

# State-Led Urbanization in China: Skyscrapers, Land Revenue and “Concentrated Villages”

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## Abstract

This article examines the rationale behind municipal and local governments' pursuance of urbanization, and the political and socio-economic implications of the policy to move villagers from their farmland into apartment blocks in high-density resettlement areas, or “concentrated villages.” It provides evidence of an increasing reliance by municipal and local governments on land revenues and the financing of urban infrastructure by the governments' land-leasing income. Following their relocation to apartment blocks, villagers complain that their incomes fall but their expenditures rise. Moreover, although they cede rights to the use of their farmland to the government, they are not given access to the state-provided social welfare to which urban residents are entitled. The paltry compensation which they receive for their land is insufficient to sustain them. Displaced or landless peasants are emerging as a distinctly disadvantaged societal group, deprived of the long-term security of either farmland or social welfare. The question of whether or not rural land rights should be freely traded is not as crucial to the future livelihoods of landless peasants as allowing them access to the full range of social welfare afforded to urban residents.

**Keywords:** China; urbanization; infrastructure; local government debt; land; concentrated villages; peasant resettlement

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In 2011 – and for the first time – China's urban population exceeded its rural population.<sup>1</sup> The rapid increase in urban population has been accompanied by an astonishing expansion of urban built-up areas. Equally remarkable is the level of infrastructure development in China. Skyscrapers, luxury condominiums, high-end retail malls, state-of-the-art airports, government buildings and public squares now litter the skylines of Chinese cities. These images of growth, juxtaposed against the uninspired infrastructure and urban slums in many developing

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1 National Bureau of Statistics of China, 2012. See, for instance, [http://news.xinhuanet.com/english/china/2012-01/17/c\\_131364697.htm](http://news.xinhuanet.com/english/china/2012-01/17/c_131364697.htm).

countries such as India, make China's achievement seem even more phenomenal. It is common to perceive urbanization as a result of economic development where rural surplus labour migrates to the cities in search of higher paid jobs. However, in China, owing to the household registration (*hukou* 户口) system, the reality is much more complex. The *hukou* creates a bond between rural populations and their villages, and without it, rural–urban migration would be on a much larger scale than we are currently witnessing.

The number of landless peasants (*shidi nongmin* 失地农民) increased at an estimated annual rate of 250,000–300,000, based on the approximation of one displaced peasant for every *mu* 亩 of land requisitioned by the state. This puts the total number of peasants displaced between 1987 and 2010 at no fewer than 52 million.<sup>2</sup> Except for a small minority who have made handsome gains (more on this later), the great majority of these displaced peasants receive minimal compensation for ceding their land-use rights and are often forcibly evicted from their land. In consequence, peasant protests against such confiscations have emerged as the major cause of social unrest in China since the 2000s. Land disputes are said to account for 65 per cent of the 180,000 mass incidents in 2010.<sup>3</sup>

With the drive towards urbanization, peasants have been removed from their land and villages in increasing numbers. By examining the policy and phenomenon of resettlement in “concentrated villages” (*nongmin jizhong juzhu* 农民集中居住), it is possible to gain a glimpse into the impact demolition and relocation (*chaiqian* 拆迁) have on peasants' lives. The concept of high-density peasant resettlement or “concentrated villages” was initiated in southern Jiangsu province in 2001. Its purpose was to increase land-use efficiency in areas where migration had created sparsely populated “hollow villages.” However, since then, the practice has been widely adopted by subnational governments to expropriate land and then lease it to private developers in order to generate income. The “additional” agricultural land created from this process is then exchanged for the quota of industrial land to be used for commercial and industrial purposes in peri-urban areas which fetches high market prices. Owing to the central government's national grain security policy, land usage is tightly controlled. Given the scarcity of land in China, increasing population density has become an innovative way for the government to increase the area of land available for lucrative commercial and real estate activities while still observing its own national grain security policy.

Since the 1994 fiscal recentralization reform that assigned most taxes to the national government, subnational governments have been starved of the means to meet the responsibilities of their mandated expenditures. Municipal and local governments have the monopoly over the requisitions of collectively owned agricultural land and transfers to state ownership before land-use rights

2 Han 2009; Jiang, Liu and Li 2010. By way of comparison, Jiang, Liu and Li estimate that 1.4 peasants are displaced for each *mu* of land requisitioned. This will put the total number of displaced peasants created in the same period at about 70 million. One *mu* is equivalent to one-sixth of an acre.

3 Yu 2005.

are leased to private developers. Land-leasing revenue, which can exceed compensation to villagers by a multiple of a hundred, accounts for a large proportion of the fiscal income of local governments. Municipal and local governments are entitled to keep almost all of the revenue generated from land leasing. Additionally, as a result of fiscal recentralization, sales or business taxes extracted from service industries, such as real estate and construction, have become a major source of revenue for subnational governments. Hence, fiscal incentives propel subnational governments to engage in land expropriation and leasing – and urbanization ensues. Rather than being a by-product of economic development, urbanization in recent decades has become an entrepreneurial and profiteering enterprise actively pursued by the government in order to augment revenue.<sup>4</sup>

China is still “under-urbanized” when compared to other developing countries at similar income levels.<sup>5</sup> After the disastrous Great Leap Forward in the early 1960s, the Chinese government instituted migration control. This involved a household registration system whereby food and other basic necessities were rationed to locally registered residents in urban areas. This policy has restricted the free movement of the population and has prevented rural residents from moving to the cities as has been the case in other developing countries.

