely on land leasing to meet financial expenses (Chen and Chen, 2011). Thus, unsustainable land financing harms the stability of local finance, accelerates urbanization and wastes land resources (Tong and Tao, 2016; Ying et al., 2016). The third Plenary Session of the 18th Communist Party of China Central Committee concluded that China should discourage extensive urbanization land-expansion patterns in favor of a new form of human-centered urbanization (Wang et al., 2015). Consequently, the definition and measurement of sustainable land financing has attracted extensive societal attention (Ye and Wu, 2014). It is thus of considerable importance to theoretically define and objectively measure the notion of sustainable land financing and to develop corresponding reform policies.

Increasingly, scholars are concerned with land financing. Different definitions of land financing are being provided from different perspectives, such as fiscal science (Chen and Qin, 2009), public administration (Ge and Zhu, 2013), institutional economics (Cheng, 2009) and government economics (Zhu et al., 2012). It is noted that land financing revenues include land conveyance and land tax revenues (Xia, 2012). Some also argue that land financing revenues include revenues from land reserve bureaux, government

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¹ Net revenues resulting from land conveyance are equal to the land conveyance price deducted from requisition, destruction and land formation costs.

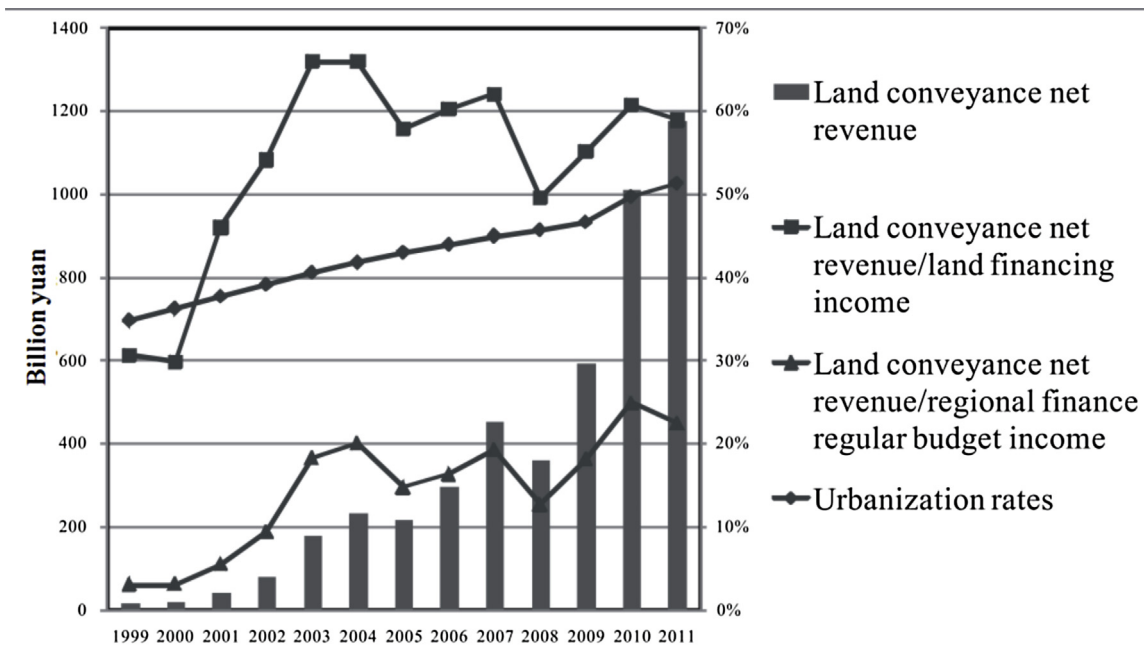


Fig. 1. The situation of the land finance and urbanization in China from 1999 to 2011.

corporations and development area mortgages (Yue et al., 2009). It has also been demonstrated that land financing has positive effects. For example, land financing has accelerated urbanization in China (Zhang et al., 2011). However, it is argued that land financing has also triggered unsustainable short-term government action (Zhao, 2014) and caused the inefficient use of arable resources (Zou, 2013). Research to date has been largely concerned with the potential causes of unsustainable land financing. Li and Lu (2012), for example, stresses that land financing is heavily influenced by economic growth and land markets. Fluctuations in land financing are also hindering sustainable development and Zhu et al. (2012), for example, recommend that China adopt a long-term system of sustainable land financing taxation (Fi).

Although these studies provide abundant references for sustainable land financing research, the research have its limitations. First, little work has been conducted in establishing a theoretical foundation within the context of new urbanization. With the analysis of the theoretical basis of land financing in the context of new urbanization, this paper not only provides a detailed understanding of the relationships between new urbanization, land financing and sustainable land financing, but also elaborates a theoretical definition of sustainable land financing. Thus, the research has the certain theories innovation. Second, there is a lack of academic research on the empirical assessment method of sustainable land financing. Therefore, land financing sustainability index is developed for a quantitative dynamic evaluation of land financing sustainability. This can greatly deepen the understanding of historical change of land financing sustainability in China. The direction of the reform of sustainable land financing is provided in the context of new urbanization. Thus, the research method has the certain practice innovation.

The structure of this paper is as follows. The following section provides an overview of previous research. The third section illustrates the method used for the assessment of land financing sustainability. The fifth section presents the research results. The sixth section considers the implications, and the final section provides the conclusions of the study.

2. Literature review

The emergence of land financing throughout China's period of social transformation has been inevitable. Since its inception, land financing has played a critical role in relieving finance deficiencies, stimulating industrialization, urbanization and local economic development (Guo et al., 2015). Land financing has also accelerated unstructured urban expansion, disadvantaged farmers previously working on the land and rapidly increased housing prices (Zou, 2013). Hence, the land financing phenomenon is widely discussed in public and academic circles. The present study summarizes the definitions, revenue formats, current situation, existing problems, positive effects and causal factors of land financing presented in key research studies, as follows.

The different understandings, and therefore different definitions, of land financing are demonstrated in literatures. In fiscal science, for example, land financing refers to fiscal activities that involve government revenues, expenditure and benefit distribution relationships in relation to land (Chen and Qin, 2009). From a public administration perspective, it refers to industrial taxation effects on fiscal budgets due to urban sprawl and land conveyance revenues outside fiscal budgets (Ge and Zhu, 2013). In institutional economics, it refers to fiscal revenues, spending activities and benefit distribution relationships. Local governments use land financing to acquire ownership and land rights benefits, to increase financial spending capabilities via land taxation, land usage authorization conveyance or land financing (Cheng, 2009). While in government economics, it refers to value-added benefits of land that are shared by the government to enact public policies and deliver public goods and required services (Zhu et al., 2012). The land financing revenues include land conveyance and land tax revenues (Wu et al., 2015), land reserve bureau, government corporation and development area mortgages (Yue et al., 2009).

At this stage, the revenue from land has gradually become a major fiscal revenue source of the local governments in china (Wu, 2011). Local governments rely on land sales for 25%-50% of their revenues in some cases, and even 80% in a few districts in china (Zhou and Wang, 2010). Unreasonable structure of land financing is one of the main problems for Chinese land financing. It is

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