

An Analysis of Land's special role in China's regional development

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Abstract. This article mainly researches the particular role of land in China economic development. There is no denying that China developed rapidly in past 30 years and land has played key roles in the development process. On one hand, Chinese governments utilize preferential policies about land to attract investments. On the other hand, the land sales provide a large amount of land revenues for local governments and therefore, local governments spend those money in capital construction and other facilities. Although this kind of policy had stimulated local economy, it has led to a series of problems such as excessive house price and the imbalance of current Chinese economic structure.

Introduction.

There are a lot of factors contributing to the high-speed development of Chinese economy, and the land has played very important and special role in this process. According to a series of statistics data and evaluation, the ratio of the revenues related to land and total fiscal income has raised from 70% in 1999 to 280% in 2007. The rest of this article mainly discusses what effects the land makes in the development of Chinese economy and what role land played in the development of China in past 30 years. Chinese land system has experienced different phases. After the Reform and Open in 1980s and the tax distribution reform taking place in 1994, Chinese local governments wield land resources to increase their incomes and attract investments. In one hand, by auctioning land, local governments gain a large amount of money. For instance, the most important revenues, so-called land transferring fees, has occupied 40%-60% of total local governments' fiscal revenues in 2015 and local financial dependence on revenues from land sales has achieved 87.2% according to China's Ministry of land and Resources Information Center in 2015. In other hand, Chinese local governments are able to obtain loans by mortgaging land resources.

This paper is organized as follows. Section 2 provides the background of modern Chinese fiscal system and the reform process of Chinese land system. Section 3 introduces the investment promotion policy related to land finance and how local governments gain fiscal revenues by utilizing land resources. Eventually, section 4 offers concluding remarks.

Background

China's Fiscal System. Chinese financial system is consisted of 3 phases, including unifying collection and allocation of funds by the state, dividing revenue and expenditure between the central and local governments and tax distribution. The first stage, monopoly controlling over its income and expenditure, lasted for almost 30 years, from 1950 to 1979. The second phase, dividing revenue and expenditure between the central and local governments and tax distribution, is from 1980 to 1993. The latest form of financial system, tax distribution, started in 1994. Nowadays, Chinese government still utilize this system.

Before 1978 China had adopted the fiscal system of highly centralized management in accordance with the centralized and planned economic system at that period. Unified control over revenue and expenditure was exercised in public finance. Under such a system, the local governments were required to turn over all their revenues to higher governments, which would then allocate the expenditure of the local governments; the state-owned enterprises were to turn all their profits to the fiscal administrative divisions, the expenditure of the enterprises would then be planned and subsidies for the losses of the enterprises would be provided by fiscal departments. The Ministry of Finance examined and allocated all the spending of the administrative divisions and public institutions. Such a fiscal system was not suitable for the economic development and the increased economic efficiency. In 1978 China started to carry out reform to change her planned economy into market economy. To conform to the overall situation of the reform, a series of transformation reforms were carried out in fiscal system during this period and the former highly centralized fiscal system was gradually broken. In 1980s, after the reform and open, dividing revenue and expenditure between the central and local governments was implemented, but there are still problems in this policy. In 1994 China launched a large-scale campaign to reform its fiscal and taxation system. Focusing on establishing a new taxation system and adopting a tax-sharing system whereby the tax revenue is divided by both the central and the local governments, the campaign is aimed at making the fiscal system suitable to the operation of the market economy and will gradually conform to international conventions. Drawing extensively on the experience of the countries with market economy, the campaign initially embodied fair competition, the common principle of the market economy. In short words, a big leap forward was made in the reform of taxation system in 1994, but there were still many problems in carrying out the tax-sharing system. A perfect tax-sharing system is beneficial to defining the fiscal relations between the central and local governments, stabilizing the regular income of the local authorities, and arousing the enthusiasm of the local governments for collecting taxes. However, the tax-sharing system this time showed too much concern for the vested interest of the former system and lacked the standard system of transfer payment, thus needing further improvement.