In the dualistic rural–urban structure in China, land serves as security for peasants in the same way that state-sponsored social welfare provides security for urban dwellers. This article engages with the debate on whether rural land rights should be traded freely. When land-use rights are ceded, peasants lose both a means of production and a form of security. Concurrently, their living costs rise significantly because the food they used to grow themselves must now be purchased from the market. Some of them may have their household registration converted to non-agriculture *hukou*. That conversion, however, does not necessarily come with the entitlements to social welfare enjoyed by their urban counterparts. Wedged between landed peasants and urban residents with entitlements to social welfare, displaced peasants are in the worst possible position, having no physical or social security to rely on.

Seen from the perspective of “land in exchange for social welfare” (*tudi huan baozhang* 土地换保障), or the lack thereof, what matters most is not whether rights can be freely traded, but whether peasants can be assured of a similar or higher standard of living after the sale of their land. The welfare model, if properly implemented, is a superior solution to the free trading of land. The sale of land rights can only bring benefits to peasants when critical assumptions, such as equal bargaining strength between buyers and sellers and the prevalence of market pricing, are fulfilled.

4 Previous studies that have looked at land-centred urbanization led by local governments include Yew 2011; Yew 2012; Lin 2007. However, these works, at times based on case studies, do not explain the rationale behind the evolving incentives from industrial promotion to the pursuit of urbanization. More importantly, they do not examine the implications of local state behaviour for the villagers or peasants.

5 Henderson 2009.

This article is divided into four sections. The next section examines the practice of moving villagers away from the land and into “concentrated villages.” It presents primary data collected from 40 interviews I conducted with displaced peasant households in a district that lies on the outskirts of metropolitan Hefei. This primary data is supplemented with secondary information on this resettlement model. The third section examines the controversy surrounding the free trading of rural land rights and the “land in exchange for welfare” model. The article goes on to examine the relationship between land and local government revenue incentives. It focuses on how evolving fiscal incentives have shifted local government behaviour from promoting manufacturing industries to pursuing urbanization and service industries. Land serves both as a means of production and as a profit-making instrument for subnational governments. Land-collateralized local government debts are also piling up, sowing the seeds for a potential fiscal and/or banking crises. The final section concludes the study.

### The Rationale and Policy for “Concentrated Villages”

In 2005, the central government implemented a policy that established a link between urban and rural “construction land” quotas (*chengxiang jianshe yongdi zengjian guagou* 城乡建设用地增减挂钩). The policy, instituted by the Hu–Wen administration to increase land-use efficiency and to improve the nature of village environments, came under the rubric of “constructing a new socialist countryside” (*shehuizhuyi xin nongcun jianshe* 社会主义新农村建设). The policy’s other, equally important, objective is to ensure that construction land (*jianshe yongdi* 建设用地) in urban and rural areas – land set aside for commercial and industrial use – does not increase to the extent that it has a detrimental effect on the total arable land necessary for national grain security. For the purposes of grain security, the central government has set a “red line” (*hongxian* 红线), or a floor, for the total amount of arable land needed for grain production: it must not fall below 1.8 billion *mu* (120 million hectares).

The setting of quotas for farmland conversions forms the basis of the government’s land management. The Ministry of Land Management draws up national land quotas annually and allocates them to individual provinces for farmland conversion. Provincial land management bureaus then allocate the quotas to various sub-provincial local governments. Farmland conversion quotas have a fixed term and so it follows that quotas for construction land (*jianshe yongdi zhibiao* 建设用地指标) are equally inflexible. Notwithstanding these fixed quotas, there are ways for subnational governments to raise the quotas for construction land by transferring land development rights. First, they acquire areas of arable land by relocating and reclaiming rural homesteads (*zhaji di* 宅基地). New arable land quotas are then exchanged for new quotas for construction land in urban areas which can be employed for urbanization and industrial development purposes. This practice is known as the transfer of development rights, or the

sale of one parcel's development rights to the owner of another parcel, which allows more development on the second parcel while reducing or preventing development on the originating parcel. Under such a program, development rights are severed from a lot designated for protection (sending area), and the severed rights are transferred to a lot in an area where additional development is permitted (receiving area).<sup>6</sup>

In this case, development rights for construction land in rural areas are severed in exchange for similar rights for construction land in urban areas which fetches far higher prices than its rural counterpart.

