Towards A Territorialization of Capital: 
Urban Land Development and Local Public Finance in Southern China

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Abstract

This study examines the relationship between urban land development and municipal finance in a Chinese regional economy undergoing rapid urbanization. Drawing upon insights from the perspective of political economy, this study identifies a strategy in which land-centered urbanization has been actively pursued as a means of revenue generation in response to the reshuffling of state power. The (re)territorialization of capital involves both the expansion of urban space into the rural vicinity and the conversion of rural land into high-valued urban development in a greater regional extent. In contrast to the urbanization of capital observed from the Global North where an over-accumulation of capital leads to a sequential switch of the circuits of capital, urbanization in China has been pursued as a strategy to mobilize and accumulate original capital. Contrary to conventional wisdom, urbanization has not been a passive outcome of economic growth and has instead been an active driving force instrumental to regional transformation. The paper calls for greater attention directed to the interrelationship between land development, local public finance, and urbanization in the ongoing transformation of the Chinese political economy.

Key words: Political Economy, Territorialization, Urbanization, Land Development, Local Public Finance, China, Guangdong

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Introduction

Studies of urbanization have traditionally been preoccupied by concerns over the migration and spatial redistribution of the human population. In recent years, however, important attempts have been made to go beyond the demographic arena and see the urbanization process as intrinsically related to the logic and dynamics of capital accumulation. Back in the 1980s, the thesis of the urbanization of capital was introduced to link the production of the urban built-environment with the circuits of capital (Harvey, 1985; Armstrong and McGee, 1985). Subsequent structural and spatial changes in the world economy have shifted attention from the national to global scale and given rise to the notion of accumulation by dispossession whereby uneven developments at home and abroad are logically connected with the imperative of the (over)accumulation of capital, the built-in crises of capitalism, and how these crises are “fixed” spatially and temporally (Harvey, 2003; Glassman, 2006; Walker and Buck, 2007).

While the theoretical attempts to link the transformation of the urban built environment with the (over)accumulation of capital has significantly broadened our perspectives about the urbanization processes, they have noticeable limitations when applied to cases in other world regions. First, the thesis of the urbanization of capital was developed on the basis of the situation in which the over-accumulation of capital in the primary circuits (i.e. production of value and surplus value through manufacturing) and its decline profits lead to a switch into the secondary circuits (i.e. investment into fixed capital asset for production and fixed physical framework for production or the built environment) and then into the tertiary circuits (i.e. science and technology as well as social expenditure in education and health) (Harvey, 1985). This is in stark contrast with the situations of many developing countries where there is a shortage of capital to ignite the engine of economic growth and where land has to be used as an important asset to either attract external capital or convert into funds to finance urbanization. Second, the production of the urban built environment described by Harvey is embedded within a legal and institutional environment in which private property rights are protected, the interests of the bourgeois in consumption and labor reproduction upheld, and market competition as well

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as juridical individualism safeguarded. The urbanization process observed in other world regions such as the Global South and the Far East has obviously been based upon different social and political conditions (Armstrong and McGee, 1985; Ma, 2002; McGee, et al, 2007; Lin, 2009a; Hsing, 2010).

The notion of accumulation by dispossession has overcome some of the limitations highlighted above through an expansion of the scope of theorization. However, the idea that the crisis of over-accumulation of capital could be “fixed” temporally and spatially has tended to assume a conventional core-periphery setting in which surplus capital from the center moves in and effectively transforms the countries and regions in the periphery into the outlets of dispossession. Recent research has suggested that profound changes in the global economy have given rise to an increasingly decentering world. There existed multiple imperatives of capital and multiple fields of power that have not been adequately captured in the notion of “spatio-temporal fix” (Zhou, et al, 2010). Given the fact that the centers of industrial production, capital investment, and urbanization are no longer confined to the economies of the Global North, additional efforts are in order to investigate how the urbanization processes have played out in various world regions under different political, social, and geographical conditions. Special attempts need to be made to examine how the urbanization project has actually been engineered and financed in the developing world where the pace and magnitude of urban development have become more phenomenal than those found from its developed counterpart. To this end, an investigation of the practices of urban development in the rapidly transforming Chinese economy appears to be a reasonable and manageable starting point.

In recent decades, China’s urban space has experienced profound transformation in response to deepened market reforms and increased globalization. While rural to urban migration has become a defining feature of China’s urbanization, phenomenal conversion of land from agriculture to non-agricultural purposes has taken place at a scale and speed unprecedented in the history of the nation and unparalleled elsewhere in the world.2

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Official Chinese statistics indicated that, in the earlier period of market reforms, China’s cultivated land shrank from 99.39 to 94.97 million hectares between 1978 and 1996, a net loss of 4.42 million hectares or 4.4 percent in 18 years. Farmland loss has continued and become accelerate in the recent decade despite government’s alarming concern and extraordinary attempts to bring it under control. Between 1996 and 2006, China’s cultivated land shrank further from 130 to 121.8 million hectares or a reduction of 6.3 percent in 10 years.\(^3\)

Although much of the loss in cultivated land was due to structural changes within the agricultural sector (e.g. conversion of paddy rice fields into orchard or fishing ponds), a significant portion was taken by industrial and urban expansion.\(^4\) Between 1984 and 2005, China’s urban built-up area dramatically expanded from 8,842 to 32,520 sq km, a growth by 260 percent.\(^5\) A comparison of the Landsat images taken during the 1980s and 1990s revealed that the urban land covered by 27 of China’s extra-large cities (teda chengshi) increased from 3,267 to 4,907 square kilometers between 1986 and 1996. In some cities (e.g. Dalian, Guangzhou, and Shijianzhuang), urban land use had expanded by more than 100 percent.\(^6\)

Since the 1990s, urban land expansion has been characterized and indeed driven by a

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3 Two estimates of China’s cultivated land in 1996 are quoted here, 94.97 and 130 million hectares. The former was provided by the statistical authorities and the latter derived from the land survey conducted by the Ministry of Land and Resources. If the figure from the land survey is accepted, then the figure reported by the Chinese statistical authorities would suffer from an underestimate by 35 million hectares or 37 percent. For detailed discussions, see Gerald Heilig, “Anthropogenic factors in land use change in China,” *Population and Development Review*, Vol. 23, No. 1 (1997), p. 143; Robert F. Ash and Richard L. Edmonds, “China’s Land Resources, Environment and Agricultural Production,” *China Quarterly*, No. 156 (December 1998), p. 844; Vaclav Smil, “China’s agricultural land,” *China Quarterly*, No. 158 (June 1999), pp. 417; George C.S. Lin and Samuel P.S. Ho, “China’s land resources and land use change: insights from the 1996 land survey,” *Land Use Policy*, Vol. 20, No. 3 (2003), p. 92. The point made here is the trend of farmland loss.


5 The concept of “urban built-up area” (chengshi jianchengqu) is defined by the Chinese statistical authorities as “an area within the municipal jurisdiction covered by the land obtained through state expropriation and other construction land actually developed for non-agricultural activities, including the continuous and concentrated land within the urban district as well as other urban construction land scattered in the suburb but with close urban linkages and covered with some well established urban facilities (eg. Airport, sewage disposal stations, telecommunication stations, etc.).” See China State Statistical Bureau, Zhongguo tongji nianjian (China Statistical Yearbook) (Beijing: China Statistical Press, 2006), p. 459. The data are from pages 101 and 395. The growth rate quoted here is the result of both the expansion of the land of existing cities and the urban land reclassified from the official designation of new cities.