China's Land System. After the CPC came into power in 1949, they decide to reform the land system at once while still being faced with a lot of other issues. According to the Joint Guidelines of the People's Political Consultative Committee, the Chinese rural farmers were issued their own plots of land and housing. Moreover, the government authorized farmers rights to farm, to reside on the land and to buy, sell or transfer land to another party. The lands allocated to the farmers used to belong to the so-called anti-revolutionary element. The new policy perpetuates the farmers to be positive in increasing the production of agriculture. However, after 1953, the CPC moved land policy in rural areas away from individual land ownership and towards collective land ownership because of the contemporary situation. In this period, transfer of land rights was subsequently banned, shutting down all markets in land rights. By 1958, all land has been collective or state owned. Then, China undergone a special period since the Anti-Rightist Movement of 1957 had essentially crippled the functions of the judicial system and undermined the role of legal rules and protections in governing society. In the urban area, The Housing Administrative Bureaus initiated "joint state-private ownership" in order to more aggressively nationalize housing from reluctant property owners. In rural regions, under the policies of the Great Leap Forward, agricultural cooperatives were further collectivized and transformed into People's Communes. The onset of the Cultural Revolution in 1966 threw the very roots of Chinese society into turmoil and the existing land and property rights system was no exception. Land expropriation was usually initiated by criticism and labeling of an individual or

family as “reactionary”. After the Cultural Revolution, the government’s attention and energies were shifted away from political ideology and towards strengthening the country through rapid economic growth. In order to keep pace with the economic development, Chinese government reform Chinese land system by using the household responsibility system, known as HRS, working by separating land use rights from land ownership in order to provide economic incentives for farmers that were non-existent in the communal farming system, while at the same time maintaining collective ownership of rural land.

Nowadays, the way the urban regions and the rural regions manage land is different. In urban areas, there are two ways to operate the state reconciliation, including state allocation (huabo) and conveyance (churang). Allocation is used to dispense land use rights to state-owned or nonprofit users (U1) with-out time limits, and conveyance is used to transfer land use rights to commercial users (U2) for a fixed period (forty years for commercial land, fifty years for industrial land, and seventy years for residential land). In rural areas, the rural collective—the villagers’ committee (cun-min weiyuanhui), the village economic cooperative (cunjingji hezuoshe), or the township collective economic entity (xiang jiti jingji zuzhi)—has the authority to allocate existing rural construction land within the rural collective sector for use as public welfare under-taking, township and village enterprises, and housing sites for its members.

Note that, as one of the most important fiscal income sources, state-owned land transferred market is monopolized by the Chinese central government. According to the land management law, local governments are authorized to collect land compulsorily and in low price. Chinese government owns the exclusively right to transfer rural land into urban land. Local governments expropriate rural land from peasants and give them particular amount of money as compensation and sell the land as urban land to earn money, which is an important way to make money for government.

Mechanism

Investment and Preferential Land. There is no denying that the development of current China is astonishing. In the past, China was one of the poorest country worldwide. In 1978, the average GDP of China is only 155 dollars, 7.9 percent of world average GDP, less than 2 percent of Japan’s and United States’. However, from 1978 to 2012, the average economic growth rate achieved 7.79 percent while the average economic growth rate of world is 2.29 percent. Nowadays, China has become the second largest economy. Thus, here is the question. What is the main reason accounting for the economic miracle? One of the notable characteristics of China’s rapid development is its heavy dependence on investment. In recent years, the ratio of investment occupies at least 40 percent of GDP in most times, including 50.9 percent in 2006 and 69.3 percent in 2010 (according to Chinese news website) while approximately 20 percent in average in the whole world. When talking about the peak value, Chinese rate of investment is higher than others. The peak value is 29.7 percent for United States, 38.8 percent for Japan, 39.7 percent for Korea and 46.9 percent for Singapore, which are obviously less than China. (Wang,2015)