Furthermore, because rural homesteads usually occupy large areas, municipal governments can further “save” on land by relocating dispersed villagers to high-density neighbourhoods. Additional parcels of land created by this arrangement could be exchanged for further quotas for higher priced construction land in urban areas. Urban construction land could be assigned for industrial use (*gongye yongdi* 工业用地) or commercial use (*jingyingxing yongdi* 经营性用地). Industrial-use land is used to build industrial parks (*kaifa qu* 开发区), which were popular in the 1990s and early 2000s. Commercial-use land is designated for urban expansion and the construction of new towns comprising commercial residential buildings or office buildings. Lucrative land-leasing income and pumped-up real estate prices are the rationales behind municipal government drives to relocate the villagers to higher density accommodation.

As mentioned above, the “concentrated village” policy was initiated in Jiangsu in 2001 before being widely implemented. In southern Jiangsu, a large number of villagers had moved to the cities to become migrant workers, leaving behind sparsely populated or “hollow” villages. The practice of placing villagers together in high-rise apartment units in concentrated neighbourhoods began as an experiment by the municipal governments to merge these “hollow” villages.<sup>7</sup> In the Jiangyin 江阴 prefecture of southern Jiangsu, a model of “three rural concentrations” (*nongmin san jizhong* 农村三集中) – concentration of enterprises in industrial parks, villagers living in apartment-style communities, and large-scale farming operated by local companies – replaced individual household farms, scattered industrial enterprises and homesteads. With more densely populated living areas, the local governments utilized the additional land created from what were formerly village homesteads and idle lots for urban expansion. This policy was initially devised as a solution to the tangible problem of “hollow villages,” but when local governments in southern Jiangsu and other regions realized how lucrative such land transactions were, they began to pursue them with zeal, often regardless of whether or not an actual demand for land or urbanization existed.<sup>8</sup>

6 Johnston and Madison 1997.

7 This is a “top-down” reform rather than a “bottom-up” experiment like the household responsibility system which originated in Xiaogang village in Anhui province in the late 1970s. For further distinctions between the two, see Lin 2009.

8 Chang 2006.

### Political and Socio-economic Implications of “Concentrated Villages”

In December 2011, I conducted field research in a district at the rural fringes of the provincial capital of Anhui province, the Hefei metropolitan region, which has undergone rapid urbanization over the past five years. Residents were relocated and their houses demolished to provide land for the construction of infrastructure projects such as high-speed rail, highways and subways, shopping complexes, hotels, high-end residential complexes, other commercial buildings, and new provincial government offices. Farmland has also been expropriated to accommodate the construction of a new airport.

The field research was carried out in six neighbourhoods, consisting of townships (*zhen* 镇 or *jiedao* 街道). In this district, farmland once occupied by more than 54,000 villagers had been expropriated. These villagers account for 16.2 per cent of the district’s total population, or 47.3 per cent of its total agricultural population. However, only 12,600, or 25.2 per cent, of the displaced peasants have had their rural *hukou* converted to urban household registration. Nonetheless, as I will explain later, even those with urban *hukou* did not automatically gain access to state-provided social welfare.

Displaced peasants are generally entitled to three forms of compensation: land compensation fees (*tudi buchangfei* 土地补偿费), resettlement allowances (*anzhi buzhuifei* 安置补助费) and crop compensation fees (*qingmiao buzhuifei* 青苗补助费). In terms of resettlement allowances, Hefei city government regulations stipulate that those aged 16 years and below are entitled to receive 10,000 yuan, while those older than 16 are entitled to 30,000 yuan each: 12,000 yuan as a self-employment allowance (*zimou zhiye buzhuifei* 自谋职业补助费) and 18,000 yuan as a basic security allowance (*jiben shenghuo baozhangfei* 基本生活保障费). Nevertheless, none of the displaced peasants I interviewed had received the full resettlement allowance; they had received the self-employment allowance, but not the basic security allowance. According to the regulations, compensation for crops varies between 700 and 3,000 yuan per *mu* of farmland, depending on the agricultural income derived from the crops. For example, growers of cash crops such as fruits and vegetables are entitled to more compensation than grain farmers. However, the amounts received by those I interviewed were at the low end of the crop compensation scale, ranging between 900 and 1,200 yuan per *mu*.

More importantly, the villagers I interviewed had not been awarded compensation payments for the land. The amount of this compensation is determined through negotiations between the district and township governments;<sup>9</sup> villagers are excluded from this process. Any compensation paid goes directly to the township governments, although some fees may be allocated to the collectives. Two interviewees (a male over the age of 60 and a female over the age of 55, both

9 Interview with the district’s housing expropriation office (*fangwu zhengshou bangongshi*), Hefei, December 2011.

retired) indicated that they received a monthly retirement allowance of 320 yuan from the collectives. These pension payments were said to have come from the land compensation fee.<sup>10</sup> However, owing to a lack of transparency, there is no way to determine whether some of the land compensation has been diverted elsewhere or has lined the pockets of township or village officials. In summary, the displaced villagers in Hefei received two forms of payments: a pension for retired farmers and a one-off compensation consisting of 12,000 yuan per person as a resettlement allowance, and crop compensation fees ranging between 900 and 1,200 yuan per *mu*.

