

Power Concentration in Land Market as a Problem-Solving Mechanism in China

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Abstract

This study investigates the Chinese government's operational patterns through the lens of its effort to urbanize China. It argues that the changes occurred in China's land market indicates the state relies on power concentration to solve issues caused by the fragmentation in its political and economic systems. The study observes that after the Chinese government commodified its land in 1988 as a way to accumulate the essential funding for economic development, multiple socio-economic problems arose, which the central government then attempted to resolve through concentrating power over land to municipal governments. During this process, municipal governments became the legitimate owners of land in China and managed to ameliorate some existing problems. However, the power concentration also generated new issues, prompting the central state to concentrate power again through political campaigns. This thesis also argues that the concentration of power over land is consistent with the general pattern of operation of the Chinese government, which relies on political experimentation due to the fragmentation of its political system.

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Most importantly, I want to thank my parents for the sacrifice they make. This paper is dedicated to them.

Chapter I: Introduction

“Everywhere under Heaven,
There is no land that is not the kings.”¹

Prologue

In 1976, The Gang of Four was arrested and it seemed like the Great Proletariat Cultural Revolution, the unprecedented political campaign that Mao Zedong started in 1966, was finally over.

My grandfather, Xu Tianbao, was 50 years old at the time. Born in 1926, he had spent most of his adult life living under the “New China” that Mao established. During this time, he worked as a consultant engineer for the First Provincial Construction Firm and witnessed a China tarnished by social and political chaos. From the Anti-Rightist Campaign in 1950s to Cultural Revolution (1966-1976), “political struggle” instead of industrial production had become something that he had to deal with every day. His “gold age,” as he described it, was completely wasted in Mao’s China.

In 1978, Deng Xiaoping took over the shambled Chinese Communist Party (CCP) and declared that people’s thoughts need to be liberated and refocused on practical matters. This was the beginning of a new era in China. After the 3rd Plenary Session of the 11th Central Committee of CCP in 1978, CCP under Deng’s ruling initiated new economic reforms that aimed to alleviate China from the poverty. The Party gradually ditched its socialist revolutionary root and went on the path of economic development.

1. Shijing. Xiaoya. Gufengzhishi. Beishan. 诗经·小雅·谷风之什·北山 [Classic of Poetry]. Verse translated by John Williams.

Xu retired from his State-Owned Enterprise (SOE) job in 1985 at the age of 59. According to him, he was finally, truly “liberated.” However, at the time he “had a thought,” that “I had made no mistake working in chaos for 16 years. Now, finally liberated, I don’t intend to take risks to become rich. Landing on another job is the best thing to do.” In his words, “at the time if you want to enrich yourself you have to use inappropriate means. If you mess up, you will end up in jail.”²

He managed to work for several different companies in the next 16 years, and “make way more contribution” in doing real work than he did before retirement. In mid-1990s he started working for a developer named Chen who owned a real estate company, Yida, in the city of Changchun. The company wanted to develop a valuable plot of land near the city center. There were six buildings that they were trying to build allocated to six construction teams. The deal was that Yida would sparsely pay the construction teams after the projects made some progress. The money would come from bank loans with the projects themselves as collateral. When the projects were close to completion, the developer then would start to sell the buildings and pay both the loan back to the bank and the wage of the workers.

For opaque reasons, the flow of cash always seemed to be insufficient. Xu himself was unaware of the detailed reasons but according to someone working in the bank, apparently the bank charged the developer with an incredibly high interest rate at 25 percent. There were multiple lawsuits against Chen demanding their payments, but Chen just suddenly disappeared. Xu never came to know the whereabouts of him, or the money he made selling those buildings. Xu recalled that he saw mobs in action for the first time as Chen’s creditors began sending them to get their money back. Apparently, Chen’s company also knows some mobsters and they

2. Tianbao Xu, *Yi – Wudai Fengyun tanzhijian* 忆 – 五代风云弹指间 [*Memory – The Rapid Passing of Five Eras*] (Unpublished memoir in Zhuang Xu’s possession), 160.

managed to reach agreement. Xu said, “it seems like using mobs when it is necessary gets things done faster than lawsuits.” Chen’s employees and contractors waited a few more days and disbanded after receiving no update on their payments.³

Introduction

Yida’s trouble was only one of the many incidents indicating the chaos in the land development in 1990s. Across China, local governments, universities, private and State-Owned Enterprises alike had entered the “real estate craze” phase when these entities heavily invested in the real estate sector. Xu had only witnessed the tip of an iceberg. At this time, China had begun to urbanize at a rate and scale that were unprecedented in history. According to You-Tien Hsing, “the increase in China’s urban population from 20 percent to 40 percent occurred in the span of just 22 years, while the same increase took 120 years in Britain (1720-1840), 40 years in the United States (1860-1900), and 30 years in Japan.”⁴ Changchun is economically weak compared to cities such as Beijing, Shanghai and Shenzhen but the size of its urbanized area has tripled since 1990 nonetheless.

Land is an important factor of production everywhere, but its status is uniquely crucial in Chinese political economy. In late 1980s, the land market was established, and the Chinese Constitution confirmed the state’s ownership of urban land. While during the Maoist Era, the central government controlled local economic activities, local states started to enjoy more freedom in arranging the local economy with land ownership.

Land also became the channel that enables the state to monopolize administrative and economic authority. Land is one of the key ways in which the Chinese economy is directly

3. Xu, 177-178.

4. You-tien Hsing, *The Great Urban Transformation: Politics of Land and Prosperity in China* (Oxford: Oxford University Press, 2010), 2.

politicized. Mao once famously said that “whoever solves the land problem will win the peasants,”⁵ but now the significance of land in China already transcended from a problem concerning a class to that concerning every aspect of China’s economy.

This thesis attempts to investigate the political impact of what Hsing described as “the great urban transformation” on the local governance of China. Specifically, it outlines and examines the process of power concentration in the development of China’s land tenure. During the Maoist Era, local governments had limited control on the political and economic activities within their jurisdictions. However, the drastic changes that happened to the Chinese land market presented subnational states in need of revenue with the opportunity to accumulate wealth. Local states engaged in land trade with few restraints, which subsequently created much chaos that was detrimental to China’s economic and social stability.

In this context, municipal governments managed to obtain the authority to control and concentrate land in their jurisdiction while other political actors such as SOEs and township governments were no longer entrusted with such authority. During this process, the previously ill-defined “state” as the owner of land was further clarified, and in many ways power concentration addressed some problems created during the development in 1990s and early 2000s. Municipal governments were enriched and the enclosure fever for developing land was halted to a certain degree. However, urbanization, particularly the expansion of cities onto the rural fringe created new problems for both central and local government. Therefore, further power concentration is continuing with the central government putting more pressure on local governments through more political campaigns.

5. Edgar Snow, *Red Star over China* (New York: Grove Press, 1961) 70.

A deep analysis of Chinese urbanization and land politics should shed light on the general pattern of political development in China given the significance of land. As the thesis will reveal, the development pattern of Chinese political system is not linear but rather cyclical. Lacking alternative methods of information channeling and decision-making, the Chinese state, at all of its levels, has to rely on bargaining among different interest groups and experimentation when attempting to solve a political problem. While the problem-solving might be successful, it is likely to generate new problems and hence starts a new cycle of problem solving. Based on our conversations I know that this idea is central to your argument and deserves a bit more explication, otherwise it is just buried in a paragraph.

It should be acknowledged that due to its fragmented nature and the frequent use of experimentation, the development of Chinese political system displays a high degree of regional and periodical unevenness and inconsistency. Yuen Yuen Ang correctly maintains that “it is tempting to search for a single ‘model’ ...that can be replicated across all contexts and believed to produce equal success. If such a model were to exist, it would be delightfully convenient. But this is a search for a mirage.” This thesis does not seek to produce an “omnipotent” theory that is applicable everywhere in China, but rather, through comparison of subnational states, it presents a pattern that can be commonly observed across different local states in China.

The thesis relies on both primary research such as interviews and field works conducted in Changchun, China and reading secondary literature in both English and Chinese on urban development in China.

In Changchun I visited in the Exhibition Hall of Urban Planning, a place that showcases the future planning for the urbanization and expansion of Changchun. I also interviewed a person

formerly in charge of urban demolition, an influential private citizen who has been making much profit trading land with the state in a peripheral village near Changchun and several of my relatives.

Road Map

The current chapter serves as an introduction to the main argument of the thesis. The following sections will provide an overview of several influential theories concerning the Chinese political and economic system that inform the formation of the general argument of the thesis. Together they should help the readers better understand the politics of development in the Post-Mao China in general and the upcoming main argument of this thesis.

Chapter II focuses on the development period immediately following the official establishment of the land market in China. This period, roughly between 1988 and early 2000s marks the apex of fragmentation in Chinese land politics. Despite the fact that China experienced rapid growth, the chaotic nature of the land politics gave rise to several severe social issues particular in the urban fringe and rural areas that prompt the central government to initiate reforms to curtail the level of fragmentation, which subsequently made municipal governments the dominant actors in the urbanization and land development process.

Chapter III discusses the role of municipal government in land politics. The desire to control more land drives municipal governments to confrontation with various political actors in the center and the peripheral (when you read through the thesis, look out for unnecessarily pluralizations) of their territories. In some cases, certain municipal governments managed to emerge victorious while others failed to achieve a monopoly of land in their territories. Chapter III presents different methods that the municipal governments utilized to expand and maintain their territoriality, which also produced new problems.

Chapter IV is the conclusive chapter that summarizes the arguments made throughout the paper while briefly exploring the implications of some political campaigns undertaken by Xi Jinping's administration. The chapter argues that instead of the tyrant who wants to bring China back to the Maoist era as some of his critics suggest, Xi is attempting to curtail fragmentation. Through political campaigns that change political norms and behaviors, Xi orients different levels of governments and bureaucrats around the agendas of the central government.

Theories Overview

The first theory that the thesis will repetitively allude to is fragmented authoritarianism, which conceptualizes the Chinese political system not as a stereotypical, cohesive authoritarian regime where the power is concentrated to one central leader or group, but as a collective where decision making authority is fragmentedly controlled by various political organs.

Kenneth Lieberthal is one of the first scholars systematically attempted to investigate China's fragmented authoritarianism. He believes that there are three dimensions to consider when studying centralization and decentralization: "value integration; structural distribution of resources and authority; the processes of decision making and policy integration."⁶

"Value integration" examines whether different actors in the political system have "shared values" that affect their decisions. Lieberthal believes that "[v]alue consensus can basically reduce the need of the political leadership to develop additional resources to assure fidelity to their priorities and compliance with their policies."⁷ He gives the example of the Chinese state under Mao. Even when in general the center did not have adequate administrative

6. Kenneth Lieberthal, "Introduction: The 'Fragmented Authoritarianism' Model and Its Limitations," in *Bureaucracy, Politics, and Decision Making in Post-Mao China*, ed. Kenneth Lieberthal and David Lampton (California: University of California Press), 6.

