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Date Nov. 23, 2000
Abstract

This is an empirical study of how the municipal government of Fuzhou, Fujian Province in the PRC carried out land management from the beginning of urban land reform in the late 1980s to the mid-1990s. It is argued that land management practice is explicable through the model of the local corporatist state which emerged as the result of economic reform and decentralisation in post-Mao China. Based on interviews with local officials and other informants and secondary research, the study examines land management practice in the four areas of inner city redevelopment, industrial relocation, hidden land transactions by state-owned enterprises and economic technology development zones. The study concludes that three characteristics make up the totality of land management practice in Fuzhou – the extensive assertion of control over its domain of corporate governance, the exercise of its power as an instrument to serve its various interests that are defined by the specific contexts, and the fluidity and informal nature of extensive bargaining among the participants in the land development process.
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Chapter I. Introduction

Since 1978, the Chinese central leadership has initiated a series of reform measures aimed at changing the country’s fundamental institutions and system of governance, which have had wide and profound impacts on China’s political economy and society. With the ultimate goals of economic development and modernisation through integration with the global economy set at the start of reform, the reform process proceeded in a gradualist and organic manner, rather than following a comprehensive plan. One of the main areas of reform is the gradual phasing out of the planning system under the command economy and the introduction of the market as the dominant mechanism for resource allocation and exchange. As more factors of production and goods are exchanged through the market, the government has gradually relinquished its allocative power and assumed the role of the regulator of markets, and its institutional and administrative structures have also changed as a result.

Land management reform is an important part of the overall reform process, because land is a key input in the production process, and the efficient use of which is a crucial factor in the success of the economic development program. Land is also a non-renewable resource in very fixed supply, the use of which carries with it a host of social, economic, political and ecological implications. The challenge of land management reform is therefore to devise an institutional framework that allocates the use of land to individual users in society and a corresponding administrative framework that regulates these uses in such a way that would address all of the aforementioned concerns.
In the effort to create such an institutional and administrative framework, China's land management reform process has encountered many practical difficulties. A major difficulty was due to the fact that under the old system, land was allocated to users free of charge by the state. As the new system gradually came into being, land users were forced to pay for the use of land, which was thought to create severe economic hardship for many land users and negatively affect the productive capacity of the economy. The designers of land management reform have taken this practical problem into account and designed a transitional program that would gradually guide land users into the new system, with the ultimate goal of having all land users operating under the new system. This transitional program is maintained by granting the local government the discretionary power in deciding who shall pay and how much is to be paid for the use of land. The assumption was that the local government would exercise this power in good faith and guide the local land users toward the new system.

What actually transpired during implementation veered far off the intended course of land management reform. The local government in China during the post-Mao reform period has evolved to become a local corporatist state that wields enormous power over its political, economic and social domain. This new form of the local state has its own set of institutional parameters and priorities upon which it determines its course of action. Having been delegated the discretionary power to lease and allocate land as well as other powers over land management, the local corporatist state has carried out land
management according to its own agenda, which resulted in gross mismanagement of land both locally and nationally.

This study is an empirical investigation of how a municipal government has carried out land management, in order to understand some of the reasons behind its conduct and ultimately the causes behind the mismanagement. As such the current study is valuable in many respects. First, because land management has not been treated as a distinctive area of investigation, the body of knowledge on the topic is relatively small, and this study will serve as a modest contribution to the field. Secondly, land management is an on-going concern and a pressing problem for China’s reform program, thus the findings of this study will perhaps be of practical assistance in this regard. Thirdly, as all areas of the reform process are inter-connected, the findings of this study will perhaps shed light on other areas of reform.

In this study, it is argued that the national program of land management reform has been fundamentally altered by the local economic development needs of the local corporatist state. The original conception behind land management reform is to devolve the rights of land use from the central government down to individual users, to be regulated by local governments. Under this new arrangement, the relationship between the central and the local government is likened to a principal-agent relationship in which the principal delegates its authority to the agent and entrusts the agent to act on its behalf and according to its interest. The reformed institutional and administrative structure grants the local government a large bundle of powers over land with which it is to play the intermediary roles of the supplier and the regulator of the burgeoning land market. In
reality, local governments have exercised their powers to serve their own agendas of local economic development. The institutional root cause of this usurpation lies with the emergence of the local corporatist state during the reform period, a localised political economic entity that wields enormous power over its domain of governance without an effective check-and-balance mechanism that ensures accountability in decision-making. The local corporatist state is informed in its action by a developmentalist ideology and guided by a set of incentives that encourages the maximisation of local economic interest. The local corporatist state has essentially used land as an instrument in service of its ambitious program of socio-economic development based on short-term goals, at the expense of other long-term social, economic, and ecological considerations.

The scope of this study is limited to the land management practice of one particular municipal government in China. As such, the study does not delve into the direct and indirect effects of this land management practice, such as the impact on the local economy, the resultant social and spatial differentiation, the loss of agricultural land, the impact on cultural heritage and so forth. Furthermore, the evaluation of these effects of land management in the context of the local corporatist state is also outside of the study’s parameter.

Methodology

This study is the product of a three-month field study in the city of Fuzhou, Fujian Province in China during the summer of 1997. The investigator carried out fifteen
interviews with government officials and academics during that time, much less than previously planned. The Fuzhou municipal government effectively denied the investigator important access to relevant information, citing the fact that previously researchers from Taiwan had published information about the government’s policy that was detrimental to the image of the city as a place of investment. Since Fuzhou’s economy is highly dependent on the continued influx of foreign investment, the mayor of Fuzhou issued a gag order on all city officials when dealing with foreign researchers. Despite this obstacle, the investigator managed to conduct extensive interviews and collected anecdotal evidence from government officials at the Fuzhou Municipal State Land Management Bureau and the Urban Planning Department. Although sometimes the interviewees intentionally withheld certain information in compliance with the gag order, the overall quality of the data, albeit anecdotal, is sound and trustworthy because the informants expressed a genuine interest in sharing the information with the investigator in exchange for a different analytical perspective on the issues they were facing.

To compensate for the this shortcoming, the investigator also conducted extensive secondary literature research at the Fujian Provincial Library in Fuzhou, the Cross-Strait Exchange Foundation collection in Taipei and the Feng Ping Shan Chinese Library at the University of Hong Kong. This portion of the research mainly targeted published newspaper articles, almanacs, yearbooks, statistical records, laws and regulations about land management in the city of Fuzhou. However, Chinese sources of data are notoriously problematic because of their inconsistency, the lack of independence in

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1 Please see Appendix A for the list of interviews.
reporting, and lack of rigour in compilation. Therefore, while the study cites some figures from these sources, they are at best approximate estimates and should not be taken at face value.

Because of these considerable limitations in the data, the investigator has been careful in weighing the available evidence and drawing conclusions from them. At places where there is contradictory evidence, it is duly noted. Although this level of scrutiny may hinder the consistency of the data at times, it is necessary to lend the study credibility. Ultimately, the investigator is able to draw reasonable conclusions from this body of evidence for the original purpose of this study.
Chapter II. Literature Review and Theoretical Framework

The purpose of this chapter is to provide an overview of the literature on urban land management practice in China, in order to situate and contextualise the current study and to establish a conceptual framework for analysis. The term 'urban land management' used in China's post-Mao reform context encompasses two inter-related areas of reform—land property rights reform and land administration reform (IFTE/CASS, 1992). The former refers to the creation and assignment of the bundles of legal property rights to certain entities in society, such as the state, the collectives and other individual bodies. The latter refers to the re-organisation of bureaucratic administration over land use, land management, policy-making etc. These two areas of reform complement each other in the re-formulation of a system of governance over the society's control and use of land. In contrast, the current study focuses on how a municipal government carries out land management in the context of the reform process mentioned above. In essence, it is an empirical study of the conduct and behaviour of a municipal government with regard to land-related matters in its jurisdiction, hence it is also the focus of this literature review.

The topic of local land management practice in China has not been treated as a distinctive object of inquiry in the non-Chinese literature. What exists in the current literature are mainly related studies by scholars of different disciplines that have addressed some aspects of this topic. For example, geographers have focused on the process through which political economic changes under reform have shaped the internal urban spatial structure and urban development trends (Gaubatz, 1995; Li and Chu, 1986;
Tang, 1994; Wu, 1995; 1997; 1998; Yeh and Wu, 1996). Economists have touched on the urban consequences, in physical and social terms, of economic systems reform (Kuo, 1989; Naughton, 1995). Planners' attention has turned to the existing urban development trends and the efficacy of the planning framework in regulating the rapidly changing physical and socio-economic reality of urban development (Leaf, 1998; Ng and Wu, 1995; Xu and Ng, 1998). Scholars of urban land economics concentrate on whether urban land and property reform has translated into some semblance of a real estate market (Dowall, 1993; Zhu, 1994; 1999). Political scientists in their study of the evolution of local governments in China have addressed new modalities of governance under reform (Blecher, 1991; Oi, 1992; 1995; Shue, 1995; Walder, 1992; 1994; Wong, 1987).

Given that the existing literature is made up of different analytical insights, it is necessary for this literature review to borrow from these studies in first of all painting an overall picture of urban development during the post-Mao reform period. Studies by economists and geographers will be reviewed to provide this larger context. With this overview of reform in the political economic system and the urban consequences in place, then the focus will shift to the literature on the local state and urban governance under reform. Studies of China's urban planning practice, urban land economics and the role of the local state in reform will be reviewed for this purpose. Special emphasis will be placed on how the action of the local government influences urban development, rather than attributing urban transformation to larger systemic forces. Finally the chapter concludes by introducing a conceptual model for the current study on land management practice, drawing from all the different analytical insights reviewed.
Urban Development in China

The term “urban development” is generally used to refer to the phenomenon of physical urban transformation. The literature on China’s urban development has generally conceptualised this phenomenon as the result of the larger political economic structure, which is seen as a powerful and pervasive statist construct which, in its organisation and institutional dynamics, leaves its imprint on the urban landscape. Post-Mao reform is treated essentially as a process of decentralisation in which this monolithic political economic system devolves centralised power down to the lower regions of the administrative and economic structure, as well as to social agents such as enterprises, households and individuals. Urban development during the post-Mao period therefore is explained in terms of how decentralisation released socio-economic forces that have had new and powerful impacts on the urban landscape.

Studies on China’s urban development by economists have generally approached the subject through an analysis of the economic system and its corresponding economic development policy. They point out that before reform, the centralised and vertically integrated command system extracted the surplus from localities and enterprises and then invested these resources according to the five-year plans. Under the policy of socialist industrial construction, most of the resources were redistributed to fund “productive” heavy industries, while “consumptive” items such as housing and urban infrastructure were assigned a low priority. Urban development under this arrangement proceeded through the individual cellular expansion of state-owned enterprises (SOEs), as they were
the main recipients of the central government's resource allocation. The role of the municipal government was generally weak, as it lacked both the decision-making power and the resources necessary for co-ordinating urban development. China's pre-reform urban development was therefore characterised by poor housing, underdeveloped urban services and infrastructure, and a chaotic cellular pattern of land use. (Kuo, 1989; Naughton, 1995).

Beginning in 1978, economic reform initiated a movement away from the centrally-controlled socialist industrialisation policy and economic system, which brought about dramatic changes in China's urban landscape. Urban industrial reform limited the proportion of the planned output quota for enterprises, and encouraged market-oriented production and acquisition. This led to the rapid growth of rural industries in the peri-urban areas that thrived on contract work spun off from the SOEs, especially in many southern coastal cities (Naughton, 1995). To address the chronic shortage of housing and urban infrastructure, the central government significantly increased investment for their construction. The central government also devolved more power to local governments, which gained more autonomy in the expansion of their tax base, the retention of revenue and the regulation of urban development (Kuo, 1989). As a result, new housing development mushroomed in the urban fringe, while the increasing urban-rural linkages transformed cities into extended urban regions.

Naughton and Kuo have carried out their analyses of China's urban development in the framework of the decentralisation of the economic system. Essentially, as economic decision-making powers were devolved down to local governments and
individual enterprises and households, horizontal linkages and market transactions emerged alongside the old command system of resource allocation and production, which in turn led to changes in the urban landscape.

In a similar vein, Tang (1994) in his geographical study sets out to analyse in detail the pre-reform urban land development process in China, i.e. "why and how raw land is allocated and serviced and serviced land is used and re-used". The rationale for this micro-level study of the land development process is to explain how pre-reform Chinese cities evolved to acquire specific characteristics, such as a homogeneous cellular pattern of expansion.

The theoretical underpinning for the examination of the land development process was borrowed from the urban land development literature (distinct from the urban development literature) that revolves around the two concepts of structure and agency. Studies that explain the urban land development process in structural terms focus on the deeper structural causes behind the formation of physical urban development. For example, Harvey (1978) explains urban development in terms of the profit-maximisation logic that governs the flow of surplus value extracted from the capitalistic mode of commodity production. Similarly, Roweis and Scott (1981) argue that two intrinsic characteristics of urban land, slow convertibility and non-producibility in the commodity form, conflict with the capitalistic logic of production, creating chaos in urban development which then necessitates state intervention in the form of urban planning.

In their overview and critique of different theoretical models of the land development process, Healey (1991) and Gore and Nicholson (1991) concluded that the
models either focused too much on the actions of individuals in the process (agency), or too much on the larger political economic forces that shape urban land development (structure). Therefore, Healey and Barret (1990) have called for an improvement in the theoretical formulation that would incorporate both structure and agency. Hence Tang has adopted this recommendation as the basic tenet for his study.

Tang argues that the Chinese state could be understood through the Foucauldian concept of governmentality as a disciplinarian organ that exerts control over all realms of life. And the command economy, a product of this all-controlling state, is characterised as a resource-constrained shortage economy, a concept adopted from Kornai’s study of the economic institutions of Hungary under socialism. The cyclical pattern of the tightening and relaxation of government control throughout the pre-reform period therefore could be understood as the manifestation of this deeper structure of Chinese political economy, informed by the dialectical interplay between the shortage economy and the state’s imperative to control.

Within this structural context, urban land development proceeded through the modality of individual capital construction projects, each one approved on a project-specific basis which necessarily neglected the provision of city-wide trunk infrastructure. Compounding this problem are the chronic shortages of material, the lengthy period needed to complete infrastructural projects, the difficulty in quantifying the benefits of these projects and the low priority given to such “consumptive” investment items. As a result, the lack of urban infrastructure was often allowed to continue until the problem became intolerable.
In addition, urban land was under the legal ownership of the state and allocated free of charge. But in practice, a wide array of central and local bureaucratic agencies exerted some level of control over land allocation, depending on the nature of the capital construction project. The mandate and the jurisdiction of these agencies were confused, overlapping and unclear. The local control agencies alone included the Agriculture Bureau, the Housing and Land Administrative Bureau, the Civic Affairs Bureau, and the Urban Planning and Administration Bureau (Tang, 1994: 405). Therefore, urban land was allocated through multiple agencies on the basis of capital construction projects, without payment and without a comprehensive land use plan.