Meanwhile, Chinese local governments play an important role in attracting investment by carrying on a series of preferential policies, including lower the price of the industrial land in China. According to the statistics data, even in Shanghai, whose price of land is the highest, the expense of industrial land is only 800 Yuan per square meter, while its housing price is one of the highest worldwide. Meanwhile, in some cities in China, the industrial price is 60 Yuan per square meter. What is more,

some local governments provide industrial land free of charge and even give money to some enterprises to exchange for their investments. The reasons leading to this phenomenon include several facets. Primarily, in order to stimulate the development of cities, local governments should come up with a series of measures to attract exterior investments. It can be observed that many industrial parks appear in a large number of cities. On top of that, the GDP is an extremely important index when officials are tested by the organization department. Therefore, in order to achieve certain GDP target and get promotion, the officials are willing to implement many preferential policies which are advantageous for the enterprises to attract investment and introduce large industrial project. As a result, the local GDP would increase and the local economy would be stimulated by these projects.

Land Finance. It has been discussed previously that ever since the tax distribution reform in 1994, most local governments were unable to make ends meet because central governments take most of the tax payment while the parts of tax payment that belong to local governments are just enough for maintenance of daily operations. Meanwhile, local governments acquire the power to allocate the land directly. Land transactions are not allowed until 1980s, in which time China has begun to charge land use fee instead of former free land use policy. Naturally, local governments start to use land as an important vehicle to increase income, since most land-related fees are not required to share with the central government. This is the so-called “land-finance” that tax and rent incomes related to land occupy a large part of governments’ disposable revenue.

Recently, land has become the most essential and largest state-owned resources. According to some estimation, the occupancy of incomes related to land in whole disposable revenues of local governments has achieved 30 percent and 60 percent in some cities. (Li and Luo,2010) The governments’ revenues related to land can be divided into 3 parts, including land tax revenues, non-tax land revenues and invisible land revenues. In the tax revenues, the tax incomes directly related to land such as farmland use tax, tax on using urban land, increment tax on land value, tax according to contract, have low proportion in the tax revenues, only ten percent in Zhejiang province (by Wu, Chen). However, with the urbanization and industrialization of China, the related industrials, such as construction industry, real estate industry, have increased and brought a large number of tax revenues. According to the research done by Research Group of the China Land Policy, the real estate tax and the sales tax related to real estate and construction industries account for 37 percent of local public finance. However, the land tax revenues maintain in a stable rate in the fiscal incomes of China—approximately 30 percent in most provinces, which is obvious not a high occupancy. Nevertheless, the ratio of the whole incomes related to land to the total financial revenues have achieved 280%, from which we can see the importance of land finance to local governments. (By LI and LUO 2010) The reason of this phenomenon is that the incomes include the non-tax land revenues and the invisible land revenues. The non-tax revenue involves the land transferring fees, which is the largest incomes among the visible revenues in land finance. In addition, the invisible land revenue is a large part of land finance. For example, just 15-20 percent of land is transferred by public land leasing. 25% -30% of land is transferred by approved selling and 50 percent of land is allocated directly by governments. Moreover, the governments can gain revenues by land mortgage as well.

Conclusion

There is no doubt that the land finance has contributed a lot to Chinese economic development. However, the risks and problems brought by this mode cannot be ignored. Primarily, since peasants give their land to governments in very low price while governments sell land in extremely high price

and earn lots of money, peasants are not willing to transfer their land to governments anymore, hence that governments should requisite land from farmers forcefully. Therefore, the conflicts between the peasants and governments are extremely serious in present. On top of that, the land finance mode led to the disorder of Chinese economic structure, meaning that the share of incomes related to land in local governments' fiscal revenues is too big. Meanwhile, excessive loaning from bank increase the risks that governments are faced with bankruptcy anytime. Therefore, governments should come up with some measures to solve the problems. For example, Chinese central government should construct certain department to watch and supervise the land requisition and auction to ensure the fairness of the land transferring process and eliminate the corruption. In the meantime, the organization should make some regulations or laws to standardize the land transferring process. On top of that, Chinese governments can reform the tax system to increase the local governments' revenues and therefore, there is no need for them to rely mostly on land to gain fiscal income. Lastly, governments should implement some policies to re-allocate the revenues related to land to ensure that peasants' benefits do not harm by local governments.

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