To put things in perspective, inadequate compensation, or its complete absence, is not exclusive to the field sites in Hebei where I conducted my research. The 2011 Landesa survey, which covered 1,791 rural households in 17 provinces,<sup>11</sup> is the largest survey of its kind. It revealed that among those villagers whose land had been taken (43 per cent of the sample), about 20 per cent had not received any compensation at all, while the rest had received compensation of some kind. When asked about their level of satisfaction with the compensation, 53.4 per cent of the respondents were either “very dissatisfied” or “dissatisfied,” while 22 per cent said that they were “satisfied” and 3 per cent were “very satisfied.” About six times more people responded that they were “very dissatisfied” than those who were “very satisfied.” When asked about the reasons for their dissatisfaction, 80 per cent reported that it was owing to inadequate compensation, 47 per cent said that compensation had been determined without their input, 38.4 per cent reported that the compensation was insufficient to maintain their former standard of living, 28.6 per cent said they were unable to earn a non-agricultural income after their land had been expropriated, and 25 per cent reported that their compensation had been misused or intercepted by local officials.<sup>12</sup>

Almost all of my peasant-interviewees complained that their financial situations had deteriorated after being relocated. Closer examination of their pre- and post-relocation income and expenditures verifies this. The villagers’ employment situation remained largely unchanged after relocation. Young people typically worked away from the farms doing odd jobs in nearby restaurants, supermarkets and construction sites, or else as carpenters, plumbers, cleaners or sales people. Their salaries typically ranged between 800 and 1,300 yuan a month, a sum equivalent to an annual income of between 9,600 and 15,600 yuan. The elderly who used to work on the farms became jobless after relocation, but were entitled to a monthly pension of 320 yuan. Those who did look for work had difficulties finding jobs because of their age and lack of relevant skill sets. The local government provided no training programmes to help the displaced

10 Ibid.

11 The provinces are Anhui, Fujian, Guangxi, Guizhou, Hebei, Heilongjiang, Henan, Hubei, Hunan, Jiangsu, Jiangxi, Jilin, Shaanxi, Shandong, Sichuan, Yunnan and Zhejiang. For further details, see <http://www.landesa.org/china-survey-6/>.

12 Prosterman and Zhu 2012, 3–4.

villagers become better integrated in the job market. As a result of these demolition and relocation policies, some villagers also lost lucrative rental incomes. Previously, families whose children had left to work in other provinces would rent out spare rooms or sheds to immigrant workers. This rental income, vital for some, was lost after relocation.

While the incomes of displaced villagers declined or remained largely unchanged, their living expenses rose. Prior to demolition and relocation, they could rely on their own produce and the animals they raised for food, subsistence and a supplementary income. They could sell these goods in the market. However, after relinquishing their land, they had to buy all their food and daily necessities from the market.

Earnings from odd jobs has become the major source of income for displaced villagers. However, it should be noted that these temporary service jobs are not particularly sustainable. Employment is subject to the level of economic activity in the vicinity and can be hit particularly hard during times of economic downturn. The average disposable per capita income for Hefei residents in 2010 was 19,051 yuan; it was 9,600–15,600 yuan for displaced peasants.<sup>13</sup> The one-off compensation payments, namely the resettlement allowance and crop compensation, are insufficient to sustain displaced farmers in the long term.

In Hefei city, there are two ways for displaced villagers to obtain new or resettled housing (*anzhifang* 安置房): one is to buy or build a new house; the other, more common, approach is to exchange their old house for a relocated apartment unit.<sup>14</sup> City regulations stipulate that every 60 square metres of old village housing may be exchanged for 45 square metres of relocated apartment space. However, this model of exchange is seen as unfair by many villagers. First, compensation is only given for the parcel of land on which the homestead is built (*zhaiji di* 宅基地), but not for the compounds that surround the houses (*ziliudi* 自留地) used by the villagers to rear animals and/or to grow produce for consumption or to supplement their income. This in effect means that the new accommodation is much smaller in area than the old. This compensation policy is being implemented nationwide.<sup>15</sup> Second, only legally constructed areas are being compensated for, even though villagers commonly build housing extensions or extra sheds to accommodate their families' needs or to collect rental income. Although these additions required substantial investment from the villagers, the fact that they are not taken into consideration in the housing exchange policy is another source of frustration for those being relocated.

In addition to giving up their farmland, relocation to a “concentrated village” also forces villagers to relinquish their entitlement to the courtyard economy

13 Anhui Statistics Bureau 2011.

14 By way of comparison, the Landesa survey reports that 47.8% of affected farmers shared the cost of the new apartment units with the local governments, 27% paid for themselves, and 25.2% said the apartments were provided free-of-charge by the governments. See Prosterman and Zhu 2012.