7. Lieberthal, 6.

resources to ensure the compliance of lower-level state actors, strong ideological indoctrination constrained them and helped to build unity among bureaucrats.⁸

The “structural distribution of resources and authority” and “the processes of decision making and policy integration” dimensions enjoy more scholarly attention, according to Lieberthal. The former emphasizes the “formal allocation of decision-making authority” while the latter focuses on the actual decision-making and policy-making processes, i.e. negotiations between different interest groups.⁹

One agenda or problem can be under the authority of multiple political organs in China. These organs often have distinct interests in achieving certain outcomes and there may be intense conflicts between them. According to Lieberthal, “structurally, China’s bureaucratic ranking system combines with the fictional division of authority among various bureaucracies to produce a situation in which it is often necessary to achieve agreement among an array of bodies, where no single body has authority over the others.”¹⁰ As a result, the policymakers often engage in bargaining with each other to resolve their differences. The construction of the Danjiangkou Dam, observed by David Lampton, provides an example of the structural and procedural fragmentation.

The central government approved the construction of the Danjiangkou Dam in 1958 but almost immediately the project became a deadlock as controversies arose concerning various aspects of the project. One of the controversies was (keep tenses consistent) the height the dam, which was never settled “throughout much of the construction period.” “[E]ven in 1989, debate

8. Lieberthal, 6.

9. Lieberthal, 7-8.

10. Lieberthal, 8.

was still going on about whether to heighten the dam – sixteen years after construction was finished.”¹¹ The deadlock over the height of the dam was caused by the opposition to raising the height among “counties and special districts that would be inundated.”¹² Additionally, there is also substantial conflict between Hubei and Henan provinces because of the speculation that “Hubei province would get most of the flood control and electric power benefits and Henan province would get excessive numbers of refugees...”¹³ Other issues surrounding the dam, on the other hand, became the center of contention among a number of bureaus and ministries, including the Ministry of Agriculture, Forestry, and Animal Husbandry, Electrical Power Ministry, and Ministry of Water Conservancy, along with the governments of Hubei and Henan.¹⁴ All these ministries and governments have certain amount of power over the construction of the dam but there was no well-defined procedure that clearly outlines their authority and duties.

Lieberthal concludes that “[t]he fragmented authoritarian model argues that authority below the very peak of the Chinese political system is fragmented and disjointed. The fragmentation is structurally based and has been enhanced by reform policies regarding procedures. The fragmentation, moreover, grew increasingly pronounced under the reforms beginning in the 1970s...”¹⁵

11. David Lampton, “A Plum for a Peach: Bargaining, Interest, and Bureaucratic Politics in China,” in *Bureaucracy, Politics, and Decision Making in Post-Mao China*, ed. Kenneth Lieberthal and David Lampton (California: University of California Press), 45.

12. Lampton, 46.

13. Lampton, 46.

14. Lampton, 47.

15. Lieberthal, “Introduction,” 8.

While Lieberthal and other scholars attempt to conceptualize the fragmentation of the Chinese political system qualitatively, Pierre F. Landry takes the quantitative approach. Landry uses data on fiscal decentralization to measure the level of decentralization in China. He found that “the subnational share of total government expenditures (or revenue) ... is unusually decentralized, even following the 1993 reforms that sought to partially recentralize the revenue collection system.”¹⁶ In 2002 the local (subnational) governments in China were collectively responsible for nearly 70% of the government expenditures, ranking as the first among the 44 countries Landry investigated. In comparison, subnational governments in the United States, ranking as the second in terms of fiscal decentralization, were responsible for approximately 50% of the total government expenditure.¹⁷ The only authoritarian country that surpassed China on this particular index is Yugoslavia, which had a formal federalist system but collapsed in 1990. Among authoritarian regimes in history, “only Mainland China and three post-Soviet regimes (Belarus, Kazakhstan, and Tajikistan) have remained intact following these peaks (in fiscal decentralization).”¹⁸ Landry’s data suggest that China’s fragmented fiscal structure is not only unusually more decentralized than other countries, democratic and authoritarian ones alike, but also more resilient than most other authoritarian regimes.

The fragmented authoritarianism model does not suggest that the Chinese central state is weak and constantly facing the pressure imposed by the subnational governments. The upcoming chapters, particular Chapter 3, will discuss on the multiple instruments available to the central government that it uses to influence the subnational governments. While it is inaccurate to

16. Pierre F. Landry, *Decentralized Authoritarianism in China* (New York: Cambridge University Press, 2008), 3.

17. Landry, 4.

18. Landry, 7.

characterize the Chinese state as a highly organized totalitarian regime, it is also incorrect to assume that China is a confederacy where local states are free from central intervention.

The model of fragmented authoritarianism is important to this thesis because land politics in China display a fragmented pattern. Although legally all urban land in China belongs to the state and all rural land belongs to the village collectives, the Constitution does not specify what the “state” is. The confirmation of the “state” as the official owner of urban land in reality gave permission to any part of the state – municipal, county, village and township governments and their various departments – to engage in land trade. Meanwhile, other actors such as SOEs and workers also have stakes in controlling land of their own. Land politics in China is fragmented in all three dimensions that Lieberthal emphasizes: different actors value the land differently; the authority over the distribution and control of land is fragmented structurally; the policy-making processes regarding land showcase a high level of cross-sectional variation.

The fragmented nature of China’s political system leads to wide use of political bargaining among different political actors. Bargaining is associated with political actions in general. Politicians discuss political matters and sometimes resolve certain issues through term negotiation and favor trading. Lampton says that “the Chinese system is distinctive, not because bargaining occurs (which is a generic feature of politics, per se), but because frequently so many individuals and organizations must agree or acquiesce before one gets action.”¹⁹

There are several factors that Lampton believe to have contributed to this phenomenon. First, China has a large bureaucratic system with officials that are “parallel” and “interdependent.” The production of any policy outcome requires the cooperation and consensus among these bureaucrats but there is not an existing procedure or mechanism that can facilitate

19. Lampton, “A Plum for a Peach,” 35.

the generation of the outcome. As a result, the bureaucrats engage in bargaining to reach the consensus needed.²⁰

Second, different bureaucracies hold different ideological and cultural values that cause them to disagree with each other. The disagreements warrant political bargaining.²¹

Third, during the early years of the Reform, “the process of moving resources in society was still a political and bureaucratic decision in considerable measure,” while the market had yet to grow to replace socialist planning.²²

Fourth, the implementation of policy initiatives designed by the central government requires the cooperation of local elites. Vivienne Shue uses the term “honeycomb structure” to describe this dynamic relationship between local interest and the center in China. “The ‘Center’s’ capacity to impose its objectives and norms generally is quite limited; the alternative to compulsion has generally been negotiation.” Shue believes that the “honeycomb” structure caused “the implementation bias” that defines the situation in China where “every central initiative will be distorted in favor of the organization or locality responsible for implementation.” Therefore, “the implementation bias” also contributed to the fragmentation of the political system of China.²³

Fifth, “territorial administrations and vertical functional organizations (the kuai and the tiao) embody a variety of interests, and the minister (buzhang) of a ministry has the same rank in the system as a provincial governor (shengzhang).” Every local official in this complicated system needs to promote their local and departmental interest amid numerous “ministries and

20. Lampton, 38.

21. Lampton, 38.

22. Lampton, 38.

23. Lampton, 38

territorial units” that may or may not his or her vision, while also serving as a “mediator” for disputes originated from the lower levels.²⁴

Sixth, “both superiors and subordinates” in China reached the common understanding that “consultation” can yield “fairness,” which means compensation to parties that potentially have taken a loss in the negotiation. The compensation “can become the subject of protracted negotiation.”²⁵

These six factors existed prior to the Reform, but Lampton notes that the use of bargaining in China became even more prevalent in the Reform era. In Lampton’s opinion, the Reform produced some circumstances that made bargaining behavior more desirable. These circumstances are: first, the awkward juxtaposition of “a small, growing, and dynamic market sector” and “the rigidities of the still dominant administered economy;” second, the newly established legitimacy to pursue “individual, local, and organizational interest;” third, the existence of the need for “modernization and economic growth,” and fourth, the division among Poliburo Standing Committee members, the highest level political elites in China.²⁶

Meg Rithmire complemented the conceptualization of political bargaining in China by underscoring that people should not assume that the bargaining parties have well-defined interests regarding the subject of their negotiation. Instead, the bargainers consider a wide array of objectives and expectations in the “wide program of reform and transition,” which is conducive in explaining the puzzling fact that sometimes officials agree to arrangements that seemingly are not in their or the society’s interest. Additionally, parties engage in bargaining

24. Lampton, 39.

25. Lampton, 38,

26. Lampton, 39-40.

with a great degree of uncertainty about what to expect in a negotiation and what is expected of them. The uncertainty results in the wide use of experimentation when making decisions.²⁷

The politics of bargaining is important to the land politics in China because the conflicts over land bring different social groups to confrontations. Sometimes these confrontations can be extremely intense and violent. For the municipal governments to expand their urban territory, they necessarily need to negotiate with other political actors with land. The outcomes of the negotiations can determine which type of property right regime a city is.

The second theory is the “local state corporatism” theory proposed by Jean C. Oi, who uses it to conceptualize the economic development model in the post-Maoist China, which she calls “the most successful of the socialist states in implementing economic reform.”²⁸ In 1992, Oi wrote an article titled “Fiscal Reform and the Economic Foundations of Local State Corporatism in China” in which she defines local state corporatism as “the workings of a local government that coordinates economic enterprises in its territory as if it were a diversified business corporation.”²⁹

The emergence of local state corporatism, in Oi’s view, is the result of a series of fiscal reforms that happened after the death of Mao. The reforms forsook reword the previous government spending system in which local governments’ expenditures were contingent upon the decision of the center. “By the mid-1980s provinces, municipalities, prefectures, counties, and townships were subject to a bottom-up revenue-sharing system that required localities to submit only a portion of their revenues to the upper levels and then allowed them to retain all, or

27. Meg E. Rithmire, *Land Bargains and Chinese Capitalism: The Politics of Property Rights under Reform* (New York: Cambridge University Press), 25-26.

28. Jean C. Oi, “Fiscal Reform and the Economic Foundations of Local State Corporatism in China,” *World Politics* 15, no. 1 (1992): 99. DOI: 10.2307/2010520

29. Oi, 100-101.

at least most, of the remainder.”³⁰ The newly established system allowed the center to shake off some financial burden and enabled local states gain more autonomy to develop their own diversified industries in non-agricultural sectors.

Oi notes that the restructuring of the revenue-sharing system alone was not a strong enough incentive. Another important factor that encouraged the local states to expand their tax base is the secured rights to the new revenues. Oi asserts that “knowledge that they would be the direct beneficiary of increased revenues at a minimum fixed rate for three to five years was critical in prompting local governments to respond enthusiastically to the incentives embedded in the revenue-sharing system.”³¹ Additionally, government superiors started to set development quotas for their subordinates that were linked with the subordinates’ bonus pay.³² At each level of the local states, public officials promoted the growth of local industries with a “double incentive:” the revenue extracted from the industries could profit them personally and be helpful to their administrative work.

There were conflicts between the central and the local states because although it was in the corporate states’ best interest to retain as much tax revenue as possible, the local states could not be completely corporatized as they serve as the tax collection agencies of the central state. Meanwhile, despite the fact that flourishing the private sector was financially lucrative, the political atmosphere was still hostile against the very idea of a private business. The resolution of these conflicts is “the extraction of nontax revenue and collection of those taxes designated as

30. Oi, 103.

31. Oi, 113.

32. Oi, 114.

local.”³³ The next chapter will have elaborate discussion on how the local states tackled this issue.