In summary, Tang argues that urban land development in pre-reform China was carried out in the larger structural context of the shortage economy and the all-controlling state through the agency of SOEs and the multiple land-allocating bureaucratic authorities. Due to the soft-budget constraint of the shortage economy, enterprises typically engaged in the hoarding of material and land, causing cities to expand uncontrollably in a cellular pattern, until the government felt the need to rein in the expansionary drive. Urban growth therefore fluctuated according to this cycle of expansion and contraction, while the multiple land-allocating authorities contributed to this chaotic pattern of growth marred by insufficient infrastructure.

In comparing Tang (1994) with Naughton (1995) and Kuo (1989), one can observe the similarity in the basic political economic approach to urban development, while Tang's study has the additional dimension of agency to complete the picture. However, his conceptualisation of the Chinese Communist state as an all-controlling
organ based on Foucault's concept of governmentality is an ahistorical oversimplification that does not offer much analytical value. Secondly, despite having incorporated individual agents in the wider scheme, the analysis of agency lacks sufficient depth, rendering them as formulaic entities whose exact roles are unclear. The next body of work under review may offer more insight, as it is more rigorous in its formulation and covers urban development both before and after 1978. Again, the basic political economic approach forms the structural backbone, which is complemented by a more refined and detailed analysis of institutional factors that contribute to Chinese urban development.

The study by Wu (1995) is similar to Naughton (1995) in that both explain China's urban development in terms of the larger economic structure, with the difference being that Wu based his study on the concept of the capitalistic mode of production and capital switching developed by Harvey (1978). Wu argues that China's urban development process is the direct outcome of the way the political economic system extracts and re-distributes social surplus. During reform, as this system is decentralised and the devolution of power over social surplus continued, urban transformation is the result.

One shortcoming in Wu's structural analysis is that the intervening institutional framework of urban development is neglected. To address this lacuna, Yeh and Wu (1996) examine the land development process in an institutional analysis of how urban land is allocated, developed and exchanged. As discussed in Tang (1994), project-specific development was the only modality available under the capital construction
system. But since reform, the municipal government has been active in a new method called comprehensive development, which involves large tracts of land being developed to accommodate the needs of many rather than just one work unit.

Another significant institutional change was the legalisation of leasing land-use rights beginning in 1988. As a result, the municipal government was vested with the dual powers to administratively allocate land basically for free and to lease out land for a price. And because all urban land belongs to the state, the municipal government has become the largest and the only land owner in the city, capable of exercising monopolistic control.

These institutional changes have resulted in four discernible impacts on urban development. First, the suburban economic and technology development zones (ETDZs) proliferated because many levels of local government joined in land leasing and land development in order to attract foreign investment. Secondly, after urban land use has acquired market value, a land rent gradient has emerged to reflect market prices of land and real property. Thirdly, as for-profit land development projects became commonplace, new social areas based on income levels began to appear in Chinese cities. And lastly, urban planning in China has become increasingly ineffectual in regulating land use because of the real estate boom, the active hidden land market and the rapid growth of a wide array of industrial and commercial enterprises throughout the city.

In an attempt to coalesce all the structural and institutional elements into a coherent whole, Wu (1997) sets out to establish a theoretical framework for the analysis of urban restructuring in China's emerging market economy. Four relevant theoretical
insights are used to form the theoretical foundation: capital switching, the structure of building provision, rent gap and property right:

1. Capital switching, as discussed before, is borrowed from Harvey (1978) to provide the political economic structural framework. The central thesis of Wu (1995) is that capital switching can be used as an analytical framework in the Chinese context.

2. The structure of building provision is a concept borrowed from Ball (1986a; 1986b) that denotes the institutional process of land development, in which social agents are observed in the production of the built environment. It is mainly a perspective for empirical research, not an explanation. Yeh and Wu (1996) have addressed the structure of building provision in pre- and post-reform China.

3. The rent gap is simply the difference between a property's capitalised ground rent and its potential ground rent, which arises because of continued urban development and use in its surrounding area. Simply put, when a particular property value increases to a point when it would be profitable to tear down the existing one-storey building to build a multi-storey building, there is a rent gap between the capitalised ground rent (the current rent from the one-storey building) and the potential ground rent (the future rent from the multi-storey building to be built.)

4. The concept of property right is defined by Wu as the right to derive income from a productive asset. Citing Walder (1992), it is argued that in a planned economy, property right is widely diffused along a hierarchy of bureaucratic entities. This particular configuration of property rights is an economic institution that informs the behaviour of social agents in the urban land development process. Given the
incentive, the bureaucratic agent that has the property right would be expected to capture and increase the economic value of that right.

Building on these concepts, Wu attempts to explain the urban development process in pre- and post-reform China. Essentially, as the economic structure became more decentralised and the institutional changes altered the incentives for individual social agents, they began to engage in economic activities to capture those economic values in the form of ground rent, which in turn led to the physical changes in the size, the structure and the nature of the city. In a subsequent study, Wu analysed the urban development of Guangzhou using this framework (Wu, 1998).

Thus far the theoretical framework developed by Wu (1997) is the most comprehensive and theoretically rigorous attempt at explaining pre- and post-1978 urban development in China. But because it is essentially a geographical study in urban spatial change, the ultimate object of inquiry is the cause, process and effects of urban spatial change, not the conduct of the local government. Under his theoretical framework, as power is decentralised and institutional reform altered incentives, the local government, faced with this new institutional environment, is portrayed as driven by the single pursuit of its own economic interest. While this characterisation is not completely untrue, for the purpose of the current study there has to be a more in-depth investigation into the nature of the Chinese local state under reform. Such an analysis would provide insight into how and why the local state, having been given wider latitude in local administration, exercised the new decision-making power in the manner that led to these physical and
spatial consequences. It is with this question in mind that the literature on urban planning in China is reviewed in the next section.

**Urban Planning in China**

While the previous section has provided the study with an overview of urban development in China in the larger context of political economic and institutional reform, the literature on urban planning in China is reviewed here to acquire an understanding of how the municipal government carries out its regulatory function within this new environment. As the focus is on an aspect of urban governance, this investigation may be fruitful in understanding the municipal government’s conduct in its implementation of policies.

The literature on urban planning in China can be generally categorised into two types. One type of study places emphasis on the role of socialist ideology in the practice of urban planning, based on the central thesis that Chinese urban planning should be understood in terms of its strong socialist ideological foundation, which stands in sharp contrast with urban planning practice in capitalistic societies. The second type of study approaches the subject of China’s urban planning as a practical problem of institutional failure, in which planning as it is currently practised is inadequate in addressing the myriad urban changes that have emerged as the result of reform.

As one of the earliest studies on urban planning in China, Ma (1979) observes that Chinese urban planning has a strong ideological content and follows the guideline of three services: 1) to serve proletarian politics; 2) to serve socialist production; and 3) to
serve the livelihood of the labouring masses. Urban planning seeks to rectify the exploitative relationship between city and countryside, as well as to transform cities from consumption-oriented to production-oriented centres. In addition to the three services, urban planning has four prescribed objectives: 1) to combine industry with agriculture; 2) to combine city with country; 3) to benefit production; and 4) to facilitate people’s livelihood. When translated into action such as industrial planning, Ma argues, planners have located heavy-industries in an area of the city where air emission would be blown away from the city by seasonal winds. Residential zones are located away from factories to minimise pollution, but not so far away as to require long commuting time. Chinese planners seemed to subscribe to the view of the need to contain the growth of large cities and focus on the development of small to medium cities in order to avert the negative outcomes of over-urbanisation. This emphasis on ideological content implicitly assumes that the ideologically informed plans get translated into action through an efficacious bureaucratic organ without encountering practical limitations and resistance.

In a similar vein, Xie and Costa (1993) have identified the theoretical foundation, the main principles and the institutional structures of urban planning in China. Four principles of urban planning are identified, which have waxed and waned throughout the different periods of Chinese urban planning: 1) urban planning as a component of national economic development; 2) to educate socialist man and to foster community spirit; 3) insistence on spatial equality and uniformity; 4) to promote self-reliance and self-containment on a neighbourhood level.
As pragmatism replaced ideological purity during the post-Mao period, urban planning principles changed accordingly in embracing rational-comprehensive planning for socio-economic development, city-led regional planning, and the active encouragement of foreign investment in the development of coastal urban regions (at the expense of regional equalisation). Under these principles, the typical urban plan is a combination of a civil engineering plan and a master land use plan that “rationally” carries out the official goals of socio-economic development for 5 to 20-year planning periods. Problems with this planning approach are numerous: the mismatch between real community needs and planning objectives, a tendency to over-emphasise the national plan at the expense of local needs, and the inflexibility of the architectural and engineering approach to plan formulation (Xie and Costa, 1993).

To a student of Chinese urban policy and urban development, a brief history of Chinese urban planning that traces the evolution from Soviet influence to post-Mao economic reform helps to clarify the background of much of the ideological and theoretical concepts still current in Chinese urban policy and discourse. However these studies tend to over-estimate the influence of ideology and the roles of principles and theories in informing urban planning practice. The focus on ideology and theory also overlooks the question of the effectiveness of planning, implicitly suggesting that urban planning ideology is being efficaciously translated into action. For the purpose of the current study, this first type of studies on urban planning provides few clues into how the municipal government actually exercises its regulatory power over urban development.
In contrast, the second type of study offers a more realistic view of urban planning in China.

As indicated in the title “A Critique of the 1989 City Planning Act of the PRC”, Ng and Wu (1995) set out to offer a critique of Chinese urban planning from the perspective of current western theories of urban planning. The 1989 City Planning Act (CPA) is essentially the final consolidation in statutory form of various codes, guidelines and regulatory decrees issued since 1978 that sets out the rules of urban plan formulation, implementation and enforcement. Under this statutory scheme, each level of local government bears some degree of responsibility in the formulation of the master comprehensive plan according to “scientific” principles and methods. A region’s comprehensive master plan is the direct spatial version of the region’s strategic outline, which in turn is logically linked with the long-term national economic plan. Under the comprehensive master plan are district plans and detailed development control plans (DDCP) that regulate the use of individual plots of land. Based on this hierarchy of plans, the ‘One Note Two Permit’ system of land use approval operates to ensure compliance with the plans.²

In reality, however, Chinese urban planning is grossly ineffective in controlling urban development. Economic reform has brought about a bewildering array of changes that are difficult and complex. For example, urban planners cannot adequately cope with

² First, the proponent of development has to get a permission note from the Planning Department, which recommends a site for the proposed development. Secondly, the proponent has to get a land use permit, also issued by the Planning Department, which dictates the exact location and boundary of the site. Then the proponent applies to the land management authority for a land allocation based on the land use permit. Finally, a building and construction permit is also needed, which controls the design and dimension of development (Ng and Wu, 1995: 286).
the explosive growth of rural industries and the massive floating population. Also, it is not unusual for work units to freely change the use of their compounds and build new structures outside of the plan. Worst of all, local government officials have often violated their own plans for certain development projects in the name of economic progress or for personal gain in some cases.

In their study, Xu and Ng (1998) also focus on the of loss of control in their analysis of how urban planning is practised in the city of Guangzhou. Chinese urban planning has undergone three discernible changes. First, the old administrative structure of ministry-led project-based development was dismantled, which means that all urban developments are subsumed under the jurisdiction of the municipal government. Secondly, urban planning has become an important branch in the municipal government, as evidenced by the separation and elevation of urban planning agencies within the municipal bureaucracy. Thirdly, the heavy emphasis on socialist ideology was replaced by more pragmatic concerns such as economic development and infrastructural improvement.

While these changes seem to bode well for urban planning, the exact opposite is true: plan and reality are in fact separated by a wide chasm. Essentially, the authors attribute the problem to the dual roles of the local government as both the regulator and manager of urban land, which frequently conflict with each other. For example, driven by the desire for more revenue, government officials often make deals with private interests and apply pressure on the planning department to modify the plan accordingly.
The authors suggest two remedies: strengthen the legal structure and introduce participatory planning.

In a similar study, Leaf (1998) first analyses the major trends in urban development in the post-Mao period, such as the increasing autonomy of work units in their land use, land transaction and land development decisions, the massive floating population, and the powerful influx of foreign investment and the accommodating role played by various levels of local government in the name of boosterism. With regard to the institutional framework, urban planning in the post-Mao period has inherited the old economic planning paradigm and the closed top-down plan formulation process. This led to the situation where various private interests and powerful work units have direct access to governmental officials in negotiating changes to the plan behind closed doors.

Leaf argues that in order to make urban planning institutionally responsive and effective in the regulation of urban development, bureaucratic reform that rectifies fragmentation and consolidates regulatory power is crucial. Moreover, spatial planning must be empowered to equal economic planning objectives. The murky area between public and private interest that is so prevalent throughout the Chinese political economy should be clarified and delineated by law. And the inclusion of stakeholders in the plan formulating process would improve the exchange of information and therefore coordination.

The three studies reviewed above have identified two major deficiencies in urban planning in China. The first has to do with the plan formulation process, which places too much emphasis on a rigid “rational” method and lacks participation and input from
the larger society. Therefore it fails because of its rigidity and insistence on a normative formula, as well as its lack of accountability to those who are affected by the plan. Another major deficiency concerns the conflict of interest problem that often arises in implementation. All three studies have cited examples where the municipal government itself violated its own plans because of a conflict between its roles as the regulator of urban development and as one of the main actors in the process.

This second problem is the point of departure for the next section of the literature review, in which the object of inquiry concerns the institutional background that gives rise to this problem of conflict of interest. Why is it that the municipal government has come to play an active part rather than a mere regulatory role in urban development? What is the institutional framework that defines the relationship between the government and those actors who participate in urban development, hence the common occurrence of the failure to regulate and control these activities? Ultimately, one must have an understanding of the municipal government as a political economic entity that adopts a certain stance in its interaction with the economy and society within the larger context of reform. As with the thesis of decentralisation and institutional change, to conceptualise the origin of the problem in urban planning as the dual roles played by the municipal government does not offer sufficient analytical insight for the purpose of the present study. With this conclusion, the literature reviews now turns to the literature on the local state in China.
The Role of the Local State in China’s Reform

Before launching into the review of literature on this subject, it is necessary to identify some of the conceptual framework and the resulting direction of research that have given rise to these studies on the Chinese local state. In this type of inquiry, the primary purpose is to find out the role of the local government in the development of its economy. The state and the market are conceived as the two main loci of economic dynamism, and the relationship between the state and the market is the key determinant in how a particular economy performs. A state that becomes the primary driving force in socio-economic “progress” is generally regarded as a developmental state (White, 1988). Based on this conceptualisation, empirical research into the role of the state, either national or local, has often concentrated on the relationship between the government and enterprises, whether the government is highly interventionist or merely regulatory, and the resultant impact on the performance of enterprises and ultimately the overall economy.