15 For instance, see Zheng and Fu 2007.

(*tingyuan jingji* 庭院经济).<sup>16</sup> Farmers use their courtyards to raise pigs and other domesticated animals and to grow fruit and vegetables. This can provide a substantial income for rural households, as well as provide them with essential food items for their own consumption. The loss of farm and courtyard income is not exclusive to the areas where I conducted research, and is also highlighted in a study conducted in Jiangsu province.<sup>17</sup> Furthermore, in Hefei as well as in other resettled localities nationwide, apartment housing can involve substantial costs such as management fees, water, power and gas bills, all of which impact peasants' savings.<sup>18</sup>

During my field research, I also heard many complaints about housing quality. Some interviewees insisted on inviting me to their homes in order to show me cracks on walls and other manifestations of shoddy construction common to dilapidated houses (*weifang* 危房). Some interviewees also complained that they had not been given the deeds to their apartments even though they had lived in these apartments for several years. The absence of deeds implies that the residents do not actually own their properties; consequently, the residents are prevented from selling the apartment units on the open market. This was such a prevalent problem in Hefei city that many had decided to conduct the transactions on the black market. Although there were willing buyers for the properties, the properties themselves were sold at a loss. The absence of deeds could be owing to poor quality construction: the apartments may have failed quality inspection tests. In other instances, the land quota had yet to be approved. In any case, without deeds, displaced peasants cannot claim rightful ownership to their properties, which places them in a position of extreme vulnerability, having lost both their land and other means of maintaining a living.

Relocation to higher density neighbourhoods can also bring about significant changes in lifestyle, particularly for agricultural households. Those who had formerly worked on farms were now “jobless.” Even though most of them had retired, they were still healthy. I came across many retirees who had been farming all their lives and who found that the new lifestyle lacked a sense of purpose. Many of them would wander around the common spaces in apartment complexes. They sat around playing chess, looked after their grandchildren, and generally led lives that seemed less purposeful than the life they had always known. This group of people could conceivably become a vocal, disenchanting segment of society. If they do not, it is because their age prevents them from taking part in any form of contentious politics.

### *Peasants' grievances and collective actions*

Many displaced peasants, including those in the field sites in Hefei city, feel that they have been compensated unfairly or treated unjustly in the land expropriation

16 Ibid.

17 See Sun and Yang 2010.

18 Hsing 2010.

process. They have attempted to air their grievances through official petitioning (*shangfang* 上访) and letter petitioning (*xinfang* 信访). When action through these official mechanisms has yielded no results, they have taken their grievances to the streets. According to Yu Jianrong 于建嵘 at the Chinese Academy of Social Sciences, land grabs and forced evictions have replaced excessive tax burdens and compulsory birth control measures as the primary causes of protests since the 2000s. Compared to the protests against rural fees and taxes of the 1990s, land-related protests tend to be larger and feature violent clashes between peasants and the police.

Despite the high frequency and confrontational nature of land-related protests, few have resulted in positive outcomes for the aggrieved or in any significant change of government policy. A notable exception is the Wukan 乌坎 protest, which, in various ways, is an isolated incident.<sup>19</sup> Peasant mobilization is widespread, but it is fragmented and highly localized. In his analysis of the success or failure of popular protests, Yongshun Cai points out that even though protests over land grabs happen frequently, they are geographically scattered, and most of them are small-scale incidents involving fewer than 500 participants. Therefore, they fail to attract media attention or develop into the sort of collective action that would bolster their power and increase their chances of success.<sup>20</sup> Sociologist Ching Kwan Lee argues that popular protests in China tend towards “cellular activism” – that is, they tend to be locality- or firm-specific grievances rather than a class-based predicament, making cross-regional and widespread mobilization challenging and complicated.<sup>21</sup>

## Free Trading of Rural Land?

The policy to remove farmers from the land and resettle them in “concentrated villages” helps to inform on an important debate about tradability of rural

19 In February 2012, a land grab in Wukan village in Guangdong province resulted in a “mass incident” which was resolved when a higher-level government intervened. Wukan party officials were removed from office and a competitive village election was held. In many respects, Wukan is an exception. In Wukan, villagers’ lands were illegally taken by corrupt local officials, and they were offered very little compensation in return. There had been long-standing antagonism between villagers and the local government, primarily over the corrupt behaviour of local officials, which is a familiar story throughout rural China. However, the Wukan case was a protracted confrontation which first surfaced in September 2011. A large number of villagers – around 20,000 – were mobilized. There were violent and large-scale protests, which resulted in the death of a protest leader while in police custody. Owing to its proximity to Hong Kong and the language ties, Guangdong is not foreign to Hong Kong media. The Wukan incident attracted a lot of media coverage, from Hong Kong as well as from Western outlets. The Guangdong provincial secretary, Wang Yang, has a reputation of being a liberal-minded reformer. More importantly, he was vying for a seat in the Politburo Standing Committee, China’s most powerful inner political circle, when the central leadership changed hands from Hu Jintao to Xi Jinping in 2012. Wang Yang tried to score political points by launching various neo-Maoist socialist campaigns, just as Bo Xilai, the flamboyant Chongqing mayor, had done previously. Wang Yang, if successful in jumping on the reform bandwagon and thereby winning the backing of the top political leadership, could also score a “political achievement” (*zhengji*).