Oi clarifies that the revenue extraction engaged by local officials does not necessarily indicate that these officials are corrupt. Similar to corporations, the local states tend to use the profit to reinvest other sectors, which is crucial to the development of rural industries.³⁴

Moreover, the success of a local corporate state, according to Oi, is contingent on the control of its enterprises. Local states use a series of methods to provide enough assistance and autonomy for their most profitable enterprises while not completely privatizing their local economies.

Meanwhile, the increased revenue helped the local states to expand and improve their bureaucratic services.³⁵

Local state corporatism captures the subtle power dynamic between the central and local states. It also offers a glance into the complicated question “what is the Chinese local state.” As presented by Oi, the Chinese local states have strong financial incentives to develop the local economy, resembling corporations. However, their actions are still bound by the central state to a certain degree and political calculations matter in their decision-making. One can still observe the presence of local state corporatism in the Chinese land politics. To many local states, land is the most important source of revenue that they can control.

The third concept that is crucial to this paper is territoriality. Territoriality is the central concept of the book *The Great Urban Transformation: Politics of Land and Property in China* by You-tien Hsing. The concept is “defined as spatial strategies to consolidate power in a given

33. Oi, 114.

34. Oi, 116.

35. Oi, 115-116.

place and time,”³⁶ echoing Weber’s definition of the state as “a human community that (successfully) claims the *monopoly of the legitimate use of physical force* within a given territory.”³⁷ China’s uniquely fragmented political and land system make the land the most important vehicle for the local states to maintain and expand their territoriality. In fact, Hsing calls the land “the foundation of local state territoriality.”³⁸ According to Hsing, the land is both an important economic resource for taxation and rent extraction, but also an administrative tool used by the local state to regulate activities occurring in its territory.

What is also significant about the territorialization of the local state in China is that cities pursue territoriality with motives other than those of financial consideration. “Local state leaders identify themselves as city promoters and devote themselves to boosting the property value.”³⁹ The officials regard success in urbanization as part of their political performance (*zhengji*) that is directly linked with their chance of promotion. Often the local states develop extravagant projects that may be financially insensible to boost their urban imageries.⁴⁰

However, as Hsing claims, “the processes that characterize the local state’s territorialization, defined as the occupation and domination of a territory, are highly contested.”⁴¹ The local state has to navigate through the interests of different social groups, because “territoriality is central to different social actors’ cultivation of resources and collective

36. Hsing, *The Great Urban Transformation*, 8.

37. Max Weber, “What Is a State?” in *Comparative Politics: Notes and Readings*, Tenth Edition, ed. Bernard E. Brown (California: Thomson Wadsworth, 2006), 84.

38. Hsing, *The Great Urban Transformation*, 8.

39. Hsing, 6.

40. Christian Sorace and William Hurst, “China’s Phantom Urbanisation and the Pathology of Ghost Cities,” *Journal of Contemporary Asia* 46, no. 2 (2016): 305. <https://doi.org/10.1080/00472336.2015.1115532>

41. Hsing, *The Great Urban Transformation*, 8.

identities, to the framing of grievances and demands, and to the choice of collective action.”⁴²

The territorialization processes and the subsequent conflicts between the states and different social actors has led to much uncertainty regarding the power of the local state, which “leaves considerable room for local state actors to try to redraw, expand, and consolidate territorial control.”⁴³ As territorialization and deterritorialization (actors losing their power over the territory) occur to different social groups, their identities and power dynamics are redefined.

Given these circumstances, Hsing challenges the orthodox view that urbanization in China is “state-led.” Instead, she proposes that it is the local state itself that is urbanized. Urbanization provides the states with an opportunity to redraw their power around land development. Successful and organized urbanization can help the local state find its identity and establish legitimacy, but failed and disorganized urbanization weakens state-building. Hsing summarizes her argument as that “the local state is built, and can be un-built by urban projects on physical, economic, political, and ideological fronts. Thus, the local state is urbanized in China’s great urban transformation.”⁴⁴

The fourth concept is the property rights regime. It is a perspective of examining a political regime through its distribution of property rights. Given the characteristic of fragmentation of the Chinese political system and the prevalent inconsistency between the making and the enforcement of laws, the property rights regimes need to be analyzed in a subnational and practical context. Meg Rithmire asserts that “it is not possible to identify a

42. Hsing, 8.

43. Hsing, 8.

44. Hsing, 9-10.

property rights regime simply by looking at a local or national legal framework. Instead, we must ascertain how property rights are extended and held in practice.”⁴⁵

Rithmire analyzes the Chinese property rights regimes by investigating their differences “in the distribution of regulatory authority and the scope of legitimate claimants.” Regulatory authority means the authoritative body that “can extend or grant legitimacy to property rights claims” while the legitimate claimants are those who claim rights over land. The regulatory authority can be concentrated or dispersed, depending on its level of power and authority fragmentation. The legitimate claimants can be restrictive and expansive, depending on its diversity. In the Chinese context, the distribution of land can be under the authority of a single government agency, or it may be under the authority of multiple bureaucracies. Similarly, actors with claims over land might be a single entity or multiple ones.⁴⁶

Rithmire reveals in her book that local states show different patterns when being inspected through the lens of property rights regime. The city of Dalian has a concentrated regulatory authority and restrictive legitimate claimants, but the city of Harbin located in the same region, the Northeast, has a dispersed regulatory authority and expansive legitimate claimants.

The last concept important to this paper is the coevolution of market and the state. Yuen Yuen Ang attempts to elucidate the complex relationship between market growth and state institution development. In the first chapter of her book *How China Escaped the Poverty Trap*, Ang tells the story of the pauper seeking financial advice from two counselors. The first one suggests that the pauper should earn his first paycheck and start from there. The second one tells

45. Rithmire, *Land Bargains and Chinese Capitalism*, 12.

46. Rithmire, 13.

the pauper to create the “prerequisites of wealth:” good education, a safe living environment and health insurance. Both these finance gurus are unlikely to help the pauper because the first one does not specify how the pauper can earn her first paycheck while the second overlooks the fact that the acquisition of those prerequisites requires wealth, which the pauper does not have.⁴⁷

Poor countries suffer from the same dilemma. The modernization theory believes that state institutions become better as the state accumulates more wealth, but the theory sheds little light on how the process of wealth accumulation begins in the first place. On the other hand, “the good governance theory” acknowledges that quality state institutions maintain the order of the market, which can subsequently grow and flourish. However, this school of thoughts neglects the fact that the construction of state institution can be a costly task that not many poor countries can afford.⁴⁸

Before Deng’s reform started in China, the country was in an economically and politically dire situation, but in a few decades, it managed to escape the poverty trap with substantial political and economic development. Ang deconstructs the Chinese development model and, disputing the two development theories presented in the previous paragraph, proposes the “theory of coevolution” to explicate the “miraculous” growth that China experienced.

The theory of coevolution between the state and the market can be summarized through a “three-step formula.” The first step is that weak state institutions enable the market to grow. The second step is that the growing market pressures the state institutions to become stronger. And

47. Yuen Yuen Ang, *How China Escaped the Poverty Trap* (Ithaca: Cornell University Press, 2016), 1.

48. Ang, 2-3.

the third step is that the strong state institutions then “preserve markets.”⁴⁹ Contrary to the “good governance theory,” Ang’s theory believes that weak state institutions can initiate market growth instead of arresting the market development. The role of strong institutions is to maintain a market rather than create one.

Ang theorizes that these three steps of coevolution were connected through a continuing process of adaptation. In her opinion, there are “three universal problems of adaptation:” “variation, selection and niche creation.” “Variation” presents the reformers with the problem of balancing between allowing flexibility and curtailing chaos. “Selection” requires the reformers to affirm the state’s goals and expectation and commit actions that will help the state to achieve its goals and expectation. “Niche creation” forces the reformers to confront the disparity and contradictions created by the variation of approaches and conditions.⁵⁰

I argue that the changes that have occurred in Chinese land politics intimates that land politics follow the pattern of coevolution identified by Ang. The liberalization of the land market diffuses the state power, and the fragmented local states with weak institutions brought the initial rapid growth of their economies. With the newly acquired resources and support from the central government, municipal governments have managed to concentrate more power in land control. The changing political institutions then help better organize the chaotic albeit fast-growing land market.

49. Ang, 14.

50. Ang, 15-16.

Chapter II: The Crimson Balconies

“I saw the crimson balconies rise,

I saw the feasting of the guests;

I have seen all lie in ruins.”⁵¹

Kong Shangren, 1699.

Contrary to common sense, the initial rapid growth after 1978 occurred in China’s vast but long impoverished countryside, instead of its urban areas. In the winter of 1978, 18 peasants in a small village of Anhui divided up the collectively owned land for individual cultivation. This politically dangerous move was met with a welcoming attitude from the party leader Deng Xiaoping. Subsequently, the socialist communes were abolished across China and the state started to allow peasants to sell their surplus produce on a market. With the proper incentives, farmers boosted China’s agricultural production exponentially.⁵²

The more efficient agricultural sector also produced more surplus labor that was absorbed by the Township and Village Enterprises (TVEs). As mentioned in Chapter I, the fiscal reforms in the 1980s sought to give local states more incentives and autonomy to pursue economic growth. However, capitalist private corporation remains a politically risky idea. TVEs were both technically still socialist as they were supposed to be owned and controlled by the state, and profitable enough on the market.⁵³ The local states reinvested profit made by TVEs to further industrialize the countryside, yielding remarkable growth.

51. K’ung Shang-jen, *The Peach Blossom Fan*, trans. Chen Shih-hsiang, Harold Acton and Cyril Birch (New York: NYRB Classics, 2015), epub, 194.

52. “Guanghui lichen: “dabaogan” kaiqi zhongguo nongcun gaige xumu 【光辉历程】“大包干”开启中国农村改革序幕 [The Glorious Path: dabaogan starting the reform in rural China],” *CCTV* online, June 23, 2016, <http://m.news.cctv.com/2016/06/23/ARTIQJRrSuDdEMjOrZ8GyNiW160623.shtml>

53. Ang, *How China Escaped the Poverty Trap*, 94-95.

Meanwhile, Chinese cities except those that were designated as the Special Economic Zones found it more difficult to develop. Many cities served as the industrial bases for large State-Owned Enterprises (SOEs), but while villages and townships had direct control of TVEs' profit, SOEs' profit was submitted directly to the central government instead of municipal governments, even though most of them were located at the city centers. SOEs also became less financially viable as TVEs consumed more of their market share.