Because of this fundamental conceptual position underlying most of these studies, either implicitly or explicitly, the picture of the Chinese local state that emerges from the literature is not directly applicable to the topic of the present study. This body of literature provides insight into the role of the local government vis-à-vis productive enterprises that are within its jurisdiction, such as the degree of intervention, the extraction and re-distribution of the surplus, and the protectionist measures put up to ensure local interest. In contrast, the focus of this study is on the role of the government in the management, disposition and regulation of its land assets, a relationship that is
between an economic entity and its property, rather than between two economic entities of state and enterprise. In other words, there is a difference between the social and economic considerations behind state intervention in enterprises and in land management; for example, until recently, the government has been hesitant in restructuring the SOEs lest there would be labour unrest, while the alienation of land does not pose such difficulties because it generally does not implicate such sensitive social issues.

As the basic relationship in land management does not accord with the conceptual assumptions of studies on the local developmental state and the enterprises (and more abstractly, the market), these findings cannot be easily transplanted. Nevertheless, this body of literature is valuable because it provides a picture of the basic political economic structure, the new institutional environment that the local state faces under reform, and how these new institutional factors inform the government’s decision-making process.

The literature on the Chinese local state tends to have a rural focus, with fewer studies that exclusively devote themselves to the study of the role of municipal governments. But both types of studies were generally undertaken to investigate a specific economic phenomenon. China’s economic reform has presented itself as a curious case of decentralisation without privatisation but nevertheless achieving high economic growth rates. It has been observed that while government intervention has remained, and even strengthened in some instances, industrial performance has been robust, especially among the rural town and village enterprises (TVEs). In order to shed

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3 The state here is conceived of as an economic actor because its activities and the degree of its involvement have well surpassed the regulatory role of the state, which is conventionally regarded as being separate from the market (Bücher, 1991).
light on this puzzling phenomenon, field researchers have taken a closer look at how the local government “intervenes” in industrial enterprises. As a result, a basic conceptual framework on the local state has been arrived at inductively from these empirical studies.

With the rural local government as the focus, Oi (1992; 1995) argues that post-Mao China represents a unique form of state-led development that is characterised by a commitment to market-oriented economic growth without privatisation. The story of China’s economic reform is essentially one of decentralisation that empowers the local government as well as altering the institutional incentives to encourage the local government to pursue industrialisation. The result is a qualitatively different form of political economic organisation that Oi calls “local state corporatism.”

Local state corporatism has its roots in the Maoist legacy of economic development, which left an elaborate bureaucratic network that has managed to penetrate all the way down to the rural agricultural sector. Before reform, this system distorted incentives by extracting all surplus value from localities and emphasising egalitarian distribution. But reform brought about a change in institutional incentives by fixing the surplus that the lower level of government must submit to its administrative superiors, while allowing it to retain the rest. This gave the local government the incentive to increase the profitability of the enterprises under its control. Hence, behind the phenomenal performance of China’s town and village enterprises (TVEs) lies a form of localised government ownership.

This form of political economic organisation is likened to a multi-level corporation with many divisions under its control. The county government acts like a
corporate board in strategizing business decisions in the interest of the entire corporate body. It may therefore decide to extract more surplus from a highly profitable enterprise to assist another enterprise that is experiencing difficulties. In addition, the local government typically exercises its administrative power in support of its enterprises. There are numerous examples: local officials would utilise the bureaucratic network to acquire marketing information or allocate raw materials for their local enterprises; the local government would use its administrative power to gain access to scarce material inputs, such as a steady supply of electricity for a factory; assistance in securing credit, such as acting as a guarantor on a bank loan; tax exemptions and tax holidays are provided; and the enforcement of laws and regulations is often relaxed to benefit local enterprises.

While local state corporatism came about through fiscal reform and the resulting changes in economic incentives, the local state is not solely driven by economic considerations. In addition to its mandate in economic development, the local state has not abandoned its role in maintaining social programs, such as education, health care, old-age pensions and housing. It is not unheard of for a local government to subsidise a loss-making enterprise in order to save jobs for the local residents.

In his study of the bargaining relationship between municipal bureaucrats and urban enterprise managers, Walder (1992; 1994) has come up with a similar finding of corporate organisation as Oi, but in an urban context. Walder’s central thesis is that economic reform is a re-configuration of property rights within the larger economic institution, and in China’s case, property rights had been re-assigned from the centralised
and higher-level bureaucracies down to local governments, enterprises and households, which altered the economic incentives that in turn changed the relationships between economic agents. He further argues that while government intervention in enterprises and government-enterprise bargaining continued, the object of bargaining changed so that enterprises are facing a "flexible budget constraint" rather than the "soft budget constraint", which accounts for the improvement in industrial performance. But what is important to the current discussion is that the same kind of corporate structure exists in the urban governance context as it does in the rural areas, which causes the municipal government to act according to the same institutional parameters and logic as the "local state corporatism" of Oi's formulation.

The overall picture that emerges from this brief survey is that the Chinese local state, in facing a new institutional environment, responded to the new set of incentives by utilising its bureaucratic capacity inherited from the Maoist years, which results in a new political economic organisation that exhibits a strong proclivity toward localism. The following characteristics are worth noting. First, the government maintains its interventionist role vis-à-vis the local enterprises, but the nature of intervention has changed to emphasise financial accountability and profitability in order to generate revenue. Second, the government engages in the extensive co-ordination of its bureaucracy to facilitate the development of local enterprises; it has used its administrative power to provide an artificial market environment under which local enterprises could achieve phenomenal growth. Third, the government extracts and re-distributes the surplus according to its economic development strategy with considerable
latitude, a type of conduct that is essentially "corporatist." Fourth, although the local government is motivated to capture the financial incentives, by and large the local state has not abandoned its mandate of socio-economic development and has generally made its decisions based on a combination of social and economic factors.

**Urban Land Management in China**

Thus far this literature review has covered China's urban development under reform, urban planning and the role of the local state in order to lead up to the topic of how the local government carries out land management. As such, the purpose of this section is to review the relevant literature by focusing on the conduct of the local government in land management in the larger context of reform, decentralisation and the local state.

The small body of literature on China's urban land reform is mainly concerned with the transition from a system in which the government allocates land without charge to land users, to a system in which the government has the additional power to lease land use rights to users for a price. The study by Zhang (1997) is one of many similar studies on China's urban land reform that provide a descriptive historical overview of this process. The need to reform the old system came about as economic reform brought about profound changes in rural and urban economic activities, which led to a rapid increase in the demand for land. In response, the central government initiated urban land reform in 1988, granting local government the power to lease out land-use rights. The
rationale was that by attaching a premium to the use of land, users would economise their land use and thereby achieve the aggregate effect of land conservation.

Under the new system, the local government has the dual powers of administrative allocation and leasing at its discretion, which constitutes the “dual track system.” There were two major outcomes of the dual track system, phenomena that were more prevalent in the southern coastal cities during the period of 1988-1993. First, the local governments leased out large tracts of land at very low prices at an alarming rate. Much of the land was suburban farmland that was transformed into economic and technology development zones (ETDZs). The second outcome was the proliferation of land transactions and developments in the hidden market, as occupiers of administratively allocated land illegally exchanged their land for value.

Zhang argues that urban land reform in China failed because the local government abused the dual track system. The local government was mainly driven by the goals of strengthening the local economic base and revenue-generation, and its decision-making in supplying land is often based on political considerations rather than on sound economic principles, leading to urban land as a public resource quickly draining away to benefit “private” interests.

While this observation is true, the study fails to place the dual track system and its abuse within the framework of the local state. Implicitly Zhang is suggesting that by phasing out the dual track system and incorporating market-based principles in the supply of urban land, then the problem would be remedied. This is similar to attributing the failure of urban planning to the dual roles played by the municipal government, where the
mandate of regulation and economic development come into conflict. In both cases, by conceptualising the problem as politics overriding economics or as regulation versus development, these studies actually beg the question as to how this state of affairs came about in the first place, and more pertinently, why it persists.

In contrast, the study by Zhu (1999) on urban development in the Shenzhen Special Economic Zone deals with the institutional context behind the conduct of the local government with regard to land management. The main purpose of Zhu's study is to determine whether urban land reform has succeeded in guiding the urban development process onto a market-oriented path. What is pertinent to the current study is his conceptualisation of the dual track system, or "gradualist urban land reform" according to Zhu's terminology:

...It is believed that gradualism in the reforms of the urban land management system does not evolve in a vacuum. It unfolds in the context of transition from plan to market and with profound implications for the formation of urban built form under new urban politics. It develops in association with the re-definition of central-local intergovernmental relations in the reform era and with the advent of localism. In this connection, gradual urban land reforms have become an implicit program to nurture local enterprises and local developers, a plan to foster local government-enterprise coalitions, and an instrument to strengthen local government's position in local development. Rapidly growing Chinese cities are formulating an informal local urban regime during a systematic transition toward a socialist market economy, to compete for local growth by capitalising financial gains from urban land and property development. (Zhu, 1999: 94-5).

Zhu's central thesis is that as central-local relations changed during reform, the role of the local government in land management, in urban development, in the growth of the property development industry has also changed to resemble a form of localism. In this regard, his argument is similar to the studies on the local state-enterprise relations by
Oi (1992;1995) and Walder (1992; 1994). And Zhu's specific findings are also remarkably similar to those uncovered by Oi and Walder, except that the basic situation concerns the management of land rather than the management of enterprises, although they are intimately inter-connected.

Land management under this form of localism essentially regards the use of urban land as an economic lever for the purposes of revenue-generation, the fostering of local enterprises and developers, and urban construction. Specifically, the Shenzhen Special Economic Zone (SSEZ) government has allocated large tracts of land for free to foreign and domestic developers, in exchange for benefits in the form of large infrastructural projects, tax revenue, and off-site developments etc. With regard to the land tax, most of the domestic enterprises have been enjoying an indefinite tax holiday for several years as part of the SSEZ government's subsidy policy. In other instances, the SSEZ government has offered other favourable terms such as low cost/ risk financing and “streamlined” approval processes. The direct result is a development industry that, because of its relatively cheap supply of land, lower risks and costs, has over-produced real estate property that does not match actual market demand. In physical terms, the SSEZ has experienced a rapid increase in the total building stock that suffers from a high vacancy rate. However, the over-production and mismatch between supply and demand continues because special interest groups have formed to apply increasing pressure on the

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4 The term "foreign" investment encompasses all sources of investment originating from outside mainland China. In actuality, the majority of real estate investment in Shenzhen has its origin from Hong Kong (Zhu, 1999). In Fuzhou, most of the foreign investment in real estate comes from overseas Chinese sources, which includes Hong Kong, Taiwan and Southeast Asia (Zhongguo Tudibao, 3 July, 1994). The cultural affinity between these investors and Chinese officials is an important factor in determining their investment decision-making (Hsing, 1996). As this aspect of land development in coastal China is beyond the scope of the study, the term "foreign" investment is used in this study in a general sense with acknowledgement of this fact.
government to release more land and offer more concessions, from which rent-seeking behaviour occurs. And this pattern repeats itself in a vicious cycle that can only harm the long-term viability of Shenzhen’s socio-economic environment.

Although Zhu has placed land management in the context of the local state and given substantial empirical evidence in support of this conceptualisation, his central thesis is still embedded in the normative framework of reform as a movement from “plan to market”, albeit toward a socialist market economy. The current situation with regard to land management in SSEZ, according to Zhu’s argument, is therefore an aberration that is specific to the transitional period which hopefully will be rectified as China glides further away from the old planning system toward a market system. Thus he has carried out extensive analysis in his study to measure the SSEZ property market against archetypal market dynamics in order to support his argument that it is a temporary aberration. While normative assertions generally do not have to account for the obstacles in the real world, when their subtext enters into the conceptualisation of the subject matter, there is a tendency to present the picture in accordance with the normative formula. With recognition of this tendency but without striving for “absolute objectivity”, the current study in its conceptualisation does not subscribe to any normative formula in its investigation and conclusion.

A further qualification must be noted with regard to Zhu’s study. The SSEZ is by far the least typical of cities in China because of its unique history, geographical location and special status, hence land management practice in SSEZ is not at all representative of Chinese cities, if one could argue that there is such a thing as a typical Chinese city.
Although decentralisation and fiscal reform has been carried out across the nation, how a particular local government uses the set of incentives and administrative capacity depends on the local condition, the local leadership's priorities and a host of other factors. By borrowing Zhu’s conclusions about land management practice in the SSEZ, this study is cognisant of its limited applicability and only accepts the findings as a basic framework for analysis.

**Theoretical Framework**

This current study is an empirical investigation into how a particular municipal government in China carries out its land management policies in the context of reform. Land management has important implications for many aspects of China’s reform, such as macro-economic stability, agriculture, urban development, industrial reform, urban planning, legal reform, administrative reform, fiscal reform, political reform, just to name a few. The real estate boom of 1992-93 and the subsequent crackdown by the centre is a good real-life example of how important land management is in the whole scheme of things. However, as it has been demonstrated through the literature review, land management as a distinctive topic has not received much attention in the western academia, although there is a considerable amount of literature on subjects that are related to land management. Hence it is necessary to construct a theoretical framework that would explain the municipal government’s policies, priorities and agenda as manifested in the actual practice of land management.
In this study, China’s land management reform agenda is conceived as a search for an institutional and administrative system of governance that would meet the contradictory goals of land conservation and the use of land for urban development. One of the major features of this new system of governance is the introduction of land rent, either in the form of a fee or as actual market-determined land rent, which necessitates a transitional program in order to minimise the negative impact the land rent would have on the macro-economy. As a result, the new framework has set up a principal-agent relationship between the central and local government, which delegated significant administrative power to the local government in order to oversee this transitional program.