20 Cai 2010, 180.

21 Lee 2007.

land rights. There is an argument that the lack of freely traded farmland deprives farmers of the opportunity to realize the full potential of their assets in that they are unable to use the land as collateral to raise capital for investment projects and commercial adventures.<sup>22</sup> It has been found that migrants and younger rural residents are more likely to support free trading of rural land rights.<sup>23</sup> Others have contended that tradable rights could lead to homelessness if those who sell their land to move to the cities for work get laid off. These laid-off migrants would not be able to return to the countryside since they would have already sold their land.<sup>24</sup> This potential group of homeless people could pose serious challenges to social and political stability. Yet, some have surmised that what matters most is not tradability of rights, but conferring to peasants greater bargaining power, without which free trading can just as easily lead to exploitation of their interests.<sup>25</sup>

For farmers in China, farmland serves as both a means of production and a form of social insurance. During the economic downturn, when jobs for migrant workers in coastal cities became scarce and temporary jobs dried up in nearby towns, rural residents could at least rely on their produce to maintain a subsistence living. Farmland serves the same function as social welfare does for urban residents. By way of comparison, urban residents are entitled to a subsistence allowance (*dibao* 低保), to unemployment insurance, old-age pensions and other state-provided social welfare. To level the playing field, once their lands are expropriated, displaced peasants should be entitled to the same social welfare benefits that are enjoyed by their urban counterparts. This is clearly not the case for the tens of millions of displaced peasants in China.<sup>26</sup>

In China, where rural residents are entitled to farmland and urban residents entitled to state-provided benefits, farmland expropriation should – in principle – convert peasants' household registrations from rural to urban residency. However, in Hefei city, some displaced peasants retained their agricultural *hukou* even though they had lost the rights of determination over their farmland. More importantly, even those villagers who had converted their household registration to non-agriculture *hukou* had no access to the social welfare entitlements of subsistence allowances or unemployment insurance. In fact, with the exception of some locales in the coastal provinces of Zhejiang and Jiangsu, the failure of displaced peasants to gain access to social welfare has been the norm in China. In the 2011 Landesa survey, only 13.9 per cent had access to urban social security, 9.4 per cent were entitled to urban medical insurance, and 21.4 per cent had access to urban schools, while 21.8 per cent had been given an urban *hukou*.<sup>27</sup>

22 Lin 2009.

23 Wang et al. 2012.

24 He 2010; Wen 2009.

25 He 2010.

26 Other studies on displaced peasants have reached similar conclusions. See Jiang, Liu and Li 2010; Hsing 2010.

27 Prosterman and Zhu 2012, 6.

Displaced peasants are therefore the most underprivileged segment of the population, wedged as they are between landed farmers and urban residents entitled to state support.

Jiaxing 嘉兴 prefecture in southern Jiangsu province instituted a policy whereby displaced villagers can either exchange old village housing for apartment units or they can exchange homestead land for state-provided social welfare after their land has been expropriated. Thus, the landless peasants in Jiaxing gain entitlement to social welfare instead of monetary compensation.<sup>28</sup> This “land in exchange for welfare” model has now been adopted in other districts in Jiangsu and Zhejiang.<sup>29</sup>

Seen in this light, the “land in exchange for welfare” model is a superior policy option compared to freely tradable land rights. The ability of tradable land rights to bring benefits to peasants depends on a whole host of assumptions such as equal bargaining strength between buyers and sellers, efficient market pricing and the proceeds of land sales being saved for rainy days. If any of these assumptions is violated, the free trading of land rights can be to the detriment of the peasants in the long run. The welfare model, on the other hand, is a straightforward exchange of one type of social insurance for another.

## Land Revenue and Local Government Behaviour

Urban expansion and accompanying developments in construction and real estate are major drivers of economic growth in China. According to one estimate, residential property construction alone accounts for 10–12 per cent of the country’s GDP. If steel, cement and other industrial raw materials are taken into consideration, these real estate-dependent sectors together account for between 20 and 25 per cent of China’s GDP.<sup>30</sup> Hence, real estate has become one of the major pillars of economic growth. At the time of writing in early 2012, there was a heated debate among economists about whether a slowdown in the real estate sector would lead to an economic “hard landing.” Even though this question lies outside the scope of this article, it demonstrates the economy’s dependency on real estate development. When real estate markets slow down, construction companies have fewer projects. This leads directly to falling demand for steel, cement, glass, copper wire and other industrial goods that supply the construction industry. Sales of furniture and white goods that consumers buy for their new homes also fall.

Real estate development is essential to municipal and local governments because of its contribution to GDP growth, on which local officials are evaluated. However, more importantly, subnational governments derive substantial revenue

28 For instance, see Qin 2007.

29 It has been reported that urbanization and collective land ownership has made some farmers rather prosperous in Guangdong province. See Unger and Chung 2012.