The treatment of land as a tradable commodity instead of a means of production began similarly to how the Household Responsibility System was invented: through experimentation. The city of Fushun in 1984 started taking usage fee for land and “by 1985, the city had collected more than 10 million RMB (70 percent of which was recycled back in a city preservation and construction fund).”⁵⁴ When the then-premier Zhao Ziyang struggled to find the funding for urban development, Huo Yingdong, a Hong Kong businessman, reminded him of the paradox that China owns the land (de jure ownership confirmed in the Constitution of China made in 1982) but the government was not making money out of it. In 1986, China passed the first Land Management Law.⁵⁵

The Land Management Law of 1986 affirms that the urban land is owned by every citizen (*quanmin*) and hence by the “country/state (*guojia*).” The land in the countryside and suburb areas are collectively owned. However, the “country” can expropriate land owned by collectively “in accordance” with the law for “the interest of the public (*gonggong liyi*).”⁵⁶ In 1988, China added an amendment to Article II of the LML stating that “the use right of state-

54. Rithmire, *Land Bargains and Chinese Capitalism*, 41.

55. Rithmire, 42.

56. “zhonghua renmin gongheguo tudi guanli fa 中华人民共和国土地管理法 [The Land Management Law of People's Republic of China]” 6th National People's Congress, June 25, 1986.

owned land and collective-owned land can be transferred in accordance with the laws. The specific procedures of land use right transferal should be made by the State Council,” and that “the country adopt the system of paid land use.”⁵⁷

With the new LML, the “country/state” supposedly becomes the largest landlord that controls a massive amount of land that can be rented to individuals and businesses. However, this claim is dubious given the complicated situation regarding land in 1988. First, even though LML claims that the “country/state” owns all urban land, a large amount of urban land was in reality controlled by what You-tien Hsing describes as “socialist land masters.” These are institutions such as hospitals, schools and SOEs that occupy valuable plots of land within cities. Although the economic reform was already underway during 1980s, these SLMs might remain politically and financially powerful at the time and the municipal governments found them difficult to wrestle with.⁵⁸ Second, the word “country/state (guojia)” in Chinese is ambivalent and “it did not set out clear provisions to determine who would represent the state and, therefore, to whom the land-lease fees would accrue.”⁵⁹ Even though LML of 1988 claims that the State Council should legislate on the regulations of the land market, according to Rithmire, “[n]ational laws set no uniform regulations governing ownership, pricing, land-use planning, administration of land leasing, and so forth.” The land market was rapidly emerging in the late 1980s and early 1990s, but it was hardly coordinated by a central authority. The market was “subject to local interpretations under conditions of uncertainty.”⁶⁰

57. “zhonghua renmin gongheguo tudi guanli fa 中华人民共和国土地管理法 [The Land Management Law of People's Republic of China]” 7th National People's Congress, December 29, 1988.

58. Hsing, *The Great Urban Transformation*, 35.

59. Rithmire, *Land Bargains and Chinese Capitalism*, 44.

60. Rithmire, 44.

Despite the chaos present in the land market, the lucrateness of land trade proved to be too attractive for local governments to ignore. Rithmire's data suggests that "[i]n 1991, the third year of land-use commodification, local governments collected a total of 3.17 billion in real estate taxes, and more than 2 billion RMB in land-use taxes, 3.72 billion in real estate taxes, and more than 2 billion RMB in firm taxes collected from real estate enterprises; together, these taxes constituted 2.3 percent of the annual revenue. (43)"⁶¹ Liberalization of land trade also hugely contributed to the increase in China's Gross Domestic Product (GDP). Construction and real estate's share of China's GDP took off after the 1991, sharply rose from around 8 percent to over 10 percent in 1993.⁶²

The economic successes brought by the land market was only the precursor to what was about to come. Starting in around 1991, China entered a phase that would be called the "real estate craze." Government agents, public and private enterprises, universities and even hospitals all started to heavily invest in the real estate sector. During this period, "the number of registered real estate development companies increased from 5,128 in 1991 to 13,566 in 1992." Gross real-estate investment increased by nearly four folds from 1992 to 1995.⁶³ Investors believed that real-estate market was a money generation machine that would not fail. Meanwhile, local governments constructed thousands of the so-called "development zones (*kaifaqu*)," special areas that enjoy trade privileges. They were first created in the SEZs and became popular country-wise in the early 1990s. "It was estimated that by 1993 there were over 6000 *kaifaqu*

61. Rithmire, 43.

62. Jinxue Dong and Le Xia, *China | How resilient is the economy to housing price fall?* (Alabama: BBVA Research, 2018), 4, accessed May 9th, 2020, <https://www.bbva.com/en/publicaciones/china-how-resilient-is-the-economy-to-housing-price-fall/>

63. Rithmire, *Land Bargains and Chinese Capitalism*, 45.

nationwide, occupying 15,000 sq km of rural land, exceeding the total built-up area of all cities in China.”⁶⁴

There is an important connection between the phenomenon of “real-estate craze” and CCP’s general patterns of operation and mobilization. First, although governance in China shows a high level of fragmentation, especially during the period between late 1980s and early 1990s, political and economic successes tend to be shared across China for officials to learn. Coastal cities were able to rapidly develop through the development zones (*kaifaqu*). It quickly became a trend that many rural states started to follow. Second, Jean Oi notes that higher-level political officials set investment goals for their subordinates to reach and these subordinates could work for any branch of the governments.⁶⁵ Because economic performance was linked with an official’s chance for promotion, all government agents, regardless of the duties of their works, are committed to attracting investment. Yuen Yuen Ang calls this pattern the “beehive,” in which Chinese bureaucratic operations rely heavily on personal connections.⁶⁶ The high return in the real estate market enticed government agents to invest their money in it. Third, the banks were decentralized with a great degree of autonomy. Without much central intervention, the banks provided the local governments with the capital needed for real-estate development.⁶⁷

In combination, the factors discussed above contributed to the “development zone frenzy” and the “real-estate craze.”

The higher-level governments in this period displayed little interest in controlling the chaotic market until the bubbles became more visible. “General inflation between 1992 and 1993

64. Rithmire, 44-45.

65. See note 31.

66. Ang, *How China Escaped the Poverty Trap*, 40.

67. Rithmire, *Land Bargains and Chinese Capitalism*, 58.

was very high, exceeding 20 percent by the end of 1993.”⁶⁸ The price of property and land were increasing faster than people’s wages. Rithmire states that “...empty residential and office buildings peppered the urban landscape in major cities as all kinds of firms and institutions struggled to repay the debt they had taken on to invest in real estate.”⁶⁹

The central government, led by Zhu Rongji, initiated a series of reform to address the problems exposed during this period. Under the previous revenue-sharing system, local governments enjoyed the autonomy to function similar to corporations while the central government did not have sufficient resources to manage the inequality created. Zhu first changed the fiscal policy. Local governments are required now to turn over 75 percent of their Value-Added Tax revenues to the central government while retaining the rest 25 percent.⁷⁰ In 1993, the central government’s revenue accounts for only 22 percent of the overall revenue incomes. Zhu also put more limitation on banks’ ability to fuel the fanatic overinvestment in the real estate sector by extending credit to local governments for their development projects.⁷¹

The mid-1990s also witnessed the massive “restructuring” of many TVEs and SOEs. The successors of Deng Xiaoping were committed to more aggressive capitalist reform and they proposed to establish a “socialist market economy” in 1993. Foreign companies were given more freedom to directly invest in China, creating competition between foreign capitals and domestic SOEs and TVEs. Their profitability decreased as the Chinese market became more open. Officials began to privatize SOEs and TVEs as many of them turned from the state’s asset to

68. Rithmire, 48.

69. Rithmire, 50.

70. *Money Matters: Local Government Finance in the People's Republic of China* (Manila: Asian Development Bank), 101, accessed May 9, 2020, <https://www.adb.org/sites/default/files/publication/151515/money-matters-local-government-finance-peoples-republic-china.pdf>

71. Rithmire, *Land Bargains and Chinese Capitalism*, 58.

financial burdens. “Restructuring” was the political euphemism used to describe the process in a China that was still hostile to the capitalist intonation of the word “privatization.”⁷²

The mid-1990s reform earned Zhu the name of “the great centralizer” as the fiscal reform achieved its objective of centralizing revenue.⁷³ However, it also engendered new problems as it did not centralize expenditures. The majority of spending on social welfare and public services was still the responsibility of the local governments. They collectively were in charge of 85 percent of total government spending in 2012. Meanwhile, the reform effectively stripped the local governments of two of their essential revenue sources, TVEs and banks. They also did not have the power to adjust their tax policy to attract to investment.⁷⁴

Once again, the local governments turned to land for revenue, launching a new wave of development zone fever. “By 2003, the total area designated for development zones nationwide was estimated to have reached 36,000 sq km, compared with 15,000 sq km in 1993.”⁷⁵ Tao Ran of Tsinghua-Brookings Institute reports that although the central government claimed that in 2003 it had removed more than 5,000 development zones, the “removed” development zones simply changed their names to “urban-village industrial functioning zone (chengzhen gongye gongneng qu)” and “urban-village industry cluster zone (chengzhen gongye jizhong qu).”⁷⁶

72. Ang, *How China Escaped the Poverty Trap*, 83-85.

73. Ang, 85.

74. *Money Matters*, 110-111.

75. Hsing, *The Great Urban Transformation*, 99.

76. Ran Tao, *Zhongguo dangqian zengzhang fangshi xia de chengshihua moshi yu tudi zhidu gaige: dianxing shishi, zhuyao tiaozhan yu zhengce tupo* 中国当前增长方式下的城市化模式与土地制度改革：典型事实、主要挑战与政策突破 [*Mode of Urbanization and Reform of Land Institutions under the Current Way of Growth in China: Typical Facts, Major Challenges and Policy Breakthroughs*] (Beijing: Brookings-Tsinghua Center for Public Policy, 2011), 10, accessed May 9, 2020, https://www.brookings.edu/wp-content/uploads/2016/07/0921_china_tao.pdf

Local governments often leased their land out with low price, sometimes even for free, and lowered the labor cost by depriving labor rights and workplace protection to attract manufacturing industries. Tao Ran describes this method as the “race to the bottom” model. Many officials believe that the growth of the manufacturing sector would lead to the growth of service sector and the overall profit for the governments will exceed the loss in land-leasing. On the other hand, the governments “lease out land for commercial and housing purposes at a high price for surplus profit.”⁷⁷ The land-lease fee was part of the governments’ extrabudgetary revenue which they can retain and spend largely at their will.

The LML of 1986 explicitly states that governments below county level are not allowed to engage in land lease without permission from higher-level governments. However, village and county governments managed to build thousands of development zones nonetheless. “As to the illegal conversion, county governments were responsible for nearly half of the total, while townships and villages were responsible for 11 and 31 percent, respectively.”⁷⁸ Although rural land is formally owned by village collectives, governments have the power to expropriate land for the “interest of the public,” which remains an ill-defined concept. Effectively, the local governments could seize land from village collectives at a very low cost, providing villagers with little compensation.⁷⁹

The two waves of “development zone fever” and the real estate bubbles (yes, this, but differentiated earlier) in early 1990s have serious consequences for China. They were the defining moments of the post-Maoist Chinese political economy.

77. Tao, 4-5.

78. Hsing, *The Great Urban Transformation*, 99.

79. Li Zhang and Xianxiang Xu, “Land Policy and Urbanization in the People’s Republic of China,” *ADB Working Paper* 614, 2-4, accessed May 9, 2020, <https://www.adb.org/sites/default/files/publication/211681/adbi-wp614.pdf>

First, CCP learned about both the potency of land's economic power and the importance of control in China's political economy. "Official speeches and reports reveal that primary blame was attributed to the role of decentralized finance and low barriers to entry in the sector that created the conditions for overinvestment. Officials acknowledged that both the financial and real estate sectors were new in China and that neither sector was yet subject to appropriate regulation and supervision."⁸⁰ In other words, the Chinese government believed that more oversight and regulations were needed for the economic potential of the land market to realize, which explained Zhu's centralization reform in 1994. This further indicates that the central state has been aware of the fragmentation problem of the Chinese political and economic systems.