“fever” of setting up numerous “development zones” (kaifa qu) all over the country.\(^7\) An earlier investigation conducted by the State Land Administrative Bureau in 1998 revealed that, of the total 4,210 development zones found in China in 1996, only 1,128 had central or provincial government approval. In other words, only one-third of the development zones had got official approval and the other two-thirds were set up unofficially or illegally.\(^8\) These development zones had a total planned land area of 12,357 square kilometers, of which only 2,322 square kilometers or 20 percent had actually been used. Much of the land encircled for development zones had been left idle or had never been used efficiently. Of the land used for development zones, 55 percent had been converted from cultivated land.\(^9\) About two-thirds of the development zones were found on the eastern coast. On average, each province had about 30 development zones and some provinces had as many as 100 zones each. By the year 2005, China reportedly had a total of 6,866 development zones with a planned area of 38,600 square kilometers—an area larger than the total urban built-up area of existing cities and towns estimated at 31,500 square kilometers.\(^10\)

Land development has become one of the main sources of corruption and social discontents. With land sale contributing to an important part of local revenue, local governments at various administrative levels have every motive to engage in land development legally or illegally. Official statistics showed that, during the years of 1995-2002, nearly a million cases of illegal land occupation and transaction were uncovered involving a land area of 189,000 hectares, an equivalent of 42 percent of the land acquired legally through land conveyance.\(^11\) The actual situation was most likely worse than what was officially reported. A survey conducted in 2005 and involving 1,962 farmer respondents in 17 provinces found that incidents of land takings had increased more than 15 times during the past 10 years and they continued to accelerate.\(^12\) In the first nine months of


\(^8\) See Hong Li, “Woguo kaifaqu buju ji tudi liyong xianzhuang fenxi yu yanjiu (A study of the location and land use pattern of development zones in our country),” *Zhongguo tudi kexue (China Land Science)*, Vol. 12, No. 3 (1998), pp. 9-12.\(^9\) Ibid, p. 11.

\(^10\) Unirule Institute of Economics, *Chengshihua beijingxia tudi chanquan de shishi he baohu (Operation and protection of land property rights in China’s urbanization)* (Beijing: Unirule Institute of Economics, 2007), p. 20.


2006, China reported a total of 17,900 cases of “rural mass incidents” in which 385,000 farmers protested against the government. The majority of these incidents, nearly 80 percent, were related to illegal land-takings. At a press conference held in Beijing on 12 July 2007, Xu Zhaoshi, China’s newly appointed Minister of Land and Resources, openly admitted that, of all cases of illegal authorization, occupation, and transaction of land, state organizations and local governments had actually been the chief violators accounting for 80 percent of the total land area involved whereas the remaining 20 percent involved individuals or enterprises. Indeed, land development has become such an important source of the social discontents recently escalating and mushrooming throughout the country that it threatens China’s long term interests in sustainable economic growth and social stability. While responsible policy makers are posed with the challenging task to come up with immediate and effective solutions, serious scholars are pressed for innovative logical explanations.

The processes of accelerated urbanization and massive land development taking place in post-reform China have attracted great scholarly attention (Cartier, 2001; Zhu, 2002 and 2005; Deng and Huang, 2004; Lin and Ho, 2005; Wu, Xu and Yeh, 2007; Lichtenberg and Ding, 2008 and 2009; Yang and Wang, 2008; Lin, 2009a; Hsing, 2010). The prevailing view is to interpret massive land conversion as a consequence of urbanization driven by population migration. The actual practice has been more complicated, however. Fiscal policies and the regulation of the rights to use urban land have been some of the approaches adopted by local governments to promote urbanization. Land-leasing has strengthened the local tax base and helped boost government income to develop and maintain the urban infrastructure (Wu, 1999 and 2010; Peterson, 2007; Wu, Xu and Yeh, 2007; Lin, 2009b). Land-centered urbanization has become a state project widely pursued and practiced to generate locally-controlled fiscal revenue and accumulate the capital needed to finance local economic growth.

This study attempts to examine the practices of land-centered urbanization in the transformation of a regional economy in southern China where institutional reforms and marketization have been introduced earlier than elsewhere in the country. The objective is to identify the pattern and processes of land development, probe into its social and political origins, and evaluate its effects on the growth and redistribution of the regional economy.

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The balance of this paper is organized in three parts. It begins with a critical assessment of the existing research on Chinese urbanization. This is then followed by a clarification of the definitional and methodological issues that concerned this research. Attention is then turned to the actual case of Guangdong Province where territorialization and urbanization have been actively pursued as a strategy of capital accumulation in response to the reshuffling of state power since the 1994 tax-sharing system was introduced. Findings of the research are summarized and their conceptual implications discussed in the end.

**Understanding China’s Urbanization and Land Development**

Until recently, research on Chinese urbanization has been focused on the definition of the urban population, accurate estimation of the magnitude of urbanization and the growth and distribution of rural-urban migration (Zhou and Ma, 2003; Chan and Hu, 2003; Chan, 2007; Fan, 2008). Population migration is considered a key measurement of urbanization. As the Chinese economy is inherently political, research on the mechanism of urbanization has been focused on changes in the Chinese political economy (Ma, 2002; Lin, 2002; McGee, et al, 2007; Walker and Buck, 2007). The imperative of economic growth as one of the driving forces of urban development has been highlighted and evaluated (Chan, 1992; Pannell, 2002; Lin, 1998 and 2002). In recent years, new attempts have been made to apply some influential Western political economic theories such as capital switching, urban growth machine, urban regime, and neo-liberalism to explain China’s ongoing urban transformation (Zhu, 2002 and 2004; Ma and Wu, 2005; Wu, Xu and Yeh, 2007; McGee, et al, 2007; Wu, 2008). However, relatively less has been done to analyze the role played by land development in the process of urbanization, municipal finance, and local capital accumulation (Lin, 2009b; Wu, 2010).

In contrast to the research on China’s urbanization for which abundant materials are available from regular population census, studies of China’s land had long suffered from the lack of reliable and systematic information. Official statistics of China’s cultivated land has been found unreliable because it under-reported the actual amount by nearly 40 percent (Ash and Edmonds, 1998; Smil, 1999; Lin and Ho, 2003). A limited and piecemeal empirical base has naturally given rise to a body of literature found to be “fragmented and isolated” (Ho, 2005, p.8). On one hand, important effort has been made to examine how China’s rural land has been used (Brown, 1995; Ash and Edmonds, 1998; Smil, 1999; Po, 2008; Wang and Scott, 2008; Yang and Li, 2000). Researchers are divided, however, between some who see the ambiguous collective ownership of land as
the root cause of the inefficient use of the rural land and others who stress the social embeddedness of property rights assignment and its inconclusive relationship with land use efficiency (Kung and Liu, 1997; Ho, 2001; Zhu, 2002; Cai, 2003; Ho, 2005). On the other hand, a separate strand of research has been undertaken by planners and geographers to examine the commercialization of housing provision in Chinese cities, assess the emergence of the urban land market, and evaluate the pattern and processes of urban land development (Wu, 1996; Zhu, 2002 and 2005; Ho and Lin, 2004b; Hsing, 2006 and 2010; Haila, 2007). In the existing literature, urban and rural land has often been treated in a separate manner for focused studies. Given the fact that sectors are interconnected and that much of the land used for urban development has actually been expropriated from the rural sector, it would not be possible to fully understand the complex processes of land development without a close scrutiny of how land is taken away from the rural collective at low cost for high-valued urban development. Moreover, the financial motives for urban expansion at the cost of rural land and the consequences of urban development on regional inequality as well as social stability have remained highly sensitive and yet significant topics for serious investigations.