30 These estimates are provided by Patrick Chovanec of Tsinghua University and Jonathan Anderson of UBC Securities. See Chovanec 2012.

from transfers of land-use rights to private developers, and these transfers are the precondition of any property development. Subnational governments have the monopoly over the conversion of land-ownership rights from collective to state ownership, as well as the rights to convert from agricultural to non-agricultural use. The Land Management Law (*tudi guanli fa* 土地管理法) stipulates that land owned collectively must be transferred to state ownership before any private developers or enterprises can occupy the property. Village committees, which administer arable land contracted to farmers, have no rights over land transfers. Hence, neither farmers nor village committees can deal directly with real estate companies or industrial developers regarding the land on which they live. Instead, subnational authorities expropriate arable land from farmers, and ownership rights are then transferred from the collectives to the state. Subsequently, the state transfers land-use rights to private developers. Even though the law stipulates that agricultural land can only be expropriated if it is in the “public interest” to do so, the definition of “public interest” is so vague that subnational governments are free to expropriate agricultural land whenever they so wish.

Changes in fiscal policies affect the incentive structures of subnational governments and, by extension, their economic behaviour. The fiscal recentralization reforms instituted in 1994 reassigned 75 per cent of value-added tax (which is based on a percentage of value added in the local economy) to the central government, leaving 25 per cent to be shared among the various levels of subnational governments. Corporate income taxes (*qiye suodeshui* 企业所得税) were also recentralized in 2002, with 68 per cent going to the central government and 32 per cent to subnational authorities. From a revenue perspective, these policies in combination make industrial development less attractive to subnational governments.<sup>31</sup> The zeal for creating industrial development zones (*kaifaqu* 开发区), which permeated large and small cities alike during the 1990s, receded in the early 2000s when promotion of industrial enterprises became less attractive to revenue-starved subnational governments.<sup>32</sup>

These fiscal policy changes have meant that sales or business taxes (*yingyeshui* 营业税) have become the major income source for municipal and local governments. These taxes predispose the authorities to promote service industries such as construction, real estate and retail, from which the tax is extracted. They have inspired subnational authorities to engineer real estate and construction booms, hastening the pace of urbanization and the creation of new towns (*xincheng* 新城) throughout peri-urban areas.

Land is a key resource for the construction of both development zones and new towns. Given the constraint in urban space, these new developments encroach onto the countryside. Rural land expropriation and conversion have accelerated

31 Ong 2012, 86.

32 To reduce the scale of *kaifaqu*, the central government issued a moratorium in 2003 on development zone approval, which has contributed to its decline. I am thankful to an anonymous reviewer for pointing this out.

to allow these developments to take place, even though converted land for *kai-faqu* and *xincheng* is used for different purposes. As You-tien Hsing puts it,

Land battles have gone through two stages and can be characterized by two types of land development. In the 1990s, rural land conversion was dominated by *kai-faqu* (development zones) projects aimed at industrial development. Since around 2000, the new model has been the *xincheng* (New City), which is a much larger mixture of residential, office, and retail space at the fringe of the city. These two types of development reflect the changing territorial politics at different stages of rural land conversion.<sup>33</sup>

In general, urban infrastructure development is financed by four different sources (see Table 1). The first consists of budgetary allocations from the central and sub-national governments. Since 2006, budgetary allocations have accounted for 20–30 per cent of infrastructure financing. The second source consists of taxes and fees collected by local governments. Maintenance and construction taxes collected by municipal and local governments accounted for about 9–16 per cent of infrastructure financing. The government derives its third source – land transfer fees or land-leasing income – by leasing land to private developers. Between 2004 and 2010, this source accounted for between 20 and 25 per cent of total financing. However, after 2007, that percentage rose significantly to about half of total financing in 2010. This could be interpreted in two ways. On the one hand, it shows that the rise in land leases and the income they generate have financed a growing share of urban infrastructure development. On the other hand, the fourth source, bank borrowing and “self-raised funds” (consisting of a wide array of user fees and charges collected by government-related enterprises) are not listed as separate categories from 2006 onwards. Therefore, there are good reasons to believe that they might be conflated into the now larger “land transfer fee.” Since it is widely known that at least one-third of the massive increase in infrastructure building from the 2008–09 fiscal stimulus programme was financed by bank borrowing, the land transfer fee must include some proportion of bank loans. Available data suggests that domestic loans accounted for about 28 per cent of total financing in 2004, a considerable rise from 5 per cent in 1990.<sup>34</sup> In summary, since 2006, the proportion of urban infrastructure being financed by government budgets has declined by about 30 per cent, while that accounted for by land leasing income has almost doubled, even though bank borrowing may have been subsumed under “land transfer fee” or land leasing income.