Second, the booming of the Chinese countryside in the late 1980s disappeared. On the one hand, important industries in the rural areas became no longer financially viable facing competition from foreign capital. On the other hand, the agriculture sector was hit hard as more local governments and political actors illegally converted arable land to commercial or industrial land. Most of the development zones built on the converted land failed to attract investors and remained undeveloped. You Tien-Hsing documents that "[a]ccording to the Ministry of Land and Resources, in the 900-plus provincial-level kaifaqu nationwide, only 13.5 percent of 2 million hectare of designated Kaifaqu area was actually developed," and there were some undeveloped development zones that "were not included in the official data."⁸¹ In other words, the land was mostly wasted at the expense of the rural population and the loss threatened China's food security. China's agriculture was not competitive in the international market as well after

80. Rithmire, *Land Bargains and Chinese Capitalism*, 52.

81. Hsing, *The Great Urban Transformation*, 99.

joining WHO.⁸² While the national economy steadily grew, the income of rural population stagnated. “The rate of farmer’s income increase declined for four straight years after 1997. 2000 saw an increase of only 43 yuan from the last year (about 5 US dollars), which was 121 yuan less than 1997’s 16-yuan increase.”⁸³

Meanwhile, mirroring the early capitalists in England a few centuries ago, interest groups and individuals engaged in enclosure activity that drove peasants off their land without proper compensation. “As a result of urban expansion, between 1980 and 2003, somewhat between 50 and 66 million Chinese peasants lost all or part of their farmland and houses. The total amount of collective land appropriated by the local and central state agencies totaled 100 million *mu*...Land grabs by local government and their development arms in rural areas...have been the source of enormous grievances and the cause of considerable social unrest.”⁸⁴ The dispossessed peasants have to migrate to urban centers to look for work.

However, the migrant workers do not have the urban household registration (*hukou*), which would have provided them with work benefit and social security. They became part of the “floating population” that never settle in one city for long before they travel to another one for new work, often subject to heavy workplace exploitation. Tao Ran’s investigation on peasant workers in the delta region of Zhujiang suggests that “among the 140 million peasant workers coming into cities, only around 2 million of them got urban *hukou* through residence purchase,

82. Xiaojuan Wu, “‘sannong’ wenti: xianzhuang, yuanyin ji zhengfu xiangguan zhengce xuanze ‘三农’问题：现状、原因及政府相关政策选择 [“Three Agricultural” Problems: the current situation, reasons and the government’s relevant policy choices],” *Ministry of Agriculture of the People’s Republic of China*, July 31, 2003, accessed May 10, 2020, http://jiuban.moa.gov.cn/fwllm/jjps/200307/t20030731_105906.htm

83. Wu.

84. Hsing, *The Great Urban Transformation*, 182-183.

marriage and other ways.”⁸⁵ The average age of floating population in 2000 was 29 and 30.4 in 2005.⁸⁶ Tao Ran summarizes that “in other words, the current urbanization model of China is to utilize the labor of peasant workers during their golden working ages, and push them back to the countryside when they become old or their health conditions deteriorate.”⁸⁷ Tao believes that this model is hardly sustainable. The failure for most of the peasant workers to settle in cities have several other negative consequences. Because workers do not bring their family with them, every year they have to travel back and forth between their workplace and home, which “causes huge transportation pressure and cost for moving” that diminishes most financial gain that the peasants workers earn in a year. Children who grow up in separated family cannot receive good education or parenting that is crucial to their long-term development. “According to the Guangzhou Daily...over 90 percent of the peasant worker criminals were younger than 26 years old; 80 percent of the new generation of peasant workers who committed crimes were left behind in the countryside without care.” The social security system for peasants was also ill-established. Wu depicts a grim situation in her essay, saying

Meanwhile as the growth of farmers’ wage was stagnated, there are serious problems with the rural residents’ welfare. As of now the system of rural minimum living security Funds farmers in many regions still has not been established. In 2000, only 7.8% of the rural population participated in endowment insurance. For medical insurance, now farmers that constitute 70% of the total population only enjoys about 20% of the medical

85. Tao, *Zhongguo dangqian zengzhang fangshi xia de chengshihua moshi yu tudi zhidu gaige: dianxing shishi, zhuyao tiaozhan yu zhengce tupo* 中国当前增长方式下的城市化模式与土地制度改革：典型事实、主要挑战与政策突破 [Mode of Urbanization and Reform of Land Institutions under the Current Way of Growth in China: Typical Facts, Major Challenges and Policy Breakthroughs], 20.

86. *Zhongguo de liudong renkou (2018): fazhan qushi, mianlin wenti ji duice jianyi* 中国的流动人口 (2018)：发展方式、面临的问题及对策建议 [China’s Floating Population (2018): Ways of Development, Problems Ahead and Solution Suggestions (New York: UNFPA China, 2018), 4, accessed May 10, 2020, <https://china.unfpa.org/zh-Hans/report/20190816>

87. Tao, *Zhongguo dangqian zengzhang fangshi xia de chengshihua moshi yu tudi zhidu gaige: dianxing shishi, zhuyao tiaozhan yu zhengce tupo* 中国当前增长方式下的城市化模式与土地制度改革：典型事实、主要挑战与政策突破 [Mode of Urbanization and Reform of Land Institutions under the Current Way of Growth in China: Typical Facts, Major Challenges and Policy Breakthroughs], 22.

resources. The co-op health care in many regions are almost paralyzed; township and village clinics existed in names; the situation of farmers lacking doctors and medicine is acute. Disease and disability have become one of the main reasons of farmers returning to poverty status.⁸⁸

The problems existing among the agriculture sector (*nongye*), the countryside (*nongcun*) and peasants (*nongmin*) are together called the “Three Agricultural Problems” (*sannong wenti*) that were brought onto the agenda of the central state in 2002 as complaints from the rural areas intensified and were widely reported by the media.

Third, while indeed the growth of real estate and the Chinese economy in general favored urban cities, their development was not without problems. Besides the administrative burden created by the “floating population,” cities witnessed the continuous rise of housing prices and struggled to provide affordable houses to their residents. As mentioned before, local governments intentionally lease out commercial land at a much higher price comparing with industrial land. The developers subsequently push the cost to consumers. Another factor that contributed to the rapid rise of housing price is the overcapacity of the manufacturing sector, according to Tao. The “race to them bottom” method used by the local governments and the loose regulations caused overinvestment and overcapacity in the manufacturing sector. The lack of workforce protection and benefit unsurprisingly could not produce a healthy consumer base with enough demand to purchase the products.⁸⁹ Wu Xiaojuan writes that “because the slow rise of farmers’ income, the demand of the countryside is obviously insufficient. The current overproduction was caused by the lack of buying power of farmers, which constitutes over 62%

88. Wu, “‘sannong’ wenti: xianzhuang, yuanyin ji zhengfu xiangguan zhengce xuanze ‘三农’问题：现状、原因及政府相关政策选择 [“Three Agricultural” Problems: the current situation, reasons and the government’s relevant policy choices].”

89. Tao, 17-18, 22.

of the general population.”⁹⁰ As a result, China has to intentionally suppress the exchange value of the Chinese Yuan so that the foreign market can consume the overcapacity. Opportunist investors expected the exchange rate would rise eventually so they kept putting “hot money” (opportunist investment fund for short-term gain) in the Chinese market, which produced excessive money fluidity that “naturally pours onto the commercial and housing land that is in short supply because of local governments’ monopoly, leading to the rapid rise of real estate price and its deformity.”⁹¹ The troubling trend is that the housing price is elevating faster than people’s income. “Data for 35 major Chinese cities show that average real housing prices have grown at an annual rate of around 17 percent over the past decade, much higher than the average income growth rate of 11 percent across the 35 cities and the nation’s 10 percent average gross domestic product (GDP) growth in the same period.”⁹² Paradoxically, the housing market in China also has high capital return and high vacancy rate at the same time. All signs point to a possible bubble.

Fourth, the high price of real estate engendered new bubbles in the real estate market. Till this day the investment in China still overly relies on the real estate market, especially for that of households. A Banco Bilbao Vizcaya Argentaria (BBVA) suggests that “[a]mong the other assets, housing contributes around 66% of household’s total assets, following which is bank deposits that takes around 20%. In particular, the household survey from Southwest University of Economics and Finance also points that in Beijing and Shanghai, the share of housing of

90. Wu.

91. Tao, 17.

92. Kaiji Chen and Yi Wen, “The Great Housing Boom of China,” *American Economic Journal: Macroeconomics* 9, no. 2 (2017): 73. <https://www.aeaweb.org/articles?id=10.1257/mac.20140234>

household's total assets even reached 85%.”⁹³ The importance of real estate in the Chinese political economy puts the CCP at a difficult position: on the one hand, the real estate market appears to be unsustainable in the long run and the high housing prices are unbearable to average consumers. On the other hand, the real estate investment is “too big to fail.” If the housing price suddenly drops without proper management, it is very likely that China's economy will be in free fall as well. Households and enterprises will lose important assets and local government, already in serious debt, will lose their most crucial financial resources.

The Chinese government is not blind to these problems. Now it asks itself: what will be the one grand project that can theoretically solve them all? What will take care of the rural population and boost its demand and purchase power? What will put a stop to the development madness of village and township governments? What will generate enough supply of affordable housing to cool the housing market so the 2008 financial crisis would not happen in China? Urbanization would come to present itself as the solution.

93. Dong and Xia, *China | How resilient is the economy to housing price fall?*, 7.

Chapter III: Urbanization

“The inference to which we are brought is, that the CAUSES of faction cannot be removed, and that relief is only to be sought in the means of controlling its EFFECTS.”⁹⁴ James Madison, 1787.

How should we conceptualize urbanization in China? The previous chapter covers the history of land financing largely from an economic perspective, but as this chapter will soon reveal, the leaders of China who promote urbanization have a wide range of motives that are beyond simply rational economic consideration. Christian Sorace, discussing on the reconstruction of the Dujiangyan City after the 2008 Sichuan Earthquake, says that “[i]n contemporary China, the name of the city is a magical incarnation that produces real material consequences, transformations, and dislocations.” He further elaborates that

The Communist Party’s plan for urbanization prioritizes the rationalization and ideal ordering of urban space as the parameters in which rural-to-urban migration and economic development are to take place. The administrative planning of urban construction is articulated in the policy of “urban-rural integration” (*chengxiang yitihua*), which entails the managed expansion of urban administration, space, governance practices, economic opportunities, public welfare, infrastructure, consumption, and civilized habits into the countryside.⁹⁵

In the previous chapter, we saw how the Chinese countryside suffered heavily during the 1990s and early 2000s as local governments engaged in land finance without effective oversight and regulations. The relocation of rural population, the “revitalization” of the urban fringe and the restoration of the political order among village and township governments became the top priority of CCP. Urbanization led by municipalities supposedly could resolve problems discussed

94. James Madison, “The Federalist Papers: No. 10,” *The Avalon Project*, November 23, 1787, accessed May 10, 2020, https://avalon.law.yale.edu/18th_century/fed10.asp

95. Christian P. Sorace, *Shaken Authority: China’s Communist Party and the 2008 Sichuan Earthquake* (Ithaca: Cornell University Press, 2017), 81.

in the last chapter: it provides jobs and housing to the displaced; the infrastructure needed in the urbanized areas can consume the overproduced steel and other construction materials; urban residents have a higher buying power and therefore are a stronger consumer base; it also allows the municipal governments to take more control over the land. Rithmire writes that “[Chinese policy makers were] to unite the power to lease land with the power to create urban plans, and therefore to designate urban governments as the only legal owners of land.”⁹⁶ The city governments, as Ang points out, are “a level of government responsible for the provision of public goods like urban infrastructure and pensions,” and “also a level of administration that features a mixture of macro planning and micro policy implementation...”⁹⁷ In other words, municipal governments are large and powerful enough to make policies independently that are in accordance to their local conditions, and they are administratively scattered enough to aid the national government to implement policies in different locales.