As an essential part of China’s institutional reforms, the reformulation of central-local fiscal relations since the 1980s has attracted great attention from the economists and political scientists with special interests in China. The reform of the central-local fiscal relations started in the early 1980s when the “system of fiscal responsibility” (caizheng baoganzhi) was introduced, under which provincial governments were allowed to retain surplus revenue after a lump-sum remittance (fixed for five years) had been made to the center. Subsequent research has shown that fiscal decentralization had significantly aroused local developmental enthusiasm, augmented local revenue, and weakened the financial capacity of the central state (Wong, 1991; Wong, Heady, and Woo, 1995; Chung, 1995). A landmark event occurred in March 1994 when Beijing confronted its provinces and introduced a new “tax-sharing system” (TSS, or fenshuizhi) with which localities were requested to pay taxes proportional to local income instead of a fixed lump-sum remittance (Chung, 1994; Tsang and Cheng, 1994). Recent studies have shown that the introduction of TSS has fundamentally altered China’s central-local fiscal relations (Wong, 1997; Zhang, 1999; World Bank, 2002; Tsui and Wang, 2004). It has substantially raised the central share in revenue and reduced that of local governments. While the importance of fiscal re-centralization since 1994 has been widely recognized by economists and political scientists, its impacts on the developmental behavior of local governments remain poorly
understood. Geographers and planners have been pre-occupied with the tasks to study the demographic and spatial aspects of urbanization and have seldom made reference to the 1994 reformulation of central-local fiscal relation. Even the literature on central-local fiscal relations is arguably incomplete. A World Bank’s (2002) study suggested that, subsequent to the 1994 tax-sharing arrangement, sub-national governments accounted for over 70 percent of total public expenditure while collecting less than 50 percent of total government revenue. Here, total government revenue does not include the local income generated through land developments (expropriation, conveyance, and leasing) which has now become so important to local public finance that we cannot afford to miss. Without taking into consideration the role played by land developments in local public finance, any assessment of the new central-local fiscal relation must lead to partial and misleading conclusions.

The issue for investigation in this research is situated in the interface of the existing lines of scholarly enquiry concerning changes in urbanization, land use development, and central-local fiscal relations in post-reform China. In the advanced capitalist economies, it is believed that the production of the urban built environment is intrinsically related to the accumulation and circulation of capital. What has been the case in China undergoing market transition? How do we make sense of the phenomenal urban land development taking place all over the country in the recent decade? Is there any significant financial motive behind phenomenal urban land development? Conversely, where does the capital for urbanization come from? What is the role, if any, that has been played by land development in the accumulation of capital for urban and regional economic growth? In short, what is the relationship between land development and local public finance, and how does this relationship change over time and across space?

We argue that recent developments in the increasingly globalizing and urbanizing Chinese economy have brought about a new situation under which urbanization, land use change, and local public finance can no longer be understood in a separate manner. The reformulation of the fiscal relationship between the central state and local governments initially in the 1980s and further in 1994 effectively decentralized investment responsibilities and re-centralized tax collection power, making it necessary for municipal governments to pursue land development as an important means of revenue generation to finance urban economic growth and urbanization. Marketization of the land disposition system since the late 1980s has ushered in a dual-track land market with noticeable asymmetry between different market segments for lucrative arbitrage, making it possible
for municipal governments to capitalize on land as an asset for continuing economic growth and urbanization. Meanwhile, the interests of global capitalism in China as a new outlet of accumulation by dispossession have further facilitated China’s urbanization that involved not only labor but also land and capital (Harvey, 2003; Glassman, 2006; Lin, 2009a).

The result has been a shifting emphasis of capital investment from the rural to urban sector or from the countryside in the 1980s to cities especially large cities after the 1990s (Ma and Wu, 2005; McGee, et al, 2007; Lin, 2007 and 2009a; Hsing, 2006 and 2010; Huang, 2008). An integral part of this process of urbanization of capital has been a popular local practice to capitalize on the land within the boundary of the urban jurisdiction and its rural vicinity. This capitalization on land has been undertaken in at least three important ways. First, the land conveyance fee collected by municipal governments has been used to finance the development, improvement, and maintenance of the urban built environment so as to attract foreign investment and enlarge the tax base (Wu, 1999 and 2010; Lin, 2009b). Second, the urban land owned by the state has been leased out by municipal governments in a differentiated manner to different users for different purposes of use. Industrial land is usually leased out at very low cost in order to lure foreign investment. Once the inflow of foreign investment has brought about the momentum of growth and increased land value, other kinds of land would then be leased out for commercial and real estate development at high prices to compensate any loss in early industrial development. A vibrant built environment for urban economic growth can then be created to generate sustained tax revenue (Lin, 2007 and 2009a). Finally, the urban land has been used by many investment and development corporations set up by municipal governments as collateral to obtain bank loans and mobilize the capital needed for the upgrading and expansion of the urban built environment (Xu and Yeh, 2005 and 2009; McGee, et al, 2007). As such, land in contemporary urban China has been used as a crucial asset to serve the double purpose of increased urbanization and local capital accumulation. To better understand the distinct mechanism of Chinese urbanization processes, it is necessary to examine the relationship between land development, urbanization, and local public finance within different regional contexts—an important issue we intend to address in this study.

Definitional and Methodological Issues

The central question for theoretical and empirical enquiry in this study essentially concerns the way in which a Chinese regional economy is transformed in the current era of
marketization and globalization. How has the needed capital been mobilized and accumulated? What has been the role played by the development of land in the process of original capital accumulation and regional transformation? Many regional economies in China have since the 1990s experienced a common process of massive land development and dramatic expansion of city boundaries. Why has this been the case? How is this related to dynamics of regional development? What are the social and political origins of the latest wave of regional development in China and what have been its social and economic consequences?

To answer these questions, three propositions are made on the basis of prior-knowledge and common sense intuition. First, mobilization of capital through selling land is essential to the initial development of a regional economy in China, which stands in contrast with the dynamics of the urbanization of capital in the West where an over-accumulation of capital has been the norm. Second, the phenomena of city-based and land-centered urban and regional transformation observed since the 1990s owed their origins to the changing socialist political economy particularly the recent reformulation of the central-local relation that concerns capital investment and revenue remittance. Finally, a re-territorialization of capital through which land resources have been converted from the rural to urban sector tends to favor the growth of the metropolises at the expense of the periphery and therefore contributes to increased regional inequality.