Estimating the size of local government debt is inherently difficult. The central government rolled out a massive four trillion yuan fiscal stimulus package to pump-prime the economy during the global economic downturn of 2008–09. The stimulus package poured colossal investments into infrastructure projects and was largely funded by the banking sector.<sup>35</sup> Consequently, the number of government-owned investment companies multiplied, and the amount of local

33 Hsing 2010, 98.

34 Wu 2011, 45.

35 Chen 2009.

Table 1: **Financing Sources of Urban Infrastructure (% , unless otherwise specified)**

	2004	2006	2007	2008	2009	2010
<b>Total (billion yuan)</b>	<b>525.8</b>	<b>354.1</b>	<b>476.2</b>	<b>561.6</b>	<b>672.7</b>	<b>857.0</b>
<b>Budgetary allocation</b>						
Central budgetary allocation	1.0	1.0	1.2	1.3	1.6	2.0
Local budgetary allocation	12.7	30.4	25.5	25.4	33.2	19.7
<b>Local taxes</b>						
Maintenance and construction tax	8.5	16.0	13.0	13.3	11.5	11.6
Public utility surcharge	1.1	2.2	1.7	1.6	1.5	1.3
<b>Fees and user charges</b>						
Water resources fee	0.4	0.7	0.5	0.5	0.4	0.3
Infrastructure connection fee	2.0	5.9	5.6	5.9	4.8	5.7
User charges	2.3	5.6	4.8	4.7	3.8	3.6
Land transfer fee	20.9	24.9	23.1	37.5	39.2	47.5
<b>Borrowing (not included after 2005)</b>						
Domestic loans	27.5					
Foreign capital	1.4					
Bonds	0.0					
Stock financing	0.1					
Self-raised funds (not included after 2005)	17.1					
Other sources	5.0	13.4	24.6	9.9	4.1	8.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Sources:

Ministry of Housing and Rural–Urban Development 2004, 2006–2010. 2005 data is not available.

Table 2: **Estimates of Local Government Financing Vehicle (LGFV) Debt at 2010 Year-End**

	Number of LGFVs	LGFV debt (trillion yuan)	Share of local government debt	Share of GDP
People's Bank of China	>10,000	<14.4	355%	36%
China Banking Regulatory Commission	9,828	9.1	224%	23%
National Audit Office	6,576	5	123%	13%

Source:

Batson and Zhang 2011; Wong 2012, 26.

government debt increased substantially. Much like urban development investment companies, local government financing vehicles (LGFV) are essentially financing platforms for municipal and other local governments. There is no agreement on the exact magnitude of debt; official estimates of LGFV debts range from 5 to 14.4 trillion yuan, accounting for between 13 and 36 per cent of GDP (Table 2).<sup>36</sup>

36 Estimates by Victor Shih suggest that outstanding debts held by LGFVs accounted for 34% of GDP in 2009, but that these debts will rise to around 50% of GDP in 2012. See Shih 2010.

International best practice suggests that using bank borrowing to finance public investments in infrastructure is efficient and fair.<sup>37</sup> What is problematic with the practice in China is the lack of transparency and absence of supervision with respect to the LGFVs. Until mid-2009, neither the central government nor the banking regulatory agencies had even the vaguest idea about the operation of the LGFVs or the size of their debts. The financing companies are not required to file any regular reports on their activities. The very nature of the LGFVs suggests that they are “underground” financing arms established by municipal and local governments as they themselves are not officially permitted to raise capital.<sup>38</sup>

## Conclusion

This article has provided the rationale for the rapid pace of urbanization and infrastructure-building in China. Rather than being a natural consequence of economic development, urbanization in recent decades is very much a state-led development emanating from the government’s fiscal incentives. This does not mean that the rate of urbanization is higher than it should be given China’s level of economic development and demography. In fact, China’s urbanization is lower than other developing countries owing to the long-standing household registration system. What this study highlights is the government-engineered urbanization process in recent decades. Land transactions and real estate development have become an indispensable source of fiscal revenue for municipal and local governments. Urban infrastructure is largely financed by land-leasing income and bank borrowing. Land is treated as a state-owned asset, sold by the government for the purpose of revenue generation and utilized as security to obtain bank financing. Nevertheless, because land is scarce, the leasing or collateralizing of property in order to appropriate its monetary value now is tantamount to borrowing against future generations. As one cannot count on real estate prices to rise continuously, future governments are likely to be saddled both with heavy debt burdens and with reductions in income-producing assets. This sows the seeds for future banking and/or local debt crises. Another round of bailouts by the central government, if indeed it has the financial capacity to do so, will be necessary to rescue municipal and local governments in the near future.

The “concentrated village” policy for landless peasants provides a window through which to gaze at the flip side of state-led urbanization. The relocation process, which is occurring on a wide scale across China, involves villagers ceding all rights to their farmland and relocating from villages to densely populated apartment blocks in peri-urban areas. Villagers are not consulted, are usually poorly compensated, and are sometimes forced to relocate against their will.

37 Bird 2005.

38 Wong 2012.

Those who have moved into apartment blocks are not fully fledged urban residents either. Even though they have lost all their rights to farm land, they are not entitled to the state-provided social welfare that their urban counterparts enjoy. Additionally, given paltry and inadequate relocation compensation packages, they are in the worst possible position, caught between landed villagers and urban dwellers with full entitlement to government-provided social welfare. This is the very definition of coercive urbanization.

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