It should be clarified that municipal governments were not simply tools utilized by the central government to solve the issues that arose in the 1990s. Although the latter provided the municipal governments with the “green light” to be more assertive in the land market, municipal governments pursue own agendas to expand their land supply. Financially, they have incentives to take control of and lease out more land as their village and township counterparts do. Moreover, as Chapter I discussed, the urbanization process in China is not “state-led” but rather means that the state itself is urbanized, with its agendas and functions oriented around urbanization. Municipal officials have strong motives to support urbanization that are beyond financial considerations. To explain the urbanization craze in China with the simple answer that

96. Rithmire, *Land Bargains and Chinese Capitalism*, 53.

97. Ang, *How China Escaped the Poverty Trap*, 147.

“it is all about revenue” overlooks the fact that, as Sorace and Hurst point out, some of the wealthy cities in China are also passionately committed to expanding their territoriality, even it proves to financially costly.⁹⁸

The political dimension of urbanization is important in municipal officials’ consideration. The accomplishment of urbanization within a jurisdiction is part of the political capital of the bureaucrats who are in charge of it.⁹⁹ It is beneficial to his or her career in the state bureaucracy. The state bureaucrats’ shift of political interest from economic development to urbanization is the result of the official evaluation standard put forth by CCP. During 1980s and 1990s, a bureaucrat’s goals and performances were measured mainly on quantifiable terms that focus on economic growth.¹⁰⁰

However, the evaluation standard changed in the 2000s because of several factors, according to Ang. First, the rapid accumulation of capital after Deng started the Reform was accompanied by ever-growing corruption whose attractiveness exceeded that of good political performances.¹⁰¹ A leader of a township might be satisfied by a performance bonus of 100,000 yuan in 1988, but in 1998 he or she can make millions through taking bribery and cutting corners in an illicit land trade. Therefore, the cadre evaluation with promotion and bonuses as incentives could no longer be used to control the state bureaucrats’ behavior.

98. Sorace and Hurst, “China’s Phantom Urbanisation and the Pathology of Ghost Cities,” 307.

99. Sorace and Hurst, 305.

100. Ang, *How China Escaped the Poverty Trap*, 111.

101. Ang, 112-113.

Second, economic development gave birth to new social issues that were not previously accounted for in the old evaluation standard. The two examples that Ang gives are the degradation of the environment and the rise of social instability.¹⁰²

Altogether these changes in Chinese society demanded a set of new cadre evaluation standards. A comparison of the national guidelines on evaluation of local leaders in 1991 and 2009 suggests how drastic the change is: in the 1991 version, the categories of evaluation are all economic-based measured numerically. The categories include gross national product, national income per capita, rural income per capita and retail sale. However, in the 2009 version, economic development only one of the six categories. The subcategories of economic development have become more qualitative than quantitative, including “overall economic efficiency,” “economic disparity,” and “development cost.” Other categories in the guideline are social development, sustainable development, livelihood, social harmony and party and cadre discipline that directly target the issues of corruption, environmental protection and social stability.¹⁰³

One can reasonably speculate that evaluation based on these new standards can be difficult and it cannot be enforced without a strong central political authority. A municipal government will need to require its subordinate agencies to have an understanding of what the standards require so that it can generate specific policies and plans for them to enforce. Moreover, as Ang points out, the categories may have tension with each other. The strict implementation of environmental regulation can negatively affect the profitability of certain

102. Ang, 113-114.

103. Ang, 114-115.

industries that are crucial to an area's economic growth.¹⁰⁴ When the tension becomes unresolvable, a higher authority needs to provide further instructions and guidelines. Lacking democratic input, the Chinese bureaucratic system has to rely on strong authorities to discipline its vast number of officials.

Another dimension to urbanization in China is its ideological power. Urbanization is not only a vehicle for bureaucratic promotion and economic growth, but also a symbol of the progress of China's modernization and the power of CCP. The appearance of urbanization is as important as its content. Sorace and Hurst observed that "even wealthy local municipal governments that do not depend on revenue from urban construction still have vested political interests in expanding the urban landscape – as a visual display of political power and spectacular aesthetic evidence of modernizing development."¹⁰⁵ They further claim that "urbanisation is a scene of desire for modernity and can often take the form of aesthetic spectacles" in China.¹⁰⁶ Dalian, for example, built Xinghai Square in 1999. The extravagant square was "a result of a direct request from the mayor's office as part of a greater push to create green spaces and to beautify the urban areas."¹⁰⁷

Urban transformation of Dalian was constantly accompanied by propaganda that intends to brand Dalian as a beautiful, modern and clean city. Rithmire records that the Dalian relocation campaigns were carried out along with propaganda to soften the tune of the word "demolition," which was reinterpreted as a method of beautifying the city. The city government portrayed state control of land as something that is "required for both retaining elements of socialism and

104. Ang, 116.

105. See note 95.

106. Sorace and Hurst, 306.

107. Rithmire, *Land Bargains and Chinese Capitalism*, 100.

pursuing a future of ‘market socialism.’”¹⁰⁸ Bo Xilai, Dalian’s then-mayor, was convinced that a good image of the city would be crucial to attract more investment. It was deemed by the city authority that embracing urbanization is progressive while attitudes against it are “backward and conservative.”¹⁰⁹ The ideals behind urbanization are used both as an instrument to attract funding and admiration, and a tool to suppress the opposition.

The three dimensions of urbanization listed above: political, economic and ideological, heavily influenced the behavior urban governments in the process of urbanization. These three dimensions are not mutually exclusive as the ideal urban space can help a city officials in all three of them.

This chapter will first give a historical review of cities competing against other actors within their jurisdictions over land control and explain their tendency to expand outward into the rural fringe. Then it will point out the policy changes that gave municipal government the political authority and utility to discipline village and township governments while reorganize the rural space. During this process, municipal governments managed to monopolize the power over land supply and land planning. Finally, I will address the new problems created by the urbanization of the local states.

Depicting the land market of China in urban areas, Hsing states that “In short, underpinning China’s state-land tenure is a fragmented system of land supplies. Parallel with the commodification of land is a highly decentralized development industry. And, along with urban expansion come players of diverse backgrounds in the real estate market.”¹¹⁰ Besides the 1988

108. Rithmire, 107.

109. Rithmire, 108.

110. Hsing, *The Great Urban Transformation*, 45-46.

Land Management Law, the 1998 Land Management Law specified that “all administratively allocated land parcels must first be transferred to the municipal government before being leased out to developers,”¹¹¹ strengthening municipal governments’ exclusive legal ownership of land. However, as the previous chapter suggests, the liberalization of land leasing and the legal status of the state as the owner of China’s land did not automatically guarantee that local states could in reality use land however they wished. Even though the central state hoped that real estate could become the revenue source for cities to develop their economies, municipal governments had to confront the fact that a large volume of their most valuable land was controlled by a group of actors that Hsing calls “the socialist land masters.” These are military units, SOEs, schools and hospitals that gained land during the socialist period “through administrative channels according to central capital investment plans.” According to Hsing, the socialist land masters were the de facto owners of a large quantity of premium land within cities with extensive housing compounds and welfare infrastructure called the danwei system. After 1988, the socialist land masters started their own development companies that threaten municipal governments’ control of land supply.¹¹² Challenging them was both politically and financially difficult for municipal governments.

However, the situation started to favor municipal governments in around 1994. The introduction of foreign capital and China’s growing participation of the international markets means that many SOEs were gradually becoming burdens rather than assets. Furthermore, municipal governments gained more momentum against the socialist land masters after 1994

111. Hsing, 39.

112. Hsing, 35-37.

when the central government blamed the unregulated and uncoordinated real estate investment committed by the socialist land masters for the real estate bubbles.

With the argument that Chinese cities should be modeled after modernized western cities with efficient land use, municipal governments launched a series of campaigns to claim the land in their inner cities. City planners claim that allocating the valuable land of the city centers to hospitals and factories was not efficient and they should be replaced with high-rises, banks and other commercial buildings. They also “urge tearing down the walls of the *danwei* compounds and integrating them into a unified urban land planning and zoning system coordinated at the municipal level to save resources and establish a coherent rent gradient.”¹¹³ Municipal governments sent work groups to conduct land surveys and deemed many buildings at city centers as “unsafe.” They generated specific land plans to remove the buildings and redevelop the land in which these buildings were situated.¹¹⁴

For cities with strong SOE presence, urban governments used different strategies regarding land monopoly and distribution with various level of success. The government of Dalian, for example, did not take on SOEs at the city center immediately. The city did not have enough resources to compensate displaced workers and dissuade potential political backlash that might arise. Instead, it used a what Rithmire calls the “reform through relocation” strategy. In 1984, the city first established a development zone, the Dalian Development Area, that gave companies special taxation policies. More special economic areas similar to DDA were put on the outskirts of the city afterwards. Then, “[h]aving established thriving development zones with expanding foreign-owned or foreign-invested enterprises, city officials offered incentives in the

113. Hsing, 40.

114. Hsing, 41.

form of coordinating join-venture partners (i.e., investment capital) and corporate tax incentives to relocate from the downtown and to the city's periphery."¹¹⁵ Starting from 1994, various state land institutions under the leadership of Bo Xilai launched an aggressive relocation campaign that "relocated 115 enterprises from Zhongshan and Xigang districts alone, freeing more than 3 million square meters of land space."¹¹⁶ The downtown space subsequently entered the booming real estate industry in the city.

Hsing believes that land redevelopment "does not change the nominal ownership rights of the land by the state. Yet, it affirms the municipal government's proprietary rights and reinforces its regulatory authority over clearly marked urban space and defines the reach of municipal authority."¹¹⁷ Officials of Dalian explicitly proclaimed the slogan of "treating the city as an important state-owned asset." The city government constantly warned against any practices that might jeopardize the government's attempt to unify and monopolize land supply.¹¹⁸

Socialist land masters are not the only set of actors from which the municipal governments attempt to seize the land. To achieve monopoly, municipal governments need to obtain a greater degree of control over the land market itself. They established new institutions, such as Center for Land Development in Shanghai and Centers for Land Reserves, which were mandated by the national government, to regulate the housing market. When these institutions only achieved "mediocre results," municipal governments intensified their effort by forming real estate development firm to directly compete in the market. The Shanghai Real Estate Group Company was described as "'the super aircraft carrier' in Shanghai's property market to be

115. Rithmire, *Land Bargains and Chinese Capitalism*, 104.

116. Rithmire, 104.

117. Hsing, *The Great Urban Transformation*, 41.

118. Rithmire, *Land Bargains and Chinese Capitalism*, 99, 108.

deployed in battle against the great alligators.” Using its political power, the Shanghai government “merge[d] the municipal land bank with development firms established by municipal government agencies.” The Beijing municipal government followed the same model and established its own super development company. Treating real estate as the “city’s future,” Dalian “expanded their work to survey urban landholdings and to establish municipal control over land rights.”¹¹⁹

Not all cities in China experienced substantial success with their land monopoly scheme. The other two northeastern cities studied in Rithmire’s book, Changchun and Harbin failed to replicate Dalian government’s accomplishment to become both the only regulatory authority and legitimate claimant of land resources. Changchun’s bureaucrats unified to become a concentrated distributive authority with the concern that the city was overly relying on its automobile industry. However, the claimants of land vary from government agencies to laid off workers. Harbin did not create a concentrated distributive authority nor did the municipal government become the only legitimate claimant.¹²⁰ The explanation for the differences between the property regimes of the three cities may lie in the different access to foreign capital that they have had throughout the reform process.