The questions and propositions made above have brought up several research parameters that require clarifications. In this study, urbanization is seen as not simply a process of demographic restructuring but more of a strategy actively pursued by local governments to mobilize and accumulate the capital needed for economic growth. By expanding urban land into the rural vicinity or converting rural land into urban development, municipal and county governments have realized the appreciated land value and generated revenue. In a similar manner, territorialization is used to refer to a strategy in which urban space is either expanded into the urban fringe or created out of the rural periphery. The territorialization of capital is used to denote the extent to which capital mobilization has become increasingly dependent upon and embedded in the practice of territorialization particularly urbanization (Hsing, 2010).

The empirical case chosen for this study is Guangdong Province which is located on China’s southeastern coast with close proximity to Hong Kong and extensive pre-existing social connections with overseas Chinese in the Western world. Among China’s 31 sub-national economies (provinces, autonomous regions, and special municipalities),
Guangdong was ranked 3rd in terms of total population (including migrants) and 15th in land area in 2010. However, this southern province was ranked first in GDP, exports, and utilized foreign capital investment. Table 1 lists some of the most important economic indicators of Guangdong and measured the special position held by the province in the Chinese national economy. A quick glance of the table could easily identify the outstanding contribution of Guangdong to the national economy in exports (31 percent) and attraction of utilized foreign investment (24 percent), both are higher than its share of land (2 percent) and people (7 percent) by a large margin. Obviously, Guangdong represents a Chinese regional economy with wide exposure to the intrusion of global market forces. In fact, Guangdong’s exports generated an output value equivalent to 82 percent of its GDP in 2005. It should be acknowledged that this case study of a leading regional economy cannot be taken as representative of the entire country. Nevertheless, a study of Guangdong can generate significant insights into the nature and dynamics of the transformation of a socialist regional economy after integrating itself with the global orbit of accumulation by dispossession. Furthermore, an evaluation of the experiences, both good and bad, of a province that has moved “one step ahead” of the country in regional development can yield important lessons for other Chinese regions that are yet to negotiate with the forces of marketization and globalization.

**Table 1 around here**

The study period covers the recent two decades when the practice of territorialization of capital has become pronounced as a consequence of the reshuffling of central-local state power relations. Three sets of data will be used for analysis. They include changes in land use between 1996 when China conducted the first national land census and 2004 for which the latest land statistics are available. These data provide an important empirical base to assess the magnitude and sectorial composition of land use change which has been central to regional development over the past decade. The second set of data concerns changes in central-local fiscal relation, particularly the reformulation of capital investment and revenue remittance as well as taxation, since the 1990s. Special attention is paid to the contribution of income from land conveyance to the local extra-budgetary revenue subsequent to the reforms of central-local fiscal relations. These data are analyzed to shed light over the financial motives for local governments to engage in land development. Finally, the growth and spatial redistribution of gross domestic product are analyzed to evaluate the outcome of regional development. The tools used for data analysis include descriptive statistics, location quotients, and coefficient of variation which are commonly used in the study of
regional development. It should be noted that the population data used in this study include migrant population to avoid any distorted estimate of productivity such as per capita GDP and its spatial distribution.

Territorialization of Capital in Guangdong

Among all Chinese regions, Guangdong Province is the one illustrative of how a regional economy under state socialism could be dramatically transformed by the forces of marketization and globalization. Technologically, Guangdong does not have any attractive regional assets or competitive advantages to bring about the growth of neo-Marshallian industrial clusters, learning regions, or high-tech habitats. Geographically, the province is located in the southeastern corner of China’s mainland distant from the political and economic centers of the country to the north. Its regional conditions for industrial development are poor because no major energy and mineral deposits have ever been found. For centuries, the mainstay of the regional economy had been in agriculture and trading. In the recent history of state socialism under Mao (1949-76), Guangdong had never been a favored destination of state capital investment and regional development partly because of the region’s vulnerable frontier location with undesirable proximity to the former capitalist enclave of Hong Kong and partly because of its lack of the energy and mineral resources basic to modern manufacturing. For geographical and historical reasons, Guangdong does not have an experienced and well-educated industrial labor force. Nor does it have any advanced technological and economic infrastructure that was believed to be so essential to innovative industrial growth and competitive regional development.

The south China region is not without its own strength, however. Because of its frontier coastal location, Guangdong is arguably the province least attached domestically to the national center of the socialist economy and the most well connected globally with the outside capitalist world. Historically, Guangdong has been, along with Fujian, the main origin of the Chinese diaspora widely scattered in North America, Europe, and Southeast Asia (Ma and Cartier, 2003; Lin, 2002). An overwhelming majority of the people in Hong Kong has been either immigrants from Guangdong or their descendents. The existence of Guangdong’s global social connections, coupled with its geographic proximity to Hong Kong and Taiwan, has allowed the region to enjoy an accessibility much better than its peers in the country in terms of external capital mobilization, information about the global market, 15

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15 An earlier geographical analysis of state capital construction investment among China’s seven macro regions during 1953-1975 placed the South China region (Guangdong, Hainan, Fujian, and Guangxi) in the
advanced technological know-how, and modern managerial skills. Although the region does not have a well-trained and highly educated industrial labor force, there is pre-existing social capital to be tapped on for the establishment of global business networks bridging the Chinese regional and national economy with the outside capitalist world.

The frontier coastal location of the region has also enabled Guangdong to engage in ocean transportation, international trade, market farming, and commercial activities well ahead of other Chinese regions. Guangzhou, the capital city of the province, was one of the earliest port cities developed long before human settlement in Shanghai took its shape from the lower Yangtze delta. It was the very first port city reached by the Portuguese in 1516 and by the American in 1784. When the entire coast of China was closed in 1757 by the Qing Empire for defense reasons, Guangzhou was the only port city that remained open for trade with the outside world. When the Treaty of Nanking was signed to end the Opium War in 1842, Guangzhou was among the first five “treaty ports” opened to trade with the Western world. In the recent past of revolutionary upheaval and domestic turmoil in the early 1970s, Guangzhou was designated by the Mao regime as the only site to hold China’s biannual national export commodity fair. Despite a lack of energy and mineral resources and a poor industrial production base, Guangdong is gifted with a strong tradition in international trade, business undertakings, and making money albeit not necessarily making things.

Finally, a location in the southeastern corner of China’s mainland distant away from the political, economic, and cultural core of the nation has allowed Guangdong to enjoy greater flexibility in the pursuits of its own regional economic development. From the perspective of Guangdong, “the emperor” in Beijing is always high up psychologically and far away geographically leaving Guangdong with greater space to do things in its own way. From the standing point of the central authorities in Beijing, Guangdong is not as indispensable as key economic regions such as the “dragon head” of Shanghai, the industrial heartland in North China, the well-established industrial base in Manchuria, or even the “Third Front” in the southwest that attracted over two-thirds of state industrial capital investment during 1966-76. For this consideration, Guangdong was chosen by the post-Mao regime as a laboratory to test the feasibility of developing a socialist market economy with Chinese characteristics. Since 1979, the province has, along with Fujian, been allowed to implement “special policies” (teshu zhengce) and move “one step ahead” of the country to experience “reforms and opening up” (gaige kaifan). Such a special arrangement has been made not so much to give Guangdong any preferential treatment but to use it as a testing ground for an uncertain least favored position with the smallest share of state capital investment (Lin, 1999, p. 676).
idea that carries a risk of failure. To the post-reform regime, Guangdong was the chosen one because any possible failure of “reforms and opening up” there would not have any devastating effect on the mainstay of the Chinese economy. Although no additional state capital investment has been committed to Guangdong since the reforms, the region has indeed been given greater leeway than before and its peers to practice market forces, attract foreign investment, promote exports, and engage with global capitalism.