Charged with the implementation of the program, the local government effectively took over the land reform agenda to serve its own purpose. Actual land management practice is a function of the local corporatist state, which is a unique political entity that evolved into being within the larger context of decentralisation under reform. The local corporatist state is endowed with a strong capacity to exert control in local socio-economic affairs, having inherited from the Maoist period its Leninist party-state apparatus and mass mobilisation capability, as well as its autonomy in economic decision-making as the result of post-Mao economic reform. In its basic philosophy, the local corporatist state conceives of its domain of governance as an abstract corporate

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5 The local corporatist state is not a monolithic entity that is always internally consistent. There are many examples of conflict arising from within the local state, such as the disagreement between the municipal government and the district government over land development and land use issues (Xu and Ng, 1998: 49). But overall, it is a coherent embodiment of localised interests vis-à-vis the centre.
body over which it should exert extensive control. Ideologically, the local corporatist state is committed to the Dengist program of economic development and modernisation, and sees itself as carrying the mandate of achieving socio-economic "progress."

Institutionally, the local corporatist state is faced with a new centre-local fiscal arrangement in which it is given the incentive to strengthen its economic base. In state-enterprise relations, this institutional logic is manifested in local state corporatism, in which the local corporatist state attempts to maximise the financial profitability of its enterprises by utilising its strong administrative capacity to intervene directly in enterprise management.\(^6\) (Oi, 1992; 1995; Walder, 1992; 1994).

As a direct manifestation of the local corporatist state as a political economic entity, land management as practised in localities has essentially treated land as an economic resource, the value of which is realised and captured to be used as an instrument to further the interventionist program of socio-economic development. With regard to state-owned enterprises, land has been used as a subsidy that allows the enterprises to realise a higher profit margin, as a form of debt-relief or as a source of capital for further investment. In urban development and construction, land has been supplied cheaply to both foreign and domestic developers to encourage housing production, inner city redevelopment and infrastructural upgrading. Land has also been used as a source of revenue, either through direct land leasing and land taxation or the fostering of a local development industry through the supply of cheap land and the

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\(^6\) The local corporatist state is particularly vulnerable to rent-seeking behaviour because of its insularity, extensive discretionary power, lack of accountability and transparency (Zhu, 1999: 146-149).
extraction of its surplus through administrative means. More generally, cheap land has
been provided as an economic incentive to attract foreign investment in order to
strengthen the local economic base. Although the local corporatist state also carries out
its regulatory role in land management, the manner and result of regulation vary widely,
and the differences reflect the agenda and priorities of the local corporatist state. As a
result, the national land management reform program has failed to establish a workable
land management system as in its original conception.
Chapter III. An Overview of Land-Related Reform in China

The purpose of this chapter is to provide an overview of the large and complex body of land-related reform measures in China since 1978. This overview serves as a general background necessary to the understanding of the actual practice of local land management. As such, this chapter mainly highlights the formal laws, regulations, policies, administrative structure, and institutional framework that are the direct products of the reform process. The method of presenting this overview is to follow the historical development of different areas of land-related reform. True to the popular Dengist phrase ‘crossing the river by grappling the stones’, these reform measures evolved through a gradual and incremental process. Hence this chapter attempts to provide a schematic view of the institutional structure of land management by examining the historical evolution of this reform process.

In abstract terms, China’s reform in land-related governance has been an attempt at improving the management and utilisation of land in accordance with the post-Mao program of national economic development. Land, both urban and rural, under this paradigm of national economic development is conceived of as a resource to be utilised, managed and controlled in a way that serves the social and economic goals of development. On the other hand, the practical limitations in China of a large population, a high population density in China proper and a very limited amount of arable land require the conservation of land for agriculture. Therefore, the underlying agenda in land-related reform has been a search for the “scientific” and “correct” institutional
formula that would be able to walk the tightrope of economic development and land conservation.

The product of this reform process is a combination of a national and centralised administrative structure and a decentralised constellation of actual decision-making power. In order to maintain agricultural production, the national government has set up a centralised bureaucracy to ensure that arable land is not unnecessarily lost to developmental pressure. But on the other hand, land use decisions are matters to be dealt with locally, so considerable decision-making power has been delegated to the local government. This balancing act is reflected in the various legislative schemes in which local governments are granted a significant proportion of the actual implementation power with some formal accountability owing to the central government. This is especially true in the dual track system where the local government is given complete discretion over which land users shall pay and how much, while the central government exerts no direct control over this decision-making process except through ideological exhortation. Such arrangements essentially amount to a principal-agent relationship. As the agent, the local government is expected to exercise its power in the interest of the principal, which is the central government. However, this agent-principal relationship is only implied by the legislative schemes and not legally defined so that the parties are not bound accordingly. As will be seen later, this institutional arrangement has resulted in the local government frequently overstepping its role as the agent of the central government.
With regard to the organisation of this chapter, the complexity and the interconnected nature of the land-related reform measures create a problem of categorisation for the task at hand. In the Chinese literature on land management reform, there are two general sub-categories: land property rights reform or land usage reform (tudi chanquan zhidu gaige or tudi shiyong zhidu gaige) and land management reform (tudi guanli zhidu gaige) (see for example IFTE/CASS, 1992). The former concerns areas such as state and rural collective ownership of land, administrative land allocation, land leasing and the central-local revenue-sharing scheme; the latter is limited to the reform in the bureaucratic administrative structure of land management, such as the centralisation of administration under one single governmental agency. However, there are other areas such as land use fees, land taxation, and urban planning that defy neat conceptual delineation and are excluded from these established categories.

The categorisation of reform measures adopted in this chapter is based on the argument that because the new system of land management has to satisfy the goals of economic development and land conservation, parts of the land-related reform exhibit a tendency to both restrict and encourage land use, with a heavier emphasis on control and limitation. This argument is based on the observation that the Chinese discussion on land management frequently refers to reform measures, such as administrative centralisation, taxation, and legal codification as levers to control urban growth and to conserve agricultural land. The policy of charging land use fees and land leasing was also initially conceived of as a lever of control, but the practical advantage of revenue generation has also been an important consideration. Therefore in this chapter, land-related reform
measures are categorised according to their purposes as instruments of control and regulation, as well as the means to generate revenue. As such, there are three categories that are identified in this chapter: land management administration reform, land usage reform and urban planning reform.

**Land Management Administration Reform**

The evolution of land management administration reform is characterised by a movement from a decentralised to a centralised structure of administration, because the old decentralised structure of administration failed to exert adequate control over excessive land use. From 1953 to 1986, the power to allocate land use was widely dispersed among a variety of government agencies in charge of different jurisdictions. For example, the Ministry of Agriculture had jurisdiction over agricultural land and forests; the People’s Liberation Army had control over its own land; the municipal Construction Commission was in charge of land allocation, requisition and planning for urban land use and so forth. This administrative system led to general confusion and disarray, as well as uncontrolled urban sprawl and the loss of agricultural land (IFTE/CASS, 1992: 141).

As reform proceeded into the 1980s, uncontrolled land use became increasingly problematic. The household responsibility system increased rural household income, which led to a rural housing construction boom. Rural industrialisation with the phenomenal growth of township and village enterprises also exacerbated the problem. Subsequent fiscal reform and urban industrial reform led to massive requisition of
agricultural land in the suburban areas by municipal authorities. In 1985, a record loss of 15 million mu (1 million ha) of agricultural land prompted the central government to take even more drastic measures than before in order to conserve land (GJGW, 1991: 421).

The drastic administrative solution was the complete re-centralisation of land management power in the State Land Administration Bureau (SLAB), established in 1986 and placed under the direct supervision of the State Council. This new administrative organ was deemed the gatekeeper of all the urban and rural land in the entire country. It is a vertical administrative structure that has five levels of branches and offices in every corner of the country, from the central bureau in Beijing, down to the provinces (as well as autonomous regions and special cities, zhixiashi), the municipalities, the county government and the township government.

The PRC Land Management Act was promulgated in 1986 to provide this new administrative structure with a legal basis. The power to requisition land from collectives is specifically assigned according to an hierarchical order, with the State Council reserving the power to approve requisitions of the largest size, the county government limited to requisitioning small parcels of land, and the municipal government to requisition any size in between. But because there is no limit on the total amount of land that can be requisitioned, the local governments are free to take as much land as they need as long as individual parcels do not exceed the size limit imposed by the Act.

The Act also assigns the power to approve land used by construction projects to the Land Administration Bureau offices at the municipal and the county level, depending on the type of construction. This provision assumes that the local SLAB offices would
act independently of the local government office and balance the need for development and land conservation, for there are no limits set on this power of approval.

The vertical administrative structure of the State Land Administration Bureau (SLAB) and the assignment of power in the *PRC Land Management Act* together form the backbone of the new centralised land management system. In practice however, this centralisation of control has been significantly weakened by the municipal administrative structure. The common organisation in the municipal government is to place SLAB under the direct leadership of a deputy mayor, who often has jurisdiction over the construction commission, the planning department, the real estate bureau and even the municipal real estate development companies. Conflicts often arise between these departments and the deputy mayor’s role is to co-ordinate and mediate through the bargaining process (IFTE/CASS, 1992: 144). Most importantly, with the deputy mayor at the helm, the legislated power vested in SLAB to control and manage land use is in effect given to the deputy mayor.

The outcome is a centralised administrative system that has ironically devolved considerable power to the municipal government, which as both the land user and regulator, is supposed to achieve a balance between the need for development and conservation. This institutional backdrop will be important in the discussion of the next chapter.
Land Usage Reform

Land usage reform is essentially the institutional change from the old no-payment-no-limitation land use system (wuchang wuqi shiyong zhidu) to the new payment-based and limited-term land use system (youchang youqi shiyong zhidu). The old system evolved through the collectivisation and nationalisation campaigns during the 1950s which abolished all forms of land rent and taxation. The state assumed control and made decisions over land use, so that a land user would have to apply to the state to receive a parcel of land without charge and without a contracted term of use. While nothing was defined, it was assumed that the land is "on loan" from the state, which is the sole legal owner, and it is subject to reversion when the land user no longer has a need for the land. As for the free use of land, it is justified based on the Marxist theory of labour value which asserts that land cannot acquire any value because there is no input of labour. But the practical problem with this system was that it led to chronic land hoarding, wasteful land use and urban sprawl, compounded by the logic of the shortage economy and the socialist developmental policy (Tang, 1994; Wu, 1995).

Seeing that administrative control alone was consistently ineffective in curbing wanton waste, charging users for land use was proposed as an economic lever to stem this practice. Charging for land use would also provide funding for the much needed urban construction and infrastructural upgrade in the post-Mao period. Other arguments in favour of land usage reform are based on more sophisticated economic principles that see land marketisation as a necessary step in moving to a market-based economy, such as levelling the playing field for enterprises in order to engender their competitiveness.
Hence, land usage reform began in the early 1980s with the land use fee and then developed organically as reform led to further socio-economic changes, resulting in a fairly coherent formal structure of laws and regulations.

The Land Use Fee/ Tax

As discussed before, the free use of land led to chronic waste, and the land use fee was proposed even before reform to address this problem. But the policy was never implemented until reform began, and at first land use fee was levied on foreigners because free land use was reserved for domestic land users only. It first took place in the Shenzhen Special Economic Zone in 1982 when a ‘premise usage fee’ (chandi shiyongfei) was levied on all the foreign investment projects. But as funding for urban construction was scarce, the land use fee became a source of revenue and quickly spread to other cities (IFTE/CASS, 1992: 121). By the mid-1980s, about one third of Chinese cities had been collecting land use fees, but the low amount was neither a major revenue-generator nor an effective deterrent against wasteful land use.

In 1988, the central government announced a land use tax to be imposed on all urban land users nation-wide. Despite its terminology, it was essentially a land use fee. The results were disappointing due to several reasons. First, too many categories of land use were exempted from the land use tax, such as governmental institutions, “civic” associations, the military etc. Second, about half of the enterprises could not afford to pay, citing financial hardship. Third, because the revenue was to be shared between the central and local governments, the local government generally believed that the land use tax is an extraction of local wealth by the central government and intentionally neglected
collection in order to “protect the wealth of the people.” (IFTE/CASS, 1992: 122-3). In short, the land use fee was a first attempt at charging for land use, but basically failed as an effective means of control and revenue-generation due to administrative difficulties.

**Land Property Rights Reform**

Land property rights reform consists of two parts: the legal definition of the modes of land ownership and the creation of bundles of legal rights over land use. Legal definition of modes of ownership was necessary because for several decades state ownership of urban land and collective ownership of rural land were practised based on informal administrative rules without reference to any legal basis. By 1958, rural land had been deemed under the ownership of rural collectives through the process of rural collectivisation, and urban land effectively came under state ownership through the nationalisation campaign. However, it was only in 1982 that state and collective ownership received legal recognition in the *Constitution* by the Fifth People’s Congress (IFTE/CASS, 1992: 20).

The second part of land property rights reform was the legal delineation and the creation of the rights over urban land. Under the 1982 *Constitution*, urban land belongs to the state and ‘no organisation or individuals can occupy, sell, lease or in any other way transfer land illegally.’ This rather vague definition was a source of administrative confusion and inefficiency that presented two major problems. First, land users did not have legal claim over the property they receive from the government. Without legal recognition, the bundle of rights over land such as the length of tenure, the boundaries, the right to alienate are undefined and basically non-existent. A second problem follows
from the first problem—without legally defined property rights, property cannot acquire exchange value, which prevents the creation of a land market. Because the land use fee/tax was neither satisfying the need for construction capital nor deterring the loss of farm land, the idea of leasing land became an attractive option as the next step in land usage reform. But in order for land leasing to become a reality, land property rights has to be legally defined and created to pave the way.

The delineation and creation of land use rights began with the constitutional amendment of 1988 when the phrase “land use rights could be alienated according to law” was added. (Ibid.: 21). Two years had elapsed before this requisite piece of legislation came into existence in 1990 when the State Council promulgated the PRC Provisional Regulations on the Conveyance and Transfer of Urban State-Owned Land. With the passage of this law, a bundle of rights called “land use right” has been legally defined and created. Individuals could lease land use rights for a fixed number of years from the government, during which period the right is legally recognised and could be exchanged on the open market, from which other land users could acquire land for their use. With the constitutional amendment and the new law, land leasing and land marketisation had been formally instituted.

Land Leasing

After the land use fee/tax and land property rights reform, land leasing is another major landmark in the process of land usage reform. The PRC Provisional Regulations on the Conveyance and Transfer of Urban State-Owned Land granted local government the power to lease out land use rights in addition to its traditional power in land
allocation. The result is the dual track system, which is a combination of the old allocative system and the new leasing system. Under the new leasing system, the primary market refers to the transaction between the government as the monopoly land owner leasing land to a user. The secondary market refers to the transfer of land use rights by the user to another user. Land leasing has been touted as having the advantages of revenue-generation, increasing the efficiency of land use, creating a more rational urban land use structure along a classical land rent gradient and levelling the playing field for productive enterprises and thereby fostering overall economic efficiency and productivity (Dowall, 1993; World Bank, 1993).