The economic boost that resulted from the relocation of socialist land masters and the opening of real estate market is apparent. As Dalian’s urban built-up area grew from 84 square kilometers in 1985 to 234 square kilometers in 2009, its GDP rose from 10.09 billion to 111.08 billion Chinese yuan.¹²¹ Real estate income in Dalian rose from 4.037 billion to 216.7 billion

119. Hsing, *The Great Urban Transformation*, 49-50.

120. Rithmire, *Land Bargains and Chinese Capitalism*, 18-23.

121. Rithmire, 16.

Chinese yuan. Land finance has become increasingly important to local government. In 2004 and 2006 Dalian generated more income through land finance than local revenue.¹²² Other major cities in China experienced similar growth.

Nevertheless, new problems arose as cities made more progress on urbanizing their city centers. The reform of SOEs already took a heavy toll on urban workers, but their situation worsened as municipal governments pushed to remove *danwei* compound and the welfare system attached to it. According to Rithmire, the official unemployment data suggests that “[t]he provinces that make up the Northeast lost 4.7 million industrial jobs between 1996 and 1998,” while “millions of others were unemployed ‘in house,’ on reduced wages, suffering wage arrears and underemployment, or had exited the workforce rather than registering as unemployed.” Social unrest erupted in the region as more disgruntled state employees took the street to protest the unfair treatment, forcing some municipal government to allocate land resources to the state labor force.¹²³ House owners were forced to relocate as they were subject to “forced demolition (*qiangchai*)” without satisfactory compensation. A person in charge of demolishing houses in Changchun recalls an old house owner blocking his shovel loader with her body while crying for injustice. The municipal government hired thugs and mobs to threaten, harass and beat up property owners. Two interviewees recalled thugs wearing white banners chasing victims on the street, a common occurrence in early 2000s according to them. Deception is also commonly used. Sometimes a house owner might receive a phone call for a fake meeting in an government office and discover his or her house was demolished while he or she was gone. Property owners responded to the abuse with collective actions and lawsuits.

122. Rithmire, 102.

123. Rithmire, 79-80.

Municipal governments' appetite for land cannot be satisfied simply by transforming their territory within the borders of their cities. In Dalian we have observed how the municipal government used a development zone in a rural region to force SOEs in the city center to relocate. As SOEs and other socialist land masters were removed and land leasing became more important, more municipal governments turned their attention to their adjacent townships and villages. The fervent effort to establish development zones in rural areas presented a challenge to municipal governments' territoriality, according to Hsing. "Many small, rural *kaifaqu* were neither administered by urban governments, nor did they go through the formal approval procedure for farmland conversion and project construction."¹²⁴

Rural county, township and village governments' gradual loss of independence began in early 1980s when provincial governments across China started to adjust the jurisdiction of rural counties and prefectures. Many of these counties and prefectures were merged into a municipal jurisdiction which consists of an urban center and rural land. The newly created municipalities had the resources and power to be relatively independent from provincial governments while having authority over the rural government under their administrations. The resulting hierarchical system is called "city-governing counties (*shiguanxian*) or city leading counties (*shidaixian*)."¹²⁵ Under China's Land Management Law, only state-owned land can be legally leased out and the right to use rural land cannot be traded unless the land "is transferred through an urban government" by the village collective.¹²⁶ Furthermore, land management bureaus of municipal and district governments are officially recognized as the institutions to manage and

124. Hsing, *The Great Urban Transformation*, 103.

125. Hsing, 94-95.

126. Hsing, 94-95.

conserve land and “are accordingly granted authority to prepare annual land-use plans, set quotas, and issue licenses for farmland conversion.”¹²⁷

However, illegal conversion of rural land to industrial land went on for a decade until the problems in the rural areas had alerted the central state. Proposing to abolish the binary division between “the city” and “the countryside,” the central government pushed for “Urban-rural Integration (*chengxiang yitihua*),” with the urban “leading” the rural under the same system of governance.¹²⁸

For China’s land tenure this means a series of policy changes that give municipal governments more power to regulate and integrate rural land at the expense of village and township governments. Hsing writes

In March 2004, the Ministry of Land and Resources and the Ministry of Supervision jointly announced the No.71 Document, which stated that privately negotiated land leases would be invalidated and, if leasing fees were not fully paid and official development approvals not obtained by August 31, 2004, the land parcels in question would be reclaimed by the state to be put in the land reserve. Farmland conversion and land-use plan revisions were frozen for six months.¹²⁹

Additionally, the central government stripped rural governments the power to approve land conversion and sales in 2003. The power was given to municipal and provincial governments exclusively.¹³⁰ In 2008, the central government issued “A Summary of Plans for National Land Use” that explicitly drew a “red line” on arable land conservation. According to the document, “the country must preserve a minimum of two hundred million hectares of

127. Hsing, 96.

128. Zhongchun Qin, “Chengxiang yitihua fazhan: mianxiang weilai de guojia zhanlue 城乡一体化发展：面向未来的国家战略 [Urban-Rural Integration: the national strategy facing the future,” *Development Research Center of the State Council*, June 3, 2016, accessed May 10, 2020, <https://web.archive.org/web/20191018212815/https://www.drc.gov.cn/xscg/20160603/182-473-2890938.htm>

129. Hsing, *The Great Urban Transformation*, 101.

130. Hsing, 101.

farmland nationwide.” Each local government has a specific amount of land that it needs to retain in a quota system¹³¹ in which higher-level governments (provincial and municipal) have bigger shares of land that can be converted and leased out. Township and village governments, on the other hand, have little power over land in their jurisdictions. Their role in the land market became more obscured.¹³²

The policy changes mentioned above not only officially boosted the monopoly of municipal governments over land in their surrounding rural areas, but also handed them with a large amount of land supply left by the abolished development zones. While rural governments focused on industrialization, urban governments emphasize on the building of urban space, through xincheng (new city) projects. Instead of factories and power plants, urban governments want to build high-rises, parks and transit systems. The evaluation of a parcel of land becomes no longer determined by its production value, but by its exchange value in the real estate market, mirroring municipal governments effort to demolish socialist land masters.¹³³ In the development zone era, a piece of land was sold to buyers sometimes for free, but now the same piece of land can be sold at a high commercial price. The newly acquired urban space can also be used to accommodate the migrant population in cities and peasants who have lost their land. The settlement can potentially empower these people to become a new consumer class.

Urbanization occurring in rural areas therefore can benefit leaders of urban governments in all three dimensions discussed at the beginning of the chapter. First, because leasing out commercial land is more profitable than industrial land, financially new cities can attract more

131. Ang, *How China Escaped the Poverty Trap*, 90-91.

132. Hsing, *The Great Urban Transformation*, 96-97, 157.

133. Hsing, 104.

investment and obtain more rent from investors. Second, urban space can alleviate pressure in cities by accommodating formerly rural population and help local leaders to reach their cadre evaluation goals. Moreover, a peasant is thought to be less of a “troublemaker” than his or her city counterpart who has the legal knowledge to argue with the government and the capability of organizing collective actions. Challenging the urbanites’ property rights claims appears to be more difficult and riskier to social stability than relocating peasants. In the prologue section of her chapter on metropolitan governance, Hsing recalls her conversation with the director of Bureau of Land Management who claims that “everyone knows it is easier to deal with peasants than urbanites.”¹³⁴ A local rural land broker in a village near Changchun also told me in an interview that villagers are “silly” and easier to deceive,” indicating their lack of willingness and capability to advocate for their interests in land bargains. Third, the new urban space marked an ideological transformation from industrialism to the more modern urbanism. Development zones that were marked by their wastefulness and corruption are now discarded and replaced with clean, beautiful, well-managed urban space where residents can live happily. These “urban qualities” are symbolized by the visual spectacles built in cities that Hsing notes, giving examples of some “tallest building in the world, the country, or the region.”¹³⁵ Cities also started to construct the “Central Business Districts (CBD)” “where business services and high-end retail is concentrated, enjoy premium land rents, often the highest in the city.” The value of these CBDs lies not in what is really built in them but the image of premium urban image that they create. Officials move early to advertise CBDs in construction with “colorful maps showing the

134. Hsing, 93.

135. Hsing, 111-112.

promise of the city's future" and "flashy exhibition centers."¹³⁶ City leaders also encourage and actively seek for the branding of their cities through titles and awards. In Dalian, Bo Xilai knew the art of branding when he sought to make Dalian the "Hong Kong of the North." Dalian under his governance was given the titles such as "Sanitation Model City," "Environmental Protection Model City" and "one of UN 'Global 500' livable environments."¹³⁷ Changchun also touts its labels as "National Famous City of History and Culture," "National Sanitation City," "Home to China's Premium Sinica Rice" and "Happiest City in the Country" for eight consecutive years. All of these labels are supposed to be helpful for the urban transformation of the city.¹³⁸

To have an overview of what a "new city" looks like, I will present the case of "Changchun New Zone," an ambitious project launched by Changchun's municipal government in 2016 that not only expands the city's territoriality but also intends to transform the city and its surrounding rural areas. The official document titled "Changchun New Zone General Plan" states that the New Zone is adjacent to the city center. Located in the northeast of city, the New Zone is created through the merger of four districts that altogether account for approximately 499 square kilometers. The New Zone is an "all-in-one" package that is the "model zone of innovative economic development," "the important engine of the new round of the Northeast's rejuvenation," "the important platform of cooperation and development in the Tumen River region," and "the pioneer zone of system (*tizhi*) and mechanism (*jizhi*) reform." It is to be a hub for technological innovation, a logistic center and a zone with ample employment opportunities

136. Hsing, 112.

137. Rithmire, *Land Bargains and Chinese Capitalism*, 86, 89.

138. Exhibit in Changchun City Planning Exhibition Hall.

and a well-built welfare system.¹³⁹ The New Zone will also be a “Green and Smart New Urban Area” with good, environmental-friendly infrastructure. Its governance will utilize “big data” to gather useful information. In previously rural areas, the city will push for Urban-Rural Integration and “widen the channel of employment for peasants whose land was appropriated.”¹⁴⁰

The realization of these goals cannot come into existence without thorough planning and coordination with agencies involved. The most common buzzword appearing in Changchun’s Urban Planning Exhibition Hall is “planning (*guihua*).” The municipal government claims that it is making effort to construct a bureaucratic hierarchy whose agents have clear responsibilities and plans for conducting their tasks.