The “reforms and opening up” of the regional economy in Guangdong since 1979 has occurred at a time when the world economy underwent profound structural and spatial changes. Driven by the imperative to reduce production costs, increase competitiveness, and enhance accumulation by dispossession, much of the global capital and manufacturing facilities has moved out of the established industrial cores to the less developed world in search of low-priced labor force and cheap land. In the Asia Pacific, the “flying geese” led by Japan and the NIEs (Hong Kong, Singapore, Taiwan, and South Korea) were also going through a process of deepened spatial division of labor, cross-border production out-sourcing, and vertical as well as horizontal disintegration. It was against this global and regional context that a newly opened Guangdong with its favorable regional conditions has been dragged into the global theater of accumulation by dispossession and turned into an industrial powerhouse pivotal not only to the integration of the Chinese economy into the world but also to the penetration of global capitalism into the socialist territory. It is not clear whether or not a strong partnership has been formed between lead firms of multinational corporations and local Chinese firms in Guangdong to make it qualified for the “strategic coupling” identified by Coe et al (2004) and Yeung (2006) in their discussion of the dynamics of sustained regional development. Suffice to say that the regional conditions existing in Guangdong have clearly matched not only the national interests in re-joining the outside capitalist world but also the strategic needs of global capitalism in the Chinese territory. This match between indigenous regional conditions and external socio-economic situation has set the scene for original capital accumulation, land-centered politics, and uneven regional development in Guangdong in the recent two decades.

**Regional Economic Growth and Land Development**

The process of land development in Guangdong since the reforms has taken place initially in the towns and villages of the countryside, particularly in the extended
metropolitan regions of the Pearl River Delta in the 1980s. Politically, the rural areas have always had the weakest links with the state in terms of both central supports and control, which made it both necessary and possible to pursue locally driven economic growth. The rural areas have also been the places where economic reforms were initiated earlier and more successful than their urban counterpart. Furthermore, foreign investment as one of the main sources of capital mobilization was pioneered by investors from Hong Kong in the early years of the opening up. Many of the rural townships and villages in the Pearl River Delta region have been the hometowns of Hong Kong investors and therefore become the destination of foreign investment. Finally, land and labor in the countryside were easily accessible to developers domestically or internationally. As a result, regional economic development in Guangdong in the first decade of reforms and opening up was characterized by dramatic growth of the rural economy. The magnitude and extent of rural industrialization and urbanization of the countryside in Guangdong throughout the 1980s were so phenomenal that the leading positions held by large cities such as Guangzhou, Foshan, Jiangmen, and many others had been effectively challenged and undermined. The peculiar experience of rural industrialization and urbanization in Guangdong has been the subject of extensive documentation and various interpretations ranging from the enthusiastic observation of a surprising “trickle-down” effect at such an earlier stage of economic growth to the proposition of “region-based urbanization” as a viable alternative to city-based urbanization.

It was not until the mid-1990s that cities in Guangdong had finally taken on seriously

20 See, for example, the work of Xueqiang Xu and Siming Li, “China’s open door policy and urbanization in the Pearl River Delta region,” International Journal of Urban and Regional Research Vol. 14, No. 1 (1990), pp. 46-69; Terry G. McGee, “The emergence of desakota regions in Asia: Expanding a hypothesis,” and Kwan Yiu Wong and Jianfa Shen (eds), Resource Management, Urbanization and Governance in Hong Kong and the
the challenges posed by their rural counterparts. The response of the urban economy to the competitions of its rural counterpart has taken various forms, among which three are directly relevant to land development. To make cities attractive to foreign investment, many municipal governments have set up Economic and Technological Development Zones (jingji jishu kaifaqu) with a scale larger and an infrastructure better than their rural counterparts. Since the inner city has suffered from the problems of congestion and pollution, most of the newly established development zones are located in the outskirts of the city with easy accessibility to ports and other transport facilities. A prime example has been the Huangpu Economic and Technological Development Zone that established in 1984 in the outskirts of Guangzhou. Although many of these development zones have given concessions in land leasing and taxation to foreign investors, the subsequent inflow of capital investment and the agglomeration economies brought about as well as the upward effect on the land price in the city have been sufficient enough to make a long term profit for the city. As such, the land development involved in the setting up of “development zones” has served the double purpose of mobilizing capital from foreign investors and property appreciation for local revenue generation.

The second urban response to rural competition has been to substantially improve, upgrade, and expand the urban built-environment so that the comparative advantages associated with the city and the urbanization economies are further enhanced. The approach adopted was similar to the practice of “place-making” and “place-promotion” already well documented in the literature of urban entrepreneurialism in the West. The

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21 The concessions offered to foreign investors usually included a total tax exemption in the first three years of entrance to the zone and a 50 percent tax exemption for the following two years. The Management Committee of the zone (i.e. Kaifaqu Guanweifei) is given by the central government the special authority to approve the establishment of foreign ventures in the zone up to a certain limit (e.g. US$30 million per project) beyond which central approval will need to be sought. The inclusion of real estate and commercial activities into development zones has been an interesting and arguably more profitable practice widely opted. The establishment of a development zone usually starts with the leveling of land and the set-up of an infrastructure (road network, electricity, sewage discharge system, etc.) which requires capital investment. One of the popular approaches adopted is to form a partnership or joint venture with some foreign developers who can provide the needed capital. The other approach is to use land as collateral and obtain bank loans from domestic or foreign sources. Once the infrastructure has been set up, the land within the zone will have a higher value than before and will generate profits when it is “sold” (i.e. conveyance) or leased out to commercial users. For detailed discussion, see Carolyn Cartier, “‘Zone fever’, the arable land, and real estate speculation: China’s evolving land use regime and its geographical contradictions,” Journal of Contemporary China, Vol. 10, No. 28 (2001), pp. 445-69 and George C.S. Lin, Developing China: Land, Politics, and Social Conditions (London: Routledge, 2009).

Chinese case is distinguished, however, by a direct involvement of the municipal
governments not simply as planners but also as investors and developers. Since the 1990s,
large cities in Guangdong and particularly in the Pearl River Delta region have engaged in
the upgrading and expansion of their urban ring-road networks to break the bottleneck
existing there for decades because of the Mao’s strategy of urban containment. Once the
bottleneck has been removed, new urban space has been created to enable the development
of a large number of urban entrepreneurial projects such as new city centers, shopping
malls, commercial housing, and all kinds of urban amenities. In the capital city of
Guangzhou, a new urban developmental strategy was formulated in the 1990s aiming at a
substantial upgrading and expansion of the city’s built-environment. The strategy has
been implemented through the development of three ring-road networks, a metro railway
system, a new city center, a 63-story high Tower of China International Trust and
Investment Corporation (CITIC) as the signature building of the new central business
district, an International Convention Center, Olympic Sport Stadium, international airport
with the largest capacity of freight and passenger transport in the region, and a new port in
Nansha. Improvement of the urban built-environment has helped Guangzhou to
reassert its leading position as a regional center of transnational capital and multinational
corporations. Moreover, an upgraded urban built-environment has had an immediate effect
of boosting land property prices for the city and therefore contributed to the growth of the
urban economy and generation of revenue for the municipal government. Although the
improvement and upgrading of the urban built-environment require capital input which
usually takes the form of loans from state banks, the overall outcome of urban
development has significantly benefited the municipal governments in their attempts to
enhance urban competitiveness, attract global capital, and generate local revenue.