Once again, the Shenzhen government took the lead and leased out China’s first parcel of land in 1987. Land leasing was carried out in several coastal cities as pilot programs beginning in 1988. By the time the PRC Provisional Regulations on the Conveyance and Transfer of Urban State-Owned Land formalised the practice in 1990, land leasing had been carried out in many cities, albeit with disappointing results.

The main reason for the poor results was the central-local revenue-sharing scheme, under which the central government takes about 30% of the land leasing premium. This arrangement stands in stark contrast to the complete delegation of discretionary power to the local government as the arbiter of the dual track system, and reflects the principal-agent nature of the central-local relationship. The poor result of land leasing directly stems from the local government not having an incentive under this revenue-sharing scheme. In order for the local government to lease land, it has to incur significant costs in requisition, site clearance, infrastructural provision, compensation for
the loss of agricultural production and, in the case of inner city redevelopment, even higher costs for compensation, resettlement and relocation. Given the high cost of land development and with the central government taking about 30% of the proceeds, the local governments argued that they would actually lose money from carrying out the program. After much wrangling, the central government in 1990 relented by giving out rebates to the local government, the amount varying according to localities. The State Council-designated special economic zones and the economic technology development zones (ETDZs) in the open coastal cities were granted rebate rates of 95-99%. But the local governments were still unhappy about the rebate mainly because they had to pay for the interest on the loan borrowed for land development before the rebate is actually remitted back to them (IFTE/CASS, 1992: 127-9).

In response to this “unfair” fiscal arrangement, the local government frequently adopted evasive tactics in land management by exercising their absolute discretionary power under the dual track system. Instead of leasing land, the local government would administratively allocate land to the allocatee in exchange for physical planning gains such as road construction or off-site infrastructure. Alternatively, the government could allocate land and demand the “lease price” in the form of land use tax or fees (IFTE/CASS, 1992: 129). Later as land leasing became highly profitable during the real estate boom of 1992-93, local governments continued to use these evasive tactics in order to keep the revenue for themselves. For example, the widespread adoption of the opaque

\[7\text{Furthermore, the period of 1988-90 did not enjoy a robust investment climate, as the central government first clamped down on inflation, followed by the Tiananmen Incident. Hence land prices were widely depressed (Qi, 1989).}\]
method of negotiation, rather than the transparent open bidding and auction, is symptomatic of this cat-and-mouse interplay between the centre and the local governments over the revenue-sharing scheme. This is another important institutional background issue which will be dealt with in the next chapter.

The Hidden Land Market: Legal Loophole and the Remedy

The new system of land leasing was designed to grant absolute monopoly over the primary market to the local government as the agent of the central state, so that there is only a single supplier of urban land. But soon after land leasing began, this legal monopoly was challenged by those land users who had been allocated land through administrative means. They began to “lease” out their land illegally in order to capture the land value, even though they had no legal title. Occupiers of administratively allocated land and rural collectives on the urban fringe entered into land “leasing” deals of their own, which make up the hidden land market. The hidden land market undermines the government’s monopoly of the primary market, siphons off revenue from the state, and compromises the formal regime of planning control. The large number of these informal transactions in various forms became a problem. It became especially acute after Deng Xiaoping’s southern tour in early 1992, which marked the beginning of the real estate boom of 1992-1993 as foreign investment poured into China’s land development industry. As the boom escalated, the demand for land outstripped supply and the general prices of real property skyrocketed, prompting the emergence of an active hidden land market.
In March 1992, the State Land Administration Bureau responded by issuing the *Provisional Regulation of Administratively Allocated Land Use Rights*. It re-asserts state ownership of administratively allocated land, but provides a set of rules that govern the conversion of an administratively allocated parcel of land into the land use right recognised by the *PRC Provisional Regulations on the Conveyance and Transfer of Urban State-Owned Land*. In such a conversion, an occupier of administratively allocated land must pay the government no less than 40% of the official assessed value of the land. In other words, the regulation allows such a conversion provided that the government, as the *de jure* land owner, is compensated.

The hidden land market remained active despite the passage of the regulation and subsequent campaigns aimed at these transactions. A survey conducted in one location in 1995 revealed that 58% of the developments used administratively allocated land even after years of implementation and propaganda (*Gongshang Shibao*, 24 Dec., 1995). However, there is some anecdotal evidence to support that at least in some locations the hidden land market has been eliminated (Chen, 1995).

**Reform Measures After the Real Estate Boom**

As the real estate boom got out of control, the central government launched a crackdown campaign in mid-1993, followed by the promulgation of more laws and regulations aimed at various ill effects of the boom. As such, these new measures did not deal with land per se, but the economic effects of land use under land reform and the real estate boom, but they are related to land reform in an important way. The real estate boom occurred in the two major arenas of urban real estate development and suburban
development of economic and technology development zones (ETDZs). With regard to the urban real estate scene, the central government was mainly concerned with the inflationary pressure caused by the real estate boom and the overproduction of high-end office/commercial/residential projects at the expense of more affordable housing projects that most urban residents need. As for the ETDZs, the central government wanted to crack down on the 90% that were illegally approved, probably leased to land speculators, and to rectify the loss of large areas of farm land (Gongshan Shibao, 25 July, 1993).

**The Land Appreciation Tax**

The first regulation was the *PRC Provisional Land Appreciation Tax Regulations* issued by the State Council which came into effect on January 1, 1994. This is aimed at curbing widespread land speculation in real estate development and ETDZ development by way of a heavy tax on the capital gains calculated upon the transfer of land use rights. It has a progressive tax rate ranging from 30% for a capital gain of 50% to 60% for a capital gain of 200% (Gongshan Shibao, 19 Feb., 1994).

Not surprisingly, this tax was not well received by local governments and the foreign real estate investment community, consisting mainly of Hong Kong and Taiwanese interests. High-level officials of Shanghai, Guangzhou and Shenzhen publicly announced that they will implement their own version of the tax, at considerably lower rates; the Hong Kong real estate tycoon Lee Ka-Shing also publicly expressed concern about the new tax (Gongshan Shibao, 19 Feb., 1994). Faced with strong opposition, the central government postponed the implementation and carried out further consultations to draw up a more detailed regulation. On Jan. 27, 1995, more than a year after the tax was
announced, the central government promulgated the detailed implementation regulation, which is less harsh and contains many more categories of exemption (Jingji Ribao, 24 Feb., 1995).

*The Urban Real Estate Management Act*

Effective on Jan. 1, 1995, the *Urban Real Estate Management Act* is designed to address the problems associated with urban real estate development. The main problem on the supply side has to do with the local government leasing too much land at low prices, compounded by the active hidden land market. Therefore, the Act sets up a system of official price floors, restricts administrative allocation for only limited types of land uses, and reiterates the rule on the conversion of administratively allocated land. On the demand side, the problem has its origin in a large number of shell companies that were set up to obtain land for speculation. To address these problems, the Act sets up a registration and evaluation system for real estate developers, and levies a land vacancy fee on vacant land, which could be confiscated if left vacant for more than two years (Mingzhong Ribao, 21 Apr., 1995).

*The Corporate Land Use Rights Regulation*

The *Provisional Regulation on Corporate Land Use Rights* addresses two issues: the “revitalisation” of state-owned enterprises and the hidden land market. The larger context of this law is the promulgation of the *Company Act* and the corresponding corporatisation reform of state-own enterprises (Zhongyang Ribao, 7 Jan., 1995). This reform effort aims to revitalise SOEs by converting them into limited liability corporations with a shareholding structure of ownership. Thus, it became necessary to
convert their administratively allocated land into land use rights that could be assessed of its value and integrated into the company's asset. And the *Provisional Regulation on Corporate Land Use Rights* lays down the rules of this conversion. More importantly, it grants these newly incorporated SOEs the option to sell their land use rights to the government. Under this scheme, the SOEs gets the assessed value of the land use rights while the government receives the rights in the form of shares. Essentially, the realised land value of the administratively allocated land is utilised to assist the troubled SOEs. But it is also a scheme that is used to address the problem of the hidden land market, because now the SOE has an additional legal option to monetise its administratively allocated land that is better than the previous conversion option where the government takes 40% of the proceeds.

**Summary of Land Usage Reform**

In summary, land usage reform was initially conceived of as an economic lever of control in order to stem the problem of land hoarding under the old allocative system. Later on it became evident that land usage reform also has the added advantages of revenue-generation and the beneficial effects of a land market. Beginning with the land use fee, to land leasing and then to more detailed regulations that reinforced the state's ownership and control, land usage reform by the mid-1990s has created a coherent and intricate legal regime governing land property rights, the allocation of the property rights, the conditions on the use of such rights, and the sharing of the economic benefit of land leasing. With this rather state-biased legal framework and the vertical administrative structure of the State Land Administration Bureau, the central government in theory
could manage land use in such a way as to maintain an equilibrium between supply and
demand, to limit the encroachment of urban development onto agricultural land and to
ensure a healthy flow of revenue for urban development. But in practice, this institutional
and administrative framework failed to achieve a workable system of governance because
of resistance and distortion on the part of local governments.

**Urban Planning Reform**

Like the reform measures discussed before, urban planning reform was conceived
of as a component of the national economic reform program, a new institutional
formulation adopted as an instrument to achieve socio-economic “progress” for the
country. As such, Chinese urban planning aims to “rationally” organise the spatial
development of cities as they develop economically, without allowing them to sprawl out
of control. The story of the urban planning reform process is essentially the re-institution
of urban planning after decades of neglect and the legal formalisation of an institutional
structure that concentrates power in the municipal government.

Beginning in the early part of reform, cities were re-defined to assume a very
important role in economic development, and based on this definition official urban
planning policy and, later on, statutes were developed. In 1978, the State Council held
the Third National Urban Working Conference in which the role of cities was considered
important in national economic development, and that local governments were to draw up
master plans and constructions plans in accordance with national economic development
plans. In 1980, the State Planning Commission held the Urban Planning Conference and
formulated the official national policy of "control the large cities and rationally develop small and medium cities" which was later codified in the PRC City Planning Act of 1990. The conference also decided that mayors of municipalities are responsible for the supervision of urban planning, construction and management in accordance with national economic development plans (Ng and Wu, 1995: 282-3).

A series of national regulations codified the specific rules of planning approval, plan formulation and planning control. In 1980, there were the Provisional Regulations for Preparing and Approving Urban Plans and the Provisional Standards for Urban Planning. In 1984, the more extensive Urban Planning Regulations were announced by the State Council. It laid down the rules on plan formulation, plan approval and planning enforcement. More importantly, it introduced the planning permit system that effectively granted the universal power of approval to the municipal planning department, which formally rendered all urban development activities under the control of the municipal government (Ibid.: 283).

The PRC City Planning Act (CPA) of 1990 embodies all the previous policy goals and codified regulations in laying down the formal rules of urban planning in China. In the first section, the CPA states that the purpose of the Act is to realise the goals of socio-economic development and to accommodate to the needs of socialist modern construction. The national policy of 'strictly controlling large cities and rationally developing small and medium cities' was reiterated. The municipal and county governments are responsible for drawing up plans for the future needs of the city according to "scientific" forecasts. In general, there are two types of plans: master plans
and detailed plans. Master plans have to be approved by higher-level governments depending on the size and administrative hierarchy of the city. In implementation, the planning department has the final say in urban development and enforces the plan through the ‘One Note Two Permit’ system. Overall, the CPA confers upon the municipal government most of the decision-making power, with the central government retaining only the power to approve master plans.

In sum, urban planning was conceived and designed as a tool in the national economic development program with the mandate to balance socio-economic development with controlled spatial growth. As such, the urban planning framework as set out in the PRC City Planning Act has delegated the task to the municipal government and set rules in guiding cities in the formulation and implementation of urban plans, loosely supervised by the central government. Under this arrangement, the municipal government has complete discretion over urban planning, except the formal approval of the master plans. And in practice, the municipal government has exercised its power in furtherance of its own socio-economic development plans that has often led to the transgression of its own urban plans.

Summary

China’s land-related reform evolved organically from 1978 to the 1990s in service of the larger program of national economic development and modernisation. This evolution proceeded within the practical limits of a country that has a large and highly

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8 Ng and Wu, 1995, supra note 1.
concentrated population living on a limited amount of agricultural land. Therefore, the land-related reform program has had to satisfy the contradictory goals of economic development, which leads inevitably to urban expansion, and the conservation of agricultural land. The institutional and administrative challenge is to create a system of governance that would regulate land use to serve these two goals in a balanced manner.

Because of the complexity and the contradictory nature of this area of reform, the reform process is characterised by the introduction of a series of experimental, ad hoc and reactive reform measures that are often untimely, not well-conceived and self-contradictory. Despite this morass of jumbled reform measures, one can still discern the emergence of a legal and administrative structure that delegates land management decision-making power to the local government, with the relationship between the centre and the local government resembling a principal-agent relationship. Under this arrangement, the local government has been granted considerable discretionary power, subject to the constraints set by the central government, ranging from a "moral" obligation to consider the national implications of its actions to an inflexible revenue-sharing scheme.

This principal-agent relationship is evident in varying degrees in the three areas of land-related reform discussed above. In land management administration reform, the new vertical administrative of the State Land Administration Bureau has in effect delegated considerable decision-making power by setting up the municipal branch of SLAB, which by custom has come under the direct control of the municipal government. This cosy administrative arrangement between a central and local bureaucracy implies an
element of trust in the agent’s promise to exercise its power in the interest of the principal. In land usage reform, especially in the institutional arrangement of land leasing, the municipal SLAB office is deemed to be the representative of the state as the sole legal owner of urban land in making land leasing decisions. The agent-principal relationship is reflected in the revenue-sharing scheme of land leasing premiums, where the central government has insisted on getting its 30% share with only minor concessions granted to coastal cities in the form of rebates. As for urban planning reform, the municipal government is given wide latitude in the formulation of its master plans, subject only to the hierarchical plan approval system.

The formal structure that emerged from this reform process is therefore one of modified decentralisation resembling a principal-agent relationship that is loosely defined and configured accordingly by laws and administrative decrees. However, what actually transpired was that the local government, in carrying out its own socio-economic developmental agenda, continuously challenged the limits of this formal relationship. The next chapter is an empirical examination of how a municipal government carries out land management policies in this manner.
Chapter IV. Land Management Practice in Fuzhou

This chapter takes a closer look at how the municipal government of Fuzhou has practised land management during the reform period. As argued in the previous chapters, the Fuzhou municipal government is conceived of as a local corporatist state operating within the new institutional and political economic realities created by decentralisation, fiscal reform, land-related reform, the open door policy, as well as having to consider the existing physical and socio-economic state of the city. As a local corporatist state, it is argued that the Fuzhou municipal government has exercised its extensive power of intervention in all areas of its domain in accordance with the Dengist ideology of socio-economic development as well as the new set of incentives that encourages it to strengthen the local economic base.

Following a brief introduction to the city of Fuzhou, the chapter examines land management practice in four arenas: inner city redevelopment, industrial relocation, the issue of the hidden land market in the city core, and the problem of economic technology development zones (ETDZs) outside the city core. In choosing these four arenas of land management practice, the purpose of this chapter is not to be an exhaustive description of how land is managed but to illustrate the specific manifestations of the institutional logic of the local corporatist state when dealing with important issues in the city.
The City of Fuzhou

Fuzhou is the largest city in Fujian province and also the provincial capital. It is located in the northern part of Fujian in the middle of the Fuzhou basin, an estuary of 22 km long by 17 km wide formed by the Min River (Chu and Zheng, 1992: 205). In 1983, under the city-lead-county administrative reconfiguration, Fuzhou’s municipal boundary was extended to cover an area of 11,968 km² with a total population of about 5.5 million people in 1994. The Fuzhou “urban area” is 1043 km² with about 1.35 million people in 1994. There are 8 counties and five urban districts within the entire Fuzhou municipal area (ZCZSWFW, 1995: 8) (Figure. 1).

Since its inception in the Qin dynasty (circa 221 B.C.), Fuzhou has always been an administrative centre at China’s south-eastern frontier and a busy commercial port, with extensive maritime trade linkages with Japan, the Ryukyu Islands, Taiwan and the Philippines. Fuzhou was one of the treaty ports forced opened to foreign trade after the Opium War in 1842. In 1886, the Qing government set up the first and largest Chinese naval shipyard in Fuzhou, making it a major administrative, commercial and military centre in south-eastern China. However, with the establishment of the People’s Republic and the hostility across the Taiwan Strait, Fuzhou became part of the military frontier of coastal Fujian that stagnated economically due to the severance of its trade links and the lack of investment in industry (Chu and Zheng, 1992).

In 1979, the Fujian coast was opened up to foreign trade and given more autonomy in economic development policy, followed by Fuzhou being designated as an open coastal city in 1984. Indeed, Fuzhou attracted much direct foreign investment,
Figure 1: Fuzhou Municipality (Source: Fuzhou Tourist and Commercial Map)
especially from the overseas Chinese community due to its extensive cultural and kinship links with the overseas Chinese of Hong Kong, Taiwan, the Philippines and other parts of Southeast Asia. But the entire Fujian coast lagged behind the Guangdong coast during most of the 1980s because the main source of foreign capital it was designed to attract—the Taiwanese—was still barred by its government from entering mainland China. With the ban partially lifted in the late 1980s and as Taiwan’s economic restructuring prompted its labour-intensive industries to locate in China’s south-east coast, Fuzhou’s fortune began to rise along with the rest of the Fujian coast. However, Fuzhou has always lagged behind the Xiamen Special Economic Zone in southern Fujian in the race to develop the region, a problem which is commonly attributed to its ideological conservatism and rigidity in policy-making, relative to more “innovative” jurisdictions (Ibid.: 204).

The Official Fuzhou Development Strategy and the Physical Plans

The official development strategy of Fuzhou was devised in 1992, and entitled: “Fuzhou’s 20 Year Socio-Economic Development Strategy Concept” (Fuzhoushi 20 nian jingji shehui fazhan zhanlue shexiang). It is also known as the 3820 Plan because it aims to double the city’s key economic indicators in 3 years (with 1990 as the baseline year), to reach the ranks of top national cities in 8 years, and to catch up to the Asian Newly Industrialised Economies (NIEs) by 2010 (although it is not clear which NIEs are set as the benchmark.) The basic vision of the strategy is to make Fuzhou into a regional political, economic and cultural centre with an international orientation, a dominant
tertiary sector and a solid hi-tech manufacturing base. Both explicitly and implicitly, the success of the plan is heavily based on large-scale investment from the overseas Chinese community and the opening of direct transportation links with Taiwan. The following are some of the targets of this ambitious plan (ZCZSWFW, 1995: 263-4):

- The 20 year average annual GDP growth rate is set at 15.4%.
- The 20 year average annual increase in labour productivity is set at 10%.
- The ratio of primary, secondary, tertiary sectors of the economy is set to change from 28:40:31 in 1990 to 5:35:60 by 2010.
- The percentage of export in the total GDP is expected to increase from 21.3% in 1990 to 40% or more in 2010.
- Average urban annual income per capita is set to increase from 1706 yuan to 21,000 yuan (a 1230% increase); rural income from 864 yuan to 12,500 yuan (a 1447% increase).
- The proportion of urban population is set to increase from 33.15% to 60% or more.
- Per capita floor space for urban residents is set to increase from 7.53 m² to 15 m².
- Proportion of people who have received post-secondary education is set to increase from 11.4% to 30%.
- The city will add two to three first-rate hospitals of national standard and one to two international-standard theatres and opera houses.

The spatial regional development plan for the entire Fuzhou municipality was revised to correspond to the 3820 Plan, following the principle that economic planning should determine spatial planning. Under this plan, the municipal territory consists of Fuzhou city as the core surrounded by three major sub-centres to its west (Minhou), east (Chanle), and south (Fuqing on the coast) (Figure 1). Also called the “Golden Triangle” economic region of the Min River delta, this configuration is a spatial distribution of
different economic sectors based on each sub-region's natural resource endowment, existing economic base and geographical location. Therefore, Minhou to the west and upriver from Fuzhou will focus on the development of its hydroelectric power, forestry products and pottery; Chanle with its flat and fertile estuary at the mouth of the Min river is designated as a base for agriculture, aquaculture and related value-added industries; Fuqing with its port facilities and a high concentration of overseas Chinese kinship connection will serve as an industrial base (FCJBW, 1994: 233-7).

The most current Fuzhou Master Plan was drawn up in 1990 for the 25-year period of 1995-2020 (Figure 2). It covers Fuzhou city proper, the shorelines and surrounding regions of the Min River downstream to the mouth of the river. The plan is to prevent urban sprawl by developing ten satellite towns that are separated by green belts with Fuzhou as the urban centre. Similar to the regional plan, the Master Plan assigns a certain spatial configuration for this area based on economic specialisation. The population target for this area is set at 1.4 million in 2000 and 1.8 million in 2020 (the population was about 1.35 million in 1994).
Figure 2: Fuzhou Master Plan, 1995-2020 (Source: Si and Zhao)
Inner City Redevelopment

Inner city redevelopment has been a pressing issue and a top-priority government agenda in Fuzhou during the post-Mao period. The bulk of the housing in the two old districts of Gulou and Taijiang was built in the 19th century with high density but without modern infrastructure (Figure 3). Between 1949 and 1979, these wooden structures became increasingly dilapidated and over-crowded, but little had changed due to Fuzhou’s frontier position and the socialist industrial development policy that directed resources to further industrial growth. A city-wide survey conducted in 1985 revealed that 50% of the existing housing stock still consisted of these derelict wooden structures, many of them unsafe (FCJBW, 1994: 654) (Figure 4).

To address this problem, in the early 1980s the provincial government allocated 39 million yuan to the Fuzhou government, which formed the first municipal development company to undertake a series of new housing developments just outside the built-up area in order to alleviate the crowded conditions in the inner city (Ibid.). Then, beginning in 1985, the Fuzhou government began to redevelop the inner city and the pace quickened in the late 1980s as foreign real estate interest participated in these projects. With the active participation and subsidisation by the government, foreign developers became a major force in inner city redevelopment during 1990-1995 when Fuzhou was transformed dramatically.
Figure 3: The Two Pagodas Area, Fuzhou, 1860 (Source: Si and Zhao)
Figure 4: Dilapidated Housing in Taijiang District, Fuzhou
(Source: Author)
The municipal government’s role in inner city redevelopment is extensive. As inner city redevelopment is both an urgent task for many residents and a good showpiece for the leadership’s own political advancement prospects, the government has put its full weight behind the campaign in the name of social progress. And the results were impressive: in the nine years between 1987 and 1996, eight million m² of floor space were constructed; 400,000 people have been resettled into new housing; per capita living space increased from 3.98 m² in 1980 to 9 m²; dozens of new roads and considerable improvement in the water supply, the electrical grid and the telecommunication system (Lee, 1997). Although the scale of improvement may pale in comparison with the achievement of other Chinese coastal cities, the qualitative change from a city of crumbling wooden structures to a skyline dotted with hundreds of high-rise buildings in such a short time is nothing less than astounding (Fig. 5).

The secret to this radical transformation is the way that the municipal government has managed its land. Inner city redevelopment, unlike green field development, is an expensive undertaking because of the costs of compensation, resettlement, relocation and demolition. The high density of Fuzhou’s older neighbourhoods makes them prohibitively expensive to redevelop. Without much funding forthcoming from either the central or the provincial government, and with a relatively weak industrial sector as its tax base, the only asset that Fuzhou has is its land. In 1988, land property rights reform and the legalisation of land leasing came like a god-send. The municipal government
Figure 5: New Skyline, Looking North from near the Black Pagoda
(Source: Author)
believed that it can rely on the revenue generated from land leases to fund inner city redevelopment to alleviate the poor housing conditions and as well as infrastructural projects that are crucial to the city’s long-term economic strength (Qi, 1989).

However, the first three years turned out to be a disappointment. Despite the highly publicised success of the first three deals through open auction and bidding, Fuzhou only managed to lease out a total of nine parcels of land in the three years between 1988-1990. Although the anti-inflationary measures introduced in 1988 and the Tiananmen Incident in 1989 had an overall dampening effect on foreign investment confidence, the main problem was the high cost of inner city redevelopment in Fuzhou. In such a project, the government has to incur expenditure in compensation, relocation, resettlement and demolition, and the cost is usually high because of the population density. The officials soon realised that if they added these costs, the official land differential (the simulated “fair” market price for the given location), and other sundry fees, the total cost closely matched the price that foreign investors were willing to pay, leaving the city with a thin profit margin. This is the reason why local officials protested against the central-local revenue-sharing scheme, arguing that under this scheme it is very likely that the local government will lose money in inner city redevelopment (Qi, 1989; Lin, 1989).

From these experiences, the Fuzhou government learned to be more flexible in land leasing, and the result was a land management approach characterised by the government supplying inner city land parcels at low cost to the foreigner-dominated property development industry. This policy is born out of the unequal balance of
bargaining power between the government and the foreign\(^9\) developers who accounted for at least 70% of all total development activities in the city (Zhongguo Tudibao, 3 July, 1994). As foreign developers generally have more financial clout to tackle inner city projects, the municipal government needed the foreign developers to carry out Fuzhou’s redevelopment. The result of this policy in supplying low-cost land is evident in the statistics. Between 1988 and 1996, the city leased out 603 parcels of land with a total area of 452 ha for inner city redevelopment (Lee, 1997). Deducting the 9 parcels leased out during 1988-1990, a total of 594 parcels were leased during 1991-1996, all within the inner city.

The land management policy for inner city redevelopment involves more than just supplying cheap land. Upon closer examination, the municipal government has coordinated and mobilised its entire bureaucracy to offer concessions to foreign developers. This policy is carried out mainly through extensive negotiations amongst bureaucratic departments and the developers. Although there are also formal administrative procedures, the actual process of decision-making is characterised by constant informal bargaining (see the following items, especially #4 and #5). The following are the main areas in which the municipal government has demonstrated flexibility in carrying out its policy of inner city redevelopment:

1) **Flexibility in the price of the land lease.** Although there are formal categories of fees and official price guidelines, they are subject to extensive negotiation and bargaining. The degree of concession depends on the relative bargaining power of

\(^9\) See *supra*, note 3.
the government in a given situation. For example, if the proposed project involves an area of high density that city officials are eager to redevelop, the government may make deep concessions in price or even waive entire categories of fees for the benefit of the developer. Sometimes foreign developers can get an even better deal than the domestic developers (Interview #3a, 3b).10

2) **The provision of credit for inner city redevelopment projects.** The practice of providing easy credit by the local banks has been commonplace in China, as local government officials wield significant power in getting loans approved for projects that they prefer. In Fuzhou, it has been reported that it is the policy of the municipal Construction Bank to offer preferred lending for inner city redevelopment projects. From 1991 to the first quarter of 1995, the bank has approved loans worth 1 billion yuan for these projects (*Jinrong Shibao*, 29 July, 1996).11

3) **Flexibility in the form of gain from land leasing.** Instead of paying cash for the land lease, the developer could often pay in the form of physical planning gains, such as the construction of roads and parks, and the reservation of a portion of the land for public use. According to one estimate published in 1995, the city has gained some 40 ha of these public amenities worth 1.2 billion yuan (ZCZSWFW, 1995: 111). In a related matter, the municipal government has extracted profits and got free dwelling units worth 250 million yuan from the development companies under its ownership (Ibid.) As in the local state corporatism model, these municipally owned

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10 Please see Appendix A for the time and place of the individual interviews conducted.
11 It is not clear if this practice has been stopped since 1996.
development companies are the city's new cash cows that owe their high profit margins to the deep subsidies provided by the government in the form of cheap land and tax exemptions, but they are also subject to revenue extraction as part of the deal.