Finally, the urban housing sector as one of the defining features of the Chinese cities
under socialism has been subject to commodification and commercialization. After
practicing the socialist strategy of industrialization with controlled urbanization for decades
when state capital investment was concentrated in industrial production at the expense of
urban housing provision, the pent-up demand for housing in all Chinese cities has been

23 See discussions in Piper Gaubatz, “China’s Urban Transformation: Patterns and Processes of Morphological
Change in Beijing, Shanghai and Guangzhou,” *Urban Studies*, Vol. 36, No. 9 (1999), pp. 1495-1521; George
C.S. Lin, “Toward a post-Socialist city? Economic tertiarization and urban reformation in the Guangzhou
Metropolis, China,” *Eurasian Geography and Economics*, Vol. 45, No. 1 (2004), pp. 18-44; and Xu and Yeh,
“City repositioning and competitiveness building in regional development: new development strategies in
Guangzhou, China”.


enormous. The cities in Guangdong are among the first in the country to commercialize the urban housing sector because of the central allowance to practice special policy, the local established tradition in trading, and, most importantly, geographic proximity to Hong Kong as the source of capital, information, and buyers. By commercializing housing provision, municipalities have managed to turn housing development from a burden of social welfare into a major source of revenue generation and hence original capital accumulation. This has been done in two important ways. Municipal governments could take land from the public sector of free administrative allocation (*huabao*) and lease it out through conveyance (*churang*) to the commercial sector for housing development. The price difference between free administrative allocation and paid conveyance has then contributed substantial profits for the municipal government to make. There is another way of housing development that is even more lucrative. Municipal governments can use its exclusive authorities given by the state to expropriate land from the rural vicinity at low cost and lease it out through conveyance to developers for commercial housing developments at a high price. The difference between the cost of land expropriation and income from land conveyance can be another source of profits and revenue generation.24

Despite their difference in time and space, rural industrialization and urban development in Guangdong have both involved a conversion of land from the agricultural sector for industrial, transportation, housing, commercial, and other non-agricultural uses. While rural industrialization and urbanization involved a scattered and widespread conversion of the agricultural land in the countryside, the location and expansion of urban development zones, ring-road networks, and commercial housing estates in the outskirts of large cities have pushed the urban land to grow outward to encroach on the agricultural land in their rural suburb at a large scale. When existing urban land has been used up, the municipal government will make administrative changes to expand its jurisdiction and incorporate suburban counties into the urban districts. The result is an inter-twined process of city-driven land development and urban spatial expansion.

*The twin of land development and urban administrative expansion*

The process of land development described in the foregoing section can be illustrated

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24 Land conveyance fee is essentially a top-up price over the land after covering the cost of land expropriation (and infrastructure preparation if any). For a detailed discussion of the difference in prices between land expropriation and land conveyance, see George C.S. Lin and Samuel P.S. Ho, “The state, land system, and land development processes in contemporary China,” *Annals of the Association of American Geographers* Vol. 95, No. 2 (2005), pp. 411-36.
with the data and information collected from Guangdong. Given the centrality of land in local revenue generation and its sensitivity to state monitoring, it is no easy task even for the central government to know how exactly much land every locality has and how much of it has actually been used for development purposes. It was not until the early 1990s that the central state became determined to undertake a nation-wide land census to find out detailed information about China’s precious land resources. It took nearly eight years for the census to complete for all localities in the country. The result was then adjusted to a standard time of 1996 in a manner similar to a population census (Lin and Ho, 2003). Table 2 analyzes the land use data for Guangdong and its core region of the Pearl River Delta (PRD) for 1996, the census year, and 2004, the latest year for which data are available. In a time span of eight years, agricultural land shrank by 242 thousand hectares or 1.6 percent whereas the land used for industrial and urban developments expanded by 220 thousand hectares or 19 percent. At the same time, land used for transportation increased by more than 31 thousand hectares or 40 percent. As there was little unused land, the picture unfolded from the data in Table 2 has been characterized by a substantial conversion of land from agriculture for industrial, urban, and transport developments.

[Table 2 around here]

Within agricultural land, the biggest drop lied in cultivated land (6.7 percent). Although there was an increase in the land used for orchards and plantations (yuan di) as a result of the growth of market farming and the commercialization as well as diversification of the agricultural economy, the loss of cultivated land and forest exceeded the gain of orchards and other agricultural land by two-thirds (Table 2). Obviously, much of the lost cultivated land has been used for non-agricultural purposes such as industrial, urban, and transport developments. For the land used for industry and settlements, the biggest increase occurred in “stand-alone industrial and mining sites” (duli gongkuan) (58 percent), the growth of towns (52 percent), and the expansion of cities (21 percent). Clearly, much land has been taken away from cultivation to set up industrial and development zones, build highways and roads, and support the growth of cities and towns. Geographically, land development has been focused on the Pearl River Delta region. Of the reduction of agricultural land in Guangdong, more than half (58 percent) occurred in the Pearl River Delta region. In a similar manner, expansion in industrial and urban land in the delta region accounted for 77 percent of the provincial total. The intensity of land use change is mapped out in Figures 1 and 2 where the Pearl River Delta stands out clearly as the region with some higher than the average rates of the decline in cultivated land (Figure 1) and increase in industrial and urban
construction land (Figure 2).

Theoretically, the expansion of the land used for industrial and urban development can take two forms, namely the sprawl of existing cities and towns or the establishment of new cities and towns. It is interesting to note that, in the case of Guangdong, land use development has been dominated overwhelmingly by the sprawl of existing cities and towns. Few, if any, new cities or towns have been set up in recent years. On the contrary, existing cities and towns have been either annexed by central cities or merged to form bigger ones.

Table 3 lists the number of cities and towns of different administrative levels for the years 2000-05. While the total number of prefecrural cities (diji shi) remains constant, three important changes have occurred. The number of county-level cities and counties has declined; the number of the urban districts made up a city of large scale has increased; and the number of towns has reduced. This pattern suggests that there were two simultaneous phenomena, namely existing county-level cities and counties have been turned into urban districts, many of which are in large cities, and existing towns have been either turned into urban districts or merged to form bigger towns. In other words, existing cities and towns, particularly the larger ones, have expanded their urban space by incorporating those smaller ones in their vicinity.