4) **Flexibility in the resettlement package.** Because of the high cost of compensation, relocation and demolition, the Fuzhou government has tried to cut down this cost as much as possible. The developers are given the two options for resettlement: 1) paying a lump sum for the land use right and the cost of resettlement, while the government takes care of compensation and resettlement; 2) paying a set of fees and premiums for the land use right, and carry out negotiations with existing occupants on compensation and the mechanics of resettlement (Lee, 1997). Regardless of which option the developer chooses, compensation and resettlement in Fuzhou is carried out under a market-oriented model, unlike other Chinese cities where in-kind replacement has been the rule. The “Fuzhou Model”, much lauded by the World Bank, offers cash compensation to the on-site residents and provide incentives for them to purchase off-site resettlement housing, such as additional space allowances and reduced prices. Depending on the developer, they may also have the option of buying the redeveloped units on the original site, but they are not provided with any special discounts or incentives (World Bank, 1993: 199-200). For the most part, residents were reluctantly accepting of this scheme, but there have been some isolated incidents of open protest by relocated residents in front of government offices to demand better compensation (Interview # 1b, 3c).
5) **Flexibility in the enforcement of urban plans.** Despite the existence of detailed control plans as stipulated in the *PRC City Planning Act*, these plans are constantly revised and have no legal force (Interview #3b, 4a). When foreign interests first entered into urban redevelopment, city officials basically granted developers carte blanche in deciding the site, the height, the FSR and other dimensions of their projects. As a result, inner city redevelopment in Fuzhou proceeded in a haphazard rather than comprehensive manner, with tall buildings rising along the major boulevards and the major intersections, leaving large areas of dilapidated housing just behind them untouched (Interview #3b). The detailed control plans that are equivalent to the zoning plans in North America cannot exert effective control (Figure 6). One planner complained that sometimes developers would increase the FSR or reduce the building setback in order to maximise profit. And these violations are resolved by the developer “talking” to those higher up the bureaucratic hierarchy to get special permission and the planner would often have no choice but to approve the project (Interview #4b, 4c). The prevalence of such practice is difficult to estimate from the available data, but it does not seem to be limited to isolated events.
Figure 6: A Detailed Control Plan of Fuzhou (Source: Author)
6) **Other creative measures.** After the real estate boom was abruptly halted by the central government, the flow of foreign investment into Fuzhou's property development market dwindled. Like many other cities in China, the vacancy rate of office towers and residential high-rises in Fuzhou increased dramatically as a result of overproduction. To remedy the situation, the Fuzhou government adopted more preferential policies to encourage foreign investment. For example, developers can enjoy many fee exemptions, a 6-month payment plan for the land lease premium and the relaxation of pre-sale restrictions. To ensure that these projects succeed in sales, the city would order its own work units to purchase unsold units at negotiated prices. To stimulate general demand, the city would support banks in providing preferential loans to workers who purchase these units, and for those who make a cash purchase of a unit worth 5 million yuan, the city will issue a private vehicle license plate (a highly coveted and costly item) as a bonus (*Fangdichan Bao*, 18 June, 1996).

Based on the above observations, the conduct of the municipal government in inner city redevelopment can be characterised as highly interventionist in creating a favourable investment environment in order to achieve its socio-economic development targets. It is able to carry out this program effectively because of the concentration of power in its control. First of all, it has legal ownership and monopoly over all urban land, so that it can supply land on its own terms. Second, the municipal leadership is able to mobilise its bureaucratic machinery in offering preferential terms, ranging from the granting of easy credit, the alteration of planning control to the issuance of private
vehicle license plates. Third, it possesses coercive power over society, and can therefore quickly carry out massive relocation and resettlement programs without encountering major resistance.

There are a number of contributing factors behind the adoption of this policy package. First of all, land leasing and property development in the city has become a major source of revenue for the municipal government, which is claimed to be used exclusively for infrastructural project to open up “bottlenecks” in developing the economy. According to an official press release issued by the municipal government, land-based revenue has on average made up 10% of the total tax revenue, and 20% in “good years”. Land-based revenue in 1993 alone amounted to 260 million yuan, which matched the total collected during 1988-1992 (Fangdichan Kaifabao, 10 August, 1994). The actual amount from land-based revenue sources is probably larger if one includes the physical planning gains and the extraction from municipally owned development companies. In effect, the Fuzhou municipal government has come to depend on the real estate development industry, and has thus become its biggest sales and promotional agent for itself. It is little wonder that the municipal government has held promotional land leasing forums twice a year since 1993, often in Hong Kong or Singapore (Lee, 1997). These land leasing forums are similar to trade fairs, carried out by large teams of city officials led by the mayor or the deputy mayor, complete with extensive local media exposure promoting the event and grand ceremonies. Second, as Zhu (1999) has argued, physical growth and improvement of the city is indisputable evidence of effective and competent leadership that will boost the political careers of aspiring municipal officials.
Third, the municipal government has the mandate to improve the social conditions of urban residents, and inadequate housing in Fuzhou has been a major problem for decades.

Examples of Inner City Redevelopment Projects

It is worthwhile to point out that Fuzhou’s foreign-investment-dominated inner city redevelopment was a significant venue among China’s coastal cities during the real estate boom of 1992-93. Fuzhou’s “success” reached its zenith in 1992 and 1993 when it signed three multi-billion yuan mega-projects with major foreign developers.

The most prominent mega-project was the Hong Kong tycoon Lee Ka-shing’s Sanfang Qixiang (literally ‘Three Blocks Seven Alleys’) project. With a total investment of 3.5 billion yuan and an area of 44 ha, it has been hailed as the biggest inner city redevelopment project in China, surpassing even Lee’s Wangfujing project in Beijing (ZCZSWFW, 1995:113).

Aside from its size, this project is also unique as a complete redevelopment of a significant historic neighbourhood. The Sanfang Qixiang neighbourhood is the community of Fuzhou’s traditional ruling elite and the origin of some of China’s major historical and literary figures. The neighbourhood blossomed in the Ming and Qing dynasties and has been referred to as a virtual architecture museum with about 200 heritage buildings left intact. Therefore, the project combines a strong historical preservation component along with several low-rise and hi-rise apartment towers,

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12 One of whom that enjoys popular and official favour is Lin Zhexu, the Qing dynasty general who confiscated and burned opium in Guangzhou and sparked the Opium War. His persona occupied centre stage during the 1997 hand-over of Hong Kong.
shopping centres and office towers. The entire project is divided into 6 phases taking 5-7 years, with completion in 2000 (FCJBW, 1994: 222-225; ZCZSWFW, 1995:113).

However, the project has been suspended indefinitely. Eight months after construction began in August 1994, it was reported that the first phase will not go forward due to the increased cost of construction for resettlement housing (Gongshang Shibao, April 4, 1995). Upon the author’s visit to the neighbourhood in July 1997, there was a large clearing of land overgrown with vegetation marking the site of the first phase of construction (Figure 7). The latest news is that the lot remains vacant and no construction has taken place. Those who have relocated felt cheated and the remaining residents were understandably skeptical (Interview #5).

The Yuanhongcheng (Yuanhong City) mega-project is funded by the Chinese-Indonesian tycoon Liem Sioe-Liong whose investment around the Fuzhou region is based on his kinship ties to Fuqing County nearby, which is famous for its extensive ties with the overseas Chinese community. The project costs 2 billion yuan and occupies a 5.9 ha site on the northern bank of the Min River (Ibid.) The original plan calls for two 40-storey plus office towers and a number of other commercial and residential towers that would be Fuzhou’s new downtown CBD (Figure 8). However, after the residents had been relocated and the site cleared, the project was delayed indefinitely. The reason for the delay is reportedly the unexpected cost involved in excavating the deep layers of river sediment in order to reach the bedrock for construction. The municipal government could not afford to offend a tycoon of Lim’s stature and it took harsh words from Zhu Rongji, then deputy premier, during his tour of Fuzhou as part of the post-boom
Figure 7: The Vacant Lot for Phase 1 of Sanfan Qixiang Project
(lower left in the distance, looking north from the Fuzhou TV antenna)
(Source: Author)

Figure 8: The Yuanhongcheng Project - Original Proposal
(Source: Si and Zhao)
crackdown to get the construction started. However, the finished product is a significantly reduced version of the original plan with only a few structures that are much lower in height (Interview #1a).

The third mega-project is Taipingyangcheng (Pacific City) which is located on the southern bank of the Min River in the Cangshan district. Funded by a Hong Kong company, it costs 4.2 billion HK dollars and occupies 8.6 ha, with plans for 9 high-rise structures ranging from 34-storey to 70-storey (Ibid.) This project suffered a similar fate of long delays and a radically reduced version as the finished product (Interview #6).

**Industrial Relocation**

Unlike major industrial cities in other Chinese cities, industrial relocation in Fuzhou has been a relatively minor operation because of its under-funded and underdeveloped industrial sector. The Fuzhou municipal government has basically approached industrial relocation as a complementary component to inner city redevelopment. Industrial relocation not only removes sources of pollution from the urban residential district, it also provides an opportunity to the relocating factories to upgrade their equipment and increase their efficiency. And the land that is freed up can be further leased out for redevelopment projects. Hence the municipal government has been playing an active role in this effort.

In the early phase of inner city redevelopment and industrial relocation (1988-1991), the Fuzhou industrial relocation model is market-driven with some government subsidies. The developer interested in the site would negotiate with the factory on the
amount of compensation. The developer is responsible for the compensation of old buildings, fixed investment on the site, lost wages and production, the cost of relocation, and the cost of a new site in a suburban location. With this compensation package, the factory would relocate and gain a significant bonus that they can then use toward upgrading their productive capability. The developer on the other hand does not have to pay market rate for the acquisition of the land parcel, just the compensation package and other fees. Despite the win-win formula, many factories find relocation undesirable due to the long and complex process, while developers (mainly municipally owned development companies) find the option too costly in comparison to greenfield projects in the suburbs. The municipal government therefore stepped in to underwrite some of the cost of industrial relocation. The World Bank field survey revealed that by 1991, 22 factories have relocated in Fuzhou, costing the municipal government 200 million yuan, or 9 million yuan per factory (World Bank, 1993: 21-2).

In recent years, the municipal government has ceased to provide subsidies for industrial relocation because as land prices rose, these industrial sites have become more valuable and thus more attractive to developers, most of them being foreign investors. And because the developer only has to pay for basic compensation items and the cost of a new suburban site, the developer can capture a significant profit from the land differential. In other words, the municipal government uses state-owned land as a subsidy to facilitate industrial relocation and inner city redevelopment. By 1997, most of the factories have successfully relocated to the suburban industrial zones (Interview #2a, 2b).
Urban Hidden Land Transaction and Its Prevention

As discussed in previous chapters, the hidden land market emerged from users of administratively allocated land illegally transferring their land for value. But such transactions can take many forms and the term ‘hidden land market’ encompasses a wide array of transactions. For example, the land user may provide land to a developer to construct a building and in return get a few units in the building as payment. Some land users have entered into joint-venture deals with foreign investors by using land as a share of the investment capital. Or, the land user may sell a building to the acquirer, which is a legal transaction because buildings are not owned by the state, but the high price effectively covers the value of the land use. Sometimes these transactions are no more than a work unit leasing out space to generate more revenue, such as a factory leasing out its worker’s recreation centre as a discotheque. Given such a wide range of activities under the single rubric of the ‘hidden land market’, this discussion will not attempt to be exhaustive but instead focus on how the municipal government has selectively asserted its ownership based on its interest as a local corporatist state.

Although the hidden land market is a well known phenomenon that intensified with the legalisation of land leasing, the municipal government has been surprisingly lax in its enforcement. Fuzhou SLAB officials revealed that they had only begun dealing with the problem in 1996 (Interview #2b, 3b). On the surface, it is puzzling that the municipal government as the legal owner of all urban land would not assert its legal rights and crack down on this rampant illegal practice. But if one considers the
relationship between the municipal government and most of the work units, especially the productive enterprises, then it becomes clear that the government has been turning a blind eye to the work units in order to protect them. This is so because the municipal government itself relies on the revenue generated from many of these enterprises, and cracking down on their hidden land transactions would hurt its own interest. Furthermore, as these enterprises often provide employment and pensions and other benefits for the majority of the city's workforce, the municipal government has to consider the social impact of strict enforcement.

The municipal government has devised preventive measures to address the issue of hidden land transactions in recent years. One such preventive measure is to waive the 40% compensation imposed on the land user who wishes to convert administratively allocated land into a land use right, as stipulated in the *Provisional Regulation of Administratively Allocated Land Use*. By waiving this compensation requirement, the administratively allocated land would be guided into the formal market instead of being locked in the hidden market. But on the other hand, the government has taken control over the use of these land transaction proceeds in order to carry out industrial reform in the case of state-owned enterprises (SOEs). In other words, the government as the land owner is asserting control over the monetised value of the land occupied by the SOEs in order to assist in the “revitalisation” of the SOEs.

One example is a major factory in Fuzhou that has more than 3000 employees on its payroll. Like many SOEs in China, it has been operating with a heavy debt load. The municipal government assisted the factory in leasing out a parcel of land and worked with
the factory manager to devise a debt payment strategy by using the proceeds, thereby helping to reduce its debt load. It was reported that many other factories have squandered their land lease proceeds in paying employees bonuses and increasing the housing budget rather than directing the funds into upgrading the productive capacity, hence this case is a positive example. But in theory, using land leasing proceeds for debt-relief is still the wrong strategy for SOE reform because a heavy debt load is attributed to problems of internal management rather than external adverse market conditions, and the government should not bail out a mismanaged enterprise. In this particular case, the municipal government considered the significant social dimension of the problem, namely the welfare of 3000 employees and their families, and decided on this course of action (Interview #1d, 1e, 1f).

As for the conversion scheme laid out in the Provisional Regulation on Corporate Land Use Rights discussed in the previous chapter, the implementation in Fuzhou is not known. Under this scheme, the SOE’s administratively allocated land is converted into land use right which is acquired by the government at the official assessment price, and then held as government shares by a special state-asset holding company. Given the heavy social responsibility carried by the SOEs, it is not surprising that the municipal government has chosen to assist in debt-relief to prop up the enterprise by using its land value, rather than following this conversion scheme. However, given the ongoing SOE reform and the massive layoffs in recent years, this practice may very well have changed since 1997.
Economic Technology Development Zones

The sudden proliferation of Economic Technology Development Zones (ETDZs) became a serious land management issue during the 1992-1993 real estate boom. All over China, local governments rushed to offer land to foreign developers to establish ETDZs in their jurisdictions, believing that ETDZs would be the engines of local economic growth and prosperity. The formula is widely known as 'beckoning the birds to build nests', which means attracting foreign developers to put in the front-end investment required for the cost of creating the zones, which would in theory attract other foreign investors. This was thought to be a superior method than the one used to establish ETDZs during the 1980s, which involved the government providing the funding for the extremely expensive front-end investment. This inferior formula of 'building the nest to beckon the birds' also meant that the government had to bear the risk of failure.

In order to 'beckon the birds', most local officials openly defied the PRC Land Management Law and requisitioned land without acquiring approval from higher levels of government. In an effort to attract foreign investors to their locality, local officials would compete with their neighbours in reducing prices and offering generous incentives. As these zones proliferated nation-wide, many problems arose. Some deals were thinly disguised land speculation, where the acquirer of land would leave the land vacant for an indefinite period, or transfer it to others to make a quick profit. Some projects would stop after the initial phase of construction for the lack of finance or the dismal prospect at attracting foreign investors. To the central government, the ETDZ fever had to be stopped in order to prevent further loss of agricultural land and to stem inflation. In mid-
1993, the central government announced a 6-month crackdown on the real estate boom and the ETDZ proliferation problem. The director of the State Land Administration Bureau estimated that 90% of the 3000 ETDZs in the country were illegally approved and 92% had not yet begun construction as stipulated in the contracts; the total area leased out in 1992 equalled the total leased during the previous four years (Gongshan Shibao, 25 July, 1994).

Data on the ETDZs within the Fuzhou municipality are not available as the local government tends to be secretive in order to evade the scrutiny of the central government in this matter. In 1994, the mayor of Fuzhou reported that there were a total of 28 ETDZs occupying a total of 100 km² throughout its administrative jurisdiction. (Huadong Xunxibao, 1 July, 1994). Most of them were created during 1991-1992 by the county governments with approval from the municipal and provincial governments in order to fulfil the ambitious 3820 Plan and the Golden Triangle Economic Region. These ETDZs are spread throughout the eight counties and Fuzhou’s suburbs as a spatial strategy for the region’s rapid economic development (Figure 9). The zones range in size from 1.5 km² of the Longwang Investment and Tourism Zone in Pingtang County to 50 km² of the Yuanhong ETDZ in Fuqing County, a project invested by the Liem Group of Indonesia (ZCZSWFW, 1995: 61-71). But in reality there are more than the 28 ETDZs cited, because there are many smaller development zones set up at the county, township and village levels by their respective governments.
Figure 9: Sketch Map of Fuzhou's Open Areas
(Source: Si and Zhao)
There are no available data on the problems of speculation and wanton proliferation within the Fuzhou municipality. However, one report released in 1994 quoted the governor of Fujian in stating that the province as a whole has approved 116 ETDZs and has significantly "cleaned up" the problem of proliferation by 1) rejecting 20 proposed ETDZs (102 km$^2$) on the ground of not having met the requisite criteria, 2) confiscating 7 parcels (3 km$^2$) for the failure to begin construction as stipulated in the contract, 3) reducing the size of 7 parcels (187 km$^2$) and therefore conserved 292 km$^2$ for the province (Zhongguo Tudibao, 14 Sep., 1994). One may infer from this report that the scale of the problem is equally significant in Fuzhou municipality.

Anecdotal evidence points to one specific pattern of interaction between the three dominant groups of actors: the local (usually county or township) government, the foreign investor and the supervisory level of government such as the municipal and the provincial government. The foreign investor who chooses to invest in a particular locale is typically connected to the area either by birth or kinship ties. The investor often has contributed to the welfare of his hometown through donations to schools or other social programs. His decision to locate an ETDZ in his hometown is therefore at least partially motivated by the desire to help his compatriots in his hometown. There are of course other types of investors who do not have kinship connections to the location of investment, but the kinship factor does have significant impact on how the government deals with "compatriot investors" (Interview #1b, 1c, 3c).

The local officials are usually extremely accommodating to such proposals and would offer to lease out large tracts of land at very low prices with provisions of deep
concessions. In one case, instead of designating an area for an ETDZ, the county government offered a seven-self policy (qizi zhengce) under which foreign investors are offered to pick the site for themselves, determine the size of the land parcel for themselves and even decide on the price for themselves, among other liberties. At least one case involved county government officials using the backdoor to get the seal of the municipal government to forge the approval document. As for the municipal and provincial governments, they were either directly involved in setting up the larger zones or gave their tacit consent to the establishment of smaller zones before the central crackdown of 1993 (Interview #1a, 1b, 1c).

With regard to the enforcement of the clean-up campaign after 1992-93, both the county government and higher levels of government have exhibited a tendency to back down and make concessions to foreign investors, especially if the investor has considerable financial clout and kinship ties. In one example, a major Taiwanese investor had left his leased land vacant for four years, which clearly violated the law that a project must begin construction within 3 months of signing the agreement, with outright confiscation as a possible sanction. In a private meeting that the informer himself claims to have attended, the Taiwanese investor met with the head of the provincial Planning Commission, the Minister of Construction and the Minister of Trade to discuss the matter, but in the end the provincial government officials decided not to take any action for fear of offending him. A related example involves a foreign-invested news print recycling plant in Fuqing County polluting the nearby aquaculture industry with its emissions. Even though the location of this operation was contrary to the plan, the
county officials approved it based on the fact that the investor is a fellow compatriot and that he has located in Fuqing out of a desire to assist his hometown, foregoing higher profits he would have earned if he had decided to invest in either Anhui province or Vietnam where the land is free (Interview #1b, 1c). County officials have also refused to report on the ETDZs in their jurisdiction for a survey conducted by the municipal State Land Administration Bureau in order to protect their local interest (Interview #3c).

From the foregoing discussion, it seems clear that during the heyday of ETDZ proliferation, all levels of the local government, from the provincial to the township and village governments, rushed to establish ETDZs of various sizes. The decision to supply land by the county or township government seems to be motivated by the desire for local economic development and the accommodation of rich fellow compatriots who wanted to contribute to their hometown. The offering of concessions, lax regulation and the use of questionable tactics to circumvent legal limits all stem from the same considerations. In terms of enforcement, the unequal balance of bargaining power in favour of foreign investors plus the kinship ties have a general "softening" effect on the government’s decision to implement the laws.

After the central government announced the crackdown on ETDZs, the provincial and municipal governments came under increasing pressure to rectify the problem. The central government has kept up the campaign since 1993, issuing countless administrative decrees and promulgating new laws, visiting the city and counties, holding conferences, even the addition of various land-related offences in the Criminal Code, with a maximum penalty of 7 years imprisonment (Fuzhou Tudibao, April 1, 1997). As a result, the
Fuzhou municipal branch of the State Land Administration Bureau has undergone a process of re-calibration since then, such as more personnel training, visits down to the counties and townships, more seminars and meetings among different level cadres. By 1997, the Fuzhou State Land Administration Bureau had re-centralised to form a vertical administrative structure with local offices at the county and township level reporting directly to the municipal branch (Fuzhou Tudibao, 15 March, 1997). All of these efforts indicate that there has been a general tightening of control and surveillance aimed at developments on agricultural land, especially those undertaken by individual farmers or collectives for housing construction and burial sites. Overall, these reform measures carried out since 1993 demonstrate the municipal government’s resolve to assert its control in order to prevent the loss of agricultural land. But this has only resulted in a concentration of decision-making power in a particular administrative centre, not a re-prioritisation that changes the general bias in favour of economic development opportunities, and certainly not a fundamental institutional change of the local corporatist state.

Summary and Analysis

This chapter has attempted to demonstrate the role of the local state in the four areas of land management: inner city redevelopment, industrial relocation, the hidden land market of the SOEs, and the economic technology development zones. It is evident from the above examination that the role of the local state in land management is extensive and highly interventionist. In inner city redevelopment, the municipal
government has pursued a program of urban reconstruction through land leasing, direct and indirect subsidisation, flexible enforcement of laws and regulation and the provision of incentives to stimulate market demand. In industrial relocation, the government has played a key facilitative role and has provided indirect subsidies to the developers by foregoing the land differential. On the issue of hidden land transactions in the context of SOE-held land, the government stepped in to channel the land value toward “revitalisation” without insisting on its legal proprietary rights. And with regard to economic technology development zones, the local governments have used cheap land as an economic incentive to encourage foreign investment in their locality.

The approach and the corresponding conduct adopted by the Fuzhou municipal government and lower levels of government toward land management can be characterised as simple instrumentalism. Instead of managing land as a public resource based on the careful consideration of the possible effects on the economy, the industrial and agricultural sectors, the society and the ecosystem, the local government has utilised land as a blunt instrument to achieve short-term targets in the typically ambitious and hurried manner of the Chinese local developmental state. In order to produce impressive quantifiable and tangible results, the local government has used land in many creative ways—as an incentive for foreign investors, as a subsidy for state-owned enterprises, as a source of revenue for urban development, as part of a program to foster municipally owned development industries and as a lever to redevelop and modernise the city.

13 The term “instrumentalism” is used here to denote the utilitarian nature of policymaking. It does not carry with it political connotations or any other concepts.
The institutional basis of this instrumentalist approach to land management is the political economic organisation of the local corporatist state, which exhibits similar characteristics as the local state corporatism concept proposed by Oi (1992; 1995) and Walder (1992; 1994). Essentially, the local corporatist state has evolved to become a political entity that is capable of exercising direct control over many areas of socio-economic life and that considers the productive enterprises, natural resources and people in its domain as parts of an abstract corporate body under its governance.

For example, in inner city redevelopment, the Fuzhou municipal government was faced with a seriously deficient housing stock and urban infrastructure, both of which require extremely large inputs of capital to upgrade. With little funding from the higher levels of government and a poor industrial base, Fuzhou had to look to foreign investment as its main source of finance, and its land is the biggest economic asset it has. And because it has been endowed with a strong administrative capacity, the municipal government naturally exercised its power to attract foreign investment to meet its urgent needs. As previously discussed, it has exerted direct control over the price of land, the provision of project financing, the resettlement of residents, the variation of urban plans and even aggregate demand for the finished product, although with much less success. Under the corporate form of local governance, all these areas are subject to the municipal government’s direct and efficacious manipulation in order to transform the physical city, to generate revenue and to boost the economy by attracting foreign investment.

Although the local corporatist state is usually instrumentalist in the use of its broad powers to achieve its goals, there is a definite inner logic that reveals the
institutional basis and parameters within which the government exercises its power. The example of how the municipal government dealt with the land leasing proceeds of the SOE that maintains 3000 employees clearly illustrates the nature of the relationship between the government and its enterprises. In this particular context, the government clearly exercised its power to protect the interest of the enterprises because it is concerned with the social implications of bankruptcy and that it probably also relied on the enterprise for some revenue as it is administratively customary in China. In other words, the local corporatist state acts to protect its own political and economic interests, which are defined by the institutional nexus that binds itself with specific social agents and society at large. And depending on the context, the interests of the local corporatist state may include revenue-generation, local boosterism driven by inter-regional competition, local protectionism, the protection of local employment or socio-economic development.

Another important characteristic of instrumentalism as applied in land management by the local corporatist state is the fluidity and informality of decision-making. Contrary to some sophisticated bureaucratic systems in which the exercise of state power is carefully and minutely defined and carried out through laws and regulations, with built-in monitoring and check-and-balance mechanisms, the decision-making process in Fuzhou is essentially based on extensive informal bargaining between different bureaucratic departments, foreign investors and the different levels of government. The example of how the county and even the provincial government deal
with foreign investors clearly demonstrates exactly how informal and also flexible the
government officials can be in negotiation (Interview #1a, 1b, 1c).

These three characteristics of how the various levels of government exercise their
powers—the extensive assertion of control over its domain of corporate governance, the
exercise of its power according to a careful weighing of its different interests and an inner
logic that is based on the complex institutional nexus that defines its relationship to other
social agents, and the fluidity and informal nature of extensive bargaining between its
subordinate bureaucratic entities and participants in the land development process—
capture the totality of how land management is practised in Fuzhou.
Chapter V. Conclusion

China’s land management reform agenda has been the search for an institutional and administrative structure that would be able to meet the two most important national goals in terms of land management—economic development and land conservation. Such a system would be able to supply land in order meet the aggregate demand of the nation’s developmental needs without jeopardising the limited farmland that the nation needs to feed its enormous population. It would also have to allocate land in a way that puts the resource toward uses that would maximise society’s collective interest and balance the conflicting interests as well.

While it was clear that the old system was not working and a general outline for a new system was not difficult to conceive, the real challenge for land management reform was implementation. China has been undergoing a profound systems reform, and the complex and ever-changing political economic and social realities create great potential pitfalls and obstacles for land management reform. One of the major difficulties is the transition from an allocative system to a market system, from which the typical reform conundrum emerges. In very simplified terms, the new market system cannot be implemented right away, because to do so would mean many of the productive enterprises will be negatively affected, therefore the government has to intervene and shelter the enterprises from market discipline indefinitely, which in turn would postpone true reform indefinitely, and thus the cycle continues. Viewed in this larger context of
reform, the story of land management reform is a typical one of trying to implement a program of change in the face of complexity and practical limitations.

Despite these difficulties, a fairly coherent institutional and administrative system came into being by the mid-1990s with land administration reform, land property rights reform and urban planning reform. For the sake of administrative efficiency, this system has delegated significant discretionary decision-making powers to the local government without imposing strong legal or institutional parameters on the exercise of that power. In the land management administrative structure, although the State Land Administration Bureau is a centralised and vertical bureaucracy, in reality its power is shared with and even subsumed under the municipal government at the local level. The local government has the dual power to allocate and lease land at its discretion without having to answer to higher levels of government. And local governments formulate their own urban plans virtually free from any controls from above. Therefore even though the central-local relationship as defined in these administrative and legal frameworks is likened to that between a principal and its agent, where the agent has been authorised to act on behalf of the principal in the principal’s best interest, in the context of the land management framework the local government is not legally bound.

Having been delegated this bundle of significant discretionary power, the local government proceeded to carry out its own version of land management reform. Because of decentralisation and the new fiscal arrangement between the centre and the local government, the local state has assumed a new form of political economic organisation, termed here the local corporatist state, which exercises its extensive political power in
order to maximise the social and economic benefit, as defined by the local party-state
leadership, within its domain of governance. Land management practice by the local
corporatist state is characterised in its action by the wide scope and depth of its
intervention and informal bargaining in its method of decision-making. Furthermore, the
local government seeks to maximize of its socio-economic and political interests through
an inner logic that is defined by a set of institutional relationships between itself and
other social entities. These interests may include “publicly-oriented” aims such as
infrastructural upgrading, housing improvement, industrial “revitalisation”, and general
economic development on the one hand, and less lofty motivations such as building one’s
political career and rent-seeking on the other hand.

This study has a limited scope because of its original purpose, the constraint in
resources, the opaqueness of the subject matter and the difficulty in accessing detailed
and accurate information. Further research should focus on the policy-making process,
the consultation, negotiation and the implementation processes in all areas of land
management. The local-centre relationship and interplay in the context of land
management is another worthwhile area for research because of their many overlapping
and divergent interests in how land management is carried out. Further research on the
intra-municipal or the sub-municipal relationships might help to clarify the concept of the
local corporatist state. Furthermore, the implications for the rule of law in land
management should receive more attention in order to explore the possibility of
establishing a workable legal and administrative framework that would balance the
interests of different interest groups while serving the long-term interest of the society at
large.
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____________, 14 September, 1994

Zhongyang Ribao, 7 January, 1995

Appendix A: Time and Location of Interviews

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