The recent expansion of the urban space in some large cities and towns in Guangdong as revealed in Table 3 is closely inter-related with the pattern of land use conversion identified in Table 2. The conversion of agricultural land for industrial and urban development has taken place primarily in the outskirts of large cities where the demand for land has been high. Once the agricultural land within the municipal jurisdiction has been run out, new land resources have to be found beyond the municipal boundary and the boundary has to be broken through major administrative changes. This has been made possible by some forceful annexation of both county-level cities and counties in the suburban areas of a central city and a transformation of them into the urban districts under the direct control of the central city. This approach has been adopted by the central and large cities in the Pearl River Delta region. It started in the central city of Guangzhou where major administrative change was announced on 21 May 2000 to incorporate two of its suburban cities (Huadu to the north and Panyu to the south) into the urban districts. This practice was soon followed by many other cities in the region. On 22 June 2002, Jiangmen, a prefectural city, announced its annexation of Xinhui—a suburban city with a much bigger land area. An even more drastic and controversial administrative change was made on 8 December 2002.
when Foshan—also a prefectural city with a small urban built-up area, incorporated four suburban cities (Nanhai, Shunde, Sanshui, and Gaoming) and turned them into urban districts under its direct control. \(^{25}\) Figure 3 shows the process of urban annexation taking place in the delta region since 2000. It is this process of annexation of suburban economies by central cities that explains the increase of urban districts and reduction of county-level cities, counties, and towns.

[Table 3 and Figure 3 around here]

**Social and political origins**

The interrelated phenomena of land development and urban expansion identified above have to be understood in the broader context of a changing socialist political economy, particularly the reformulation of central-local fiscal relation that concerns investment and taxation. In the earlier era of state socialism and central planning, investment in capital construction (*jiben jianshe touzhi*) was primarily a business handled by the central state through its budgetary allocation. Prior to the institutional reforms in the late 1970s, central budgetary allocation accounted for over 80 percent of China’s investment in capital construction (Figure 4). Under that system, local governments had no authority nor ability to mobilize capital for its own investment. That system allowed the central state to maintain tight control over capital investment to fulfill its developmental agenda. However, it was unable to respond adequately and efficiently to various local demands for regional development. To arouse local enthusiasm for economic development, the central state has since the late 1970s relaxed its control over local developmental affairs, decentralized the power of decision-making, and shifted its responsibility of capital investment to the locality. Local governments are now allowed and indeed encouraged to explore their own ways of capital mobilization for investment. Consequently, the share of central budgetary allocation in capital construction declined substantially from over 80 percent in 1976 to less than 10 percent in 1992 (Figure 4). For Guangdong, the contribution of state budgetary allocation to the investment in capital construction dropped from 65 percent in 1978 to less than 5 percent in 1992 (Figure 5). With the gradual withdrawal of the central state as a provider of capital, local governments have to find all possible ways of capital mobilization and accumulation including bank loans, foreign investments, and land development.

\(^{25}\) It is interesting to note that Nanhai, Shunde, and Sanshui have been some of the most rapidly expanding county-level economies that occupied leading positions not just in Guangdong but in the nation. In contrast, Foshan had a much smaller economy and land area. This administrative change was so controversial that it involved the direct intervention of both the provincial and central authorities.
The shift of investment responsibility from the central to local governments was initially compensated by a system of “fiscal contract” (caizheng baogan) in which local governments were allowed to retain their surplus revenue after a fixed lump-sum revenue has been remitted to the central state. The system provided great incentives to local governments for revenue generation. Because the “lump-sum remittance” was fixed for a period of time, the surplus revenue retained by local governments has enjoyed dramatic expansion as the Chinese economy made its double-digit growth. In other words, the benefit of rapid economic growth has been enjoyed by local governments and little has been given to the central state. The turning point was in 1994 when the central state in Beijing took action to confront with Chinese provinces and introduce a “system of tax-sharing” (fenshuizhi) to replace the previous “system of fiscal contract”. The decision was made at the Third Plenum of the Fourteenth Party Central Committee in November 1993, turned into a budgetary law (yusuanfa) at the second plenary session of the Eight National People’s Congress in March 1994, and implemented one month later.

The impact of implementing the new “system of tax-sharing” since 1994 on China’s national and regional development has been far-reaching. It has become a watershed in the formulation of central-local fiscal relation in the post-reform era. Figure 6 analyzes the changing division of central and local revenue since 1978. During the earlier years of the reforms in 1978-1994, local governments retained the bulk of the revenue generated under the arrangement of “fiscal contract” (caizheng baogang). It was the year 1994 when the central state managed to use its power and claimed for a share of the revenue roughly equal to that of local governments. Obviously, much of the revenue generated locally and retained

26 Guangdong was among the first allowed to practice the “system of fiscal responsibility” (caizheng baoganzhi) in 1980. Under this arrangement, a fixed sum of revenue was negotiated and agreed between the central and provincial governments for remittance to the central. This lump-sum remittance was fixed in amount for five years. Since the remittance was fixed not by ratio but by amount, the locality was greatly encouraged to raise more revenue because any surplus generated could be retained within the province. As the economy expanded later, this arrangement became to the disadvantage of the central because the share of the surplus increased but the amount of remittance remained fixed. It was subsequently changed and replaced in 1994 by a “system of tax-sharing” (fenshuizhi) in which localities were mandated by law to transfer to the central taxes proportional to local income. For detailed discussions, see Jae Ho Chung, “Beijing confronting the provinces: the 1994 tax-sharing reform and its implications for central-provincial relations in China,” China Information, Vol. 9, No. 2/3 (1994), pp.1-23; Yi Liu and George C.S. Lin, “Changing central-local relation in post-reform China: a geographical perspective,” The Journal of Chinese Geography, Vol. 8, No. 3 (1998), pp. 203-20; Shi-Ki Tsang and Yuk-shing Cheng, “China’s tax reforms of 1994: breakthrough or compromise?” Asian Survey, Vol. 34, No. 9 (1994), pp. 770-88; Le-Yin Zhang, “Chinese central-provincial fiscal relationships, budgetary decline and the impact of the 1994 fiscal reform: An evaluation,” China Quarterly, No. 157 (1999), pp. 115-41; Xiao Bin Zhao and Li Zhang, “Decentralization reforms and regionalism in China: a review,” International Regional Science Review, Vol. 22, No. 3 (1999), pp. 251-81; Becky P.Y. Loo and Sin Yin Chow, “China’s 1994 tax-sharing reforms: one system, different impact. Asian
locally to finance regional development has since 1994 been taken away by the central state. Under this new situation, local governments have to look for new ways of revenue generation outside and beyond the taxable budgetary categories. It did not take long before local governments came to realize that the viable alternative would be to expand their extra-budgetary revenue in which “selling” land or, more precisely, land conveyance, was one of the most important sources of revenue generation. Table 4 assembles available data from various sources on local extra-budgetary revenue and income from land conveyance for Guangdong and China. The growth of local extra-budgetary revenue in both Guangdong and China since 1994 has been noticeable. Equally important has been the ratios of the income from land conveyance to local extra-budgetary revenue. For China as a whole, income from land conveyance took up over 26 percent of local extra-budgetary revenue during 1995-2002 for which data are available. The ratio was over 30 percent for Guangdong for the same period of time. These ratios only represented the average level of the province and the nation as a whole. For municipalities and townships in some rapidly growing economic regions, income from land conveyance must have contributed a

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27 Extra-budgetary revenue includes five main categories, namely fees collected by administrative and institutional units, self-raised funds by township governments, income from government funds, income from state-owned enterprises and their administrative departments, and other revenues. An analysis of comparable data during 1998-2004 revealed that the largest source of income, nearly 70 percent of the revenue, lied in the fees collected by administrative and institutional units to which income from land development belongs. See George C.S. Lin, “Scaling-up regional development in globalizing China: Local capital accumulation, land-centred politics, and reproduction of space,” Regional Studies, Vol. 43, No. 3 (2009), pp. 429-447.

28 It is generally known to the central government and Chinese researchers that the bulk of local extra-budgetary revenue has been contributed by income from land development. Unfortunately, the exact magnitude remains unknown. For obvious reasons, local governments have every intention to conceal the income made from land sale. It was estimated that China collected a land conveyance fee of 910 billion yuan during 2001-2003 which was the equivalent of 35 percent of China’s local budgetary revenue. Land conveyance fee collected in 2004 was 589 billion yuan or 47 percent of local budgetary revenue. See Editorial, “Tudi churangjin gaige de hongguan jinji xiaoying (The macro economic effects of reforms of land conveyance fee),” 21st Siji jinji baodao (21st Century Economic News) 4 September 2006, p. 1. Another estimate widely circulated among Chinese researchers and in the news media has been that land conveyance fee accounted for at least 60 percent of local government’s extra-budgetary revenue. See Yong Fu, “Tudi churangjin xinzheng de zhengfu zhili yunhan (Implications for the control of governments under the new situation of governance based on land conveyance fees),” Zhongguo jinji ribao (China Economic Daily) July 18, 2006 and Weiming Wang, “60% yishang-tudi churangjin jinshouru zhang zhengfu yishuanxi shouru de baifengbi (Over 60 percent-net income of land conveyance fee accounted for the extra-budgetary revenue of local governments),” Zhongguo fandichang bao (China Real Estate Daily) 6 August 2006. Ping Xinjiao, an economist from Peking University, estimated that China’s local revenue generating from land sale and land leasing in 2004 was 615 billion yuan which was 30 percent higher than China’s total extra-budgetary revenue (470 billion yuan). See Xinjiao Ping, Zhongguo difang fisanzheng de jixing jinshouru tongzheng (An assessment of the effect of China’s local extra-budgetary system and its design of indicators). Working Paper Series No. C2006018 (Beijing: China Center for Economic Research, Peking University, 2006), p. 15. Li Xun’s study of the case of Guangzhou suggested that land related income accounted for 23 to 36 percent of the integrated revenue (both budgetary and extra-budgetary) of Guangzhou municipality during 1992-1999. See Xun Li, Guangzhoushi zhengfu yishang-tudi shouyi yanjiu (A study of the land development revenue for Guangzhou Municipality). Consultancy Report (Guangzhou: Unpublished Document, 2005), p. 32. The data used in Table 4 are obviously incomplete and do not reflect the actual magnitude which is most likely higher than what is shown here.
percentage of local extra-budgetary revenue significantly higher than the average figures listed in Table 4. Clearly, land development has since the 1990s become a main source of revenue generation and capital accumulation for local governments. The practices of land development and urban expansion that characterized Guangdong since the 1990s have been driven by the motive of capital mobilization to finance the growth of the regional economy in a competitive world, and this motive has become an imperative after the reformulation of the central-local fiscal relation since 1994.

[Figure 6 and Table 4 around here]

Conclusion and Discussion

Until recently, urbanization in both the developed and less developed worlds has been conventionally seen as a phenomenon in tandem with industrialization and economic growth. Emphasis has always been placed in the demographic dimension without paying adequate attention to the role played by capital and land in the urbanization process. Important theoretical attempts were made in the 1980s to link the circuits of capital with the production of the urban built environment. However, the subsequent boom of the global economy in the 1990s had effectively shifted so much of scholarly attention to the powerful and pervasive operation of neoliberalism not only in the core but in many nations and regions of the periphery as well. Meanwhile, studies of urbanization in China have been preoccupied by concerns over rural to urban migration and land development under ambiguous property rights. The linkage between urbanization, land development, and local public finance remains poorly understood.

This study examines the transformation of a rapidly urbanizing and globalizing regional economy in southern China in which territorialization of capital has been actively pursued as a strategy to negotiate with the reshuffling of state power and intensified place competition. A detailed analysis of the data gathered from Guangdong Province in southern China has revealed a phenomenal process of land development characterized by the conversion of the land from the rural agricultural sector into industrial, urban, and commercial activities. Much of the newly developed land has been acquired through the expropriation and commodification of the land that was owned collectively by the peasant population. The income generated from the expropriation and commodification of land has become a main source of local revenue and the key to financing regional development. The ever growing demand for new land as a source of capital accumulation has necessitated a reterritorialization and urbanization practice through which central municipalities forcefully
expanded their jurisdictional boundaries into the neighboring counties and exerted direct control over their land. A contextual analysis of this process of local capital accumulation and land-centered politics has identified its underlying political and social forces, including the reformation of central-local political and fiscal relation, intensified place competition domestically and internationally, and the penetration of the global forces of accumulation by dispossession. While the (re)territorialization of capital has enabled Guangdong to grow ahead of others in the country, it has contributed to increased regional inequality, social discontents, and environmental degradation.

The findings of this empirical study have significant implications for ongoing enquiry into the processes of urbanization within a broader theoretical context. Although the urbanization of capital described by Harvey for the capitalist world cannot be blindly applied to China, the urban experience found in a rapidly growing Chinese regional economy such as Guangdong has suggested an interesting local practice in which the expansion and upgrading of the urban built environment has been used as a tool to mobilize the needed capital from foreign and domestic sources. Harvey’s concept of the urbanization of capital is characterized by the flow of a surplus capital that needs to be switched from the primary to secondary and tertiary circuits. In the Chinese context, it is the imperative to mobilize capital for regional economic growth that has motivated municipal governments to engage in the urbanization project. In contrast to the capitalist economy where individual capitalists had to constitute themselves as a class, usually through the agency of the state, to facilitate the switch of capital from the three circuits identified by Harvey, the Chinese urban experience has been characterized by a proactive role played by municipal governments that function not only as administrators and regulators of development but also as investors and developers directly involved in the production of the urban built environment.

The urbanization of capital in contemporary China has manifested itself in two simultaneous dimensions. There is, over time, a shift of emphasis in the accumulation of capital from the rural economy in the 1980s to the urban built environment in the 1990s. There is, across space, a continuing and indeed accelerate expansion of the urban built environment at the expense of the rural settlements especially those located in the close vicinity of large cities as revealed in this study. Both dimensions are featured by a popular local practice of capitalization on land. In both cases, urbanization has turned out to be not a passive outcome of economic growth, but instead a project actively pursued by local governments to attract foreign and domestic capital, strengthen place competitiveness,
and enhance the political as well as financial gains of individual cadres at different levels of the state apparatus. As China embarks upon its journey of increasing marketization and globalization, it is foreseeable that the production of the urban built environment will continue to be intrinsically linked with the imperatives of the central and local state in capital accumulation. Further studies are needed to examine how the state projects of urbanization, land development, and local public finance have re-enforced one another in the different regional contexts to yield distinct trajectories of phenomenal and never ending urban transformation.

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