We can observe that many changes had happened at this point to the China’s land system. The land tenure in 2008 appears to be formally better defined, disciplined and centralized than it was in 1988. The changes mentioned so far occurred through actively intervention of the central state through new policies and laws, the need of municipal governments to expand their territoriality and changes in the landscape of China’s political economy. The word “*guojia*” in 1988 might mean a township government, a specific government agency, a state-owned automobile factory or a state university. In 2008, the word means the municipal governments. New political discourses and norms are produced to integrate and transform the countryside to urban space, mitigating the severity of the “Three Agricultural Problems.” The problems concerning rural China are to be resolved through the elimination of the binary division between

139. *Changchun xinqu zongti fangan* 长春新区总体方案 [*Changchun New Zone General Plan*] (Changchun: Jilin Province Development and Reform Commission, 2016), 4, 10-11, accessed May 10, 2020, <http://jldrc.jl.gov.cn/fzgz/qyjj/qygh/201603/P020181106525030670552.pdf>

140. Exhibit in Changchun City Planning Exhibition Hall.

what is urban and what is rural. Municipal governments are the main policymakers in the process, who are to unite their subordinate lower level governments to ensure the quality of urbanization.

However, similar to how the opening of land market created new problems for China in the 1990s, aggressive urban expansion also has also engendered new issues. The rural land grab process, for example, is marked by prevalent bargaining, negotiation, unwritten rules and inconsistent norms. According to the local land broker interviewed, in Changchun the procedure usually involves the municipal government drawing up plans of new rounds of expansion and notifying impacted villages. Village and township governments are responsible for the enforcement of policies made by the city government, including negotiating with villagers and any logistic works involved. Village collectives, which by law are the owners of rural land, plays little role in representing the villagers' interest. Whenever there are reluctant villagers who are unwilling to vacant their land, the collectives will send teams to conduct "thought work." The "Office of Demolition" of the municipal government then designates private companies to appraise the value of land that is about to be appropriated and calculate an ideal compensation price for the land. The broker speculates that this is an intentional move made by the municipal government to be free from any dispute resulting from the land grab. Moreover, different districts in Changchun apparently offer different amount of compensation. Villagers whose land was appropriated by a district government bargain for a higher price because villagers in other district receive more money. The discrepancy among the districts therefore becomes another source of tension between the governments and villagers.

The obscured system of land appropriation and compensation is a breeding ground for corruption and fraud. Kalun village, for example, is one of the few villages whose land is about

to be appropriated. Local villagers put up fake greenhouses and build empty houses to artificially raise the potential price of their land. Some rich villagers who make money through government compensation help other villagers purchase wires and equipment for the greenhouses in exchange for fees. Private appraisers take bribes to defraud the government. The interviewed local land broker told me in another village, a government officer managed to illegally make tens of millions of yuan by manipulating land appraisal.

The resettlement of villagers in cities is also problematic. A popular practice is to relocate villagers from rural areas to concentrated apartment complexes. The study conducted by Lynette Ong on the policy reveals that villagers do not receive adequate compensation for their land. Ong discovered that “The villagers’ employment situation remained largely unchanged after relocation. Young people typically worked away from the farms doing odd jobs in nearby restaurants, supermarkets and construction sites, or else as carpenters, plumbers, cleaners or sales people,” with low salaries and questionable sustainability. There are no training programs provided to displaced villagers to adapt to the urban job market. The housing areas assigned to them are smaller than what they had in the countryside because by law on rural land they could retain not only their living space but also a plot of land to raise livestock or grow agricultural produces. The opportunities to engage in these economic activities diminish as the villagers are relocated. The villagers’ possible inability to make a living is not neutralized by a well-established welfare system. There remains significant gap between welfare systems for rural and urban populations. In Hefei, the relocation of villagers from the countryside to the city was not accompanied by the change of villagers’ *hukou* status.¹⁴¹

141. Lynette Ong, “State-Led Urbanization in China: Skyscrapers, Land Revenue and ‘Concentrated Villages,’” *The China Quarterly*, no. 217 (2014): 167-170, 172. <https://doi.org/10.1017/S0305741014000010>

Worse still, the obsession of urban governments over urban imagery leads to the construction of many “ghost towns” in China where there is only the appearance of urban constructions but no substantial infrastructure. Sorace and Hurst discuss on the concept of “phantom urbanization” extensively in their essay. They examine the cases of Kangbashi in Inner Mongolia and the New Beichuan in Sichuan. Both cities witnessed the rapid rise and collapse of real estate bubbles resulting from the investment hype created local governments’ urban visions.¹⁴² Similar trend can also be observed in Changchun New Zone. Few people can be seen working in the newly built industrial park and campus in Beihu, but the apartments surrounding the park were sold almost as soon as the developers publicized the plan for construction. The apartments were bought for investment purposes rather than residential purpose, evident by the fact that there are few people walking around in the apartment complex while many owners of the apartments put up advertisements on their windows to sell or rent out the apartments.

The central government cannot allow the bubbles to burst, as real estate has long been one of the most important pillars of the economy. The new urbanism has not allowed local governments to rely land revenues and real estate but intensified the reliance. In 2010, land transfer fee accounted for 47.5 percent of urban infrastructure finance. The figure was 20.9 in 2004.¹⁴³ Land is not only important to local government but also crucial to the microeconomies of individual households. As mentioned in the last chapter, “housing contributes around 66% of household’s total assets.”¹⁴⁴ The importance of real estate is nevertheless overshadowed by the volatile nature of “phantom urbanization.”

142. Sorace and Hurst, “China’s Phantom Urbanisation and the Pathology of Ghost Cities,” 311-319.

143. Lynette Ong, “State-Led Urbanization in China: Skyscrapers, Land Revenue and “Concentrated Villages,” 176.

144. See note 91.

Chapter IV: Future

“To develop the politics of socialist democratism...we are to be determined in exerting the Party’s core leadership function, increasing the Party’s capability of scientific governance, democratic governance and governance by the law, ensuring that the Party leading the people to govern the country effectively, truly preventing the phenomenon of “a crowd of dragons without a head” and “a sheet of loose sand.”¹⁴⁵ Xi Jinping, 2014.

So far, I have examined how land in China has been used first as a vehicle for rapid economic development and then a tool to ameliorate the problems resulting from the chaos in the land market. Land is both a means of production (for agricultural produce or industrial factories) and a means of administration (for governments’ spatial planning in their jurisdictions). By concentrating the power of monopoly over land to municipal governments, the central state clarifies to a certain degree the ownership of land that was left vague in the Land Management Law and empowers the municipal governments to transform rural China. The real significance of urbanization lies in its function to integrate the countryside into the modern urban space under the cohesive governance of municipal governments.

However, as the end of last chapter reveals, the effort of land concentration and rural integration in the form of urban expansion did not resolve all the issues already in existence but created new ones. This chapter discusses various policy initiatives launched by Xi Jinping’s administration to tackle these problems. Because the initiatives are used by the central state, the articulation of new issues therefore involves power concentration at a higher level than municipality. This power concentration process does not necessarily happen institutionally.

145. Xi Jinping, “Zai qingzhu quanguo renmin daibiao dahui chengli liushi zhounian dahui shang de jianghua 在庆祝全国人民代表大会成立六十周年大会上的讲话[Speech on the conference to celebrate the 60th anniversary of the establishment of National People’s Congress],” *Xinhua News*, September 5, 2014, accessed May 10, 2020, http://www.xinhuanet.com/politics/leaders/2019-09/15/c_1124998129.htm. Translated by Zhuang Xu.

Rather, it appears that Xi's administration focuses more on changing the Party's behaviors and norms through national campaigns.

One of the most visible campaign Xi has initiated is anti-corruption. Critics of Xi often speculate that Xi has used the anti-corruption campaign as a means to remove political adversaries from the Party, which implies that somehow Xi's motives are insincere. Jude Blanchette at the Crumpton Group said that "The campaign has been a remarkably effective tool to help him consolidate and hold power" and Xi can basically use the tool to "essentially go after everyone."¹⁴⁶ The claim is certainly consistent with the narrative that portrays Xi as a tyrant whose close resemblance to Mao will bring China's political environment back to the dark age of Cultural Revolution. Jonathan Tepperman of Foreign Policy calls Xi's regime "China's Great Leap Backward" and warns that Xi's campaign will be disastrous for the country's future.¹⁴⁷

Xi's motives behind his anti-corruption campaign are not the focus of this paper. It also does not seek to make any normative statement regarding the campaign. The critics' emphasis on Xi's concentration of personal power grasps something important, but they also left out some very crucial contexts. Previous chapters have discussed extensively on the characteristic of fragmentation of China's political system. It is clear that discrepancies among different bureaucrats, agencies and bureaucracies have opened the space for corruption. Lacking consistent decision-making and policy implementation mechanisms, officials heavily rely on personal favors and clientelist networks. In this way corruption becomes a new norm and is integrated to the political system. When citizens need the government to resolve certain

146. Gerry Shih, "In China, investigations and purges become the new normal," *Washington Post*, Oct 22, 2018, accessed May 10, 2020, https://www.washingtonpost.com/world/asia_pacific/in-china-investigations-and-purges-become-the-new-normal/2018/10/21/077fa736-d39c-11e8-a275-81c671a50422_story.html

147. Jonathan Tepperman, "China's Great Leap Backward," *Foreign Policy*, Oct 15, 2018, accessed May 10, 2020, <https://foreignpolicy.com/2018/10/15/chinas-great-leap-backward-xi-jinping/>

problems, they find themselves in a complex bureaucratic interest network and therefore bribery becomes a more desirable and convenient action to take.

Hence, the fragmented authoritarianism in China did not necessarily empower Chinese citizens. To the contrary, it often turned citizens into subjects of exploitation and predatory political practices. Regardless of whether CCP wants to “genuinely” protect the people or “merely” maintain its legitimacy to retain power, it is reasonable that it will make its governance more coherent and tackle the problem of corruption through a strong hand.

Another campaign that is less often covered by western media is Xi’s poverty alleviation campaign, titled “Precision Poverty Alleviation” (PPA). The previous chapter suggests that poverty alleviation through urbanization does not always work well. In fact, it might put peasants in worse situation. PPA tackles the issue of poverty on individual household level instead of the regional level. Local governments are ought to identify poor households and provide them with the necessary resources they need to escape the poverty trap. The resources may include funding, technical training and equipment. Village and township governments bear most of the logistical responsibility, including correctly identifying and routinely checking on poor households. Villages can send “work teams” to address the demands made by villagers.¹⁴⁸

The third national campaign is the Special Criminal Syndicate Combat (saohei chu’e) that targets criminal activities across the country. The central government sent out supervisory groups to oversee the anti-crime effort in different provinces. One of the main goals of the campaign is the “break the umbrella and net (dasan powang),” which means to eliminate protection of criminal syndicates from government officials and destroy the criminal networks. Hiring thugs to

148. “Jingzhun fupin: tisu tuopin ben xiaokang 精准扶贫：提速脱贫奔小康 [Precision Poverty Alleviation: accelerating poverty alleviation to run to moderate prosperity],” Xinhua News, Dec 3, 2019, accessed May 10, 2020, http://www.gov.cn/xinwen/2019-12/03/content_5458138.htm

terrorize residents was one of the strategies used by local governments to force people give up on their properties. My interviewees in Changchun claim that Special Criminal Syndicate Combat makes officials afraid of soliciting extra-legal help from mobs. Therefore, SCSC disciplines political processes to be more regulated and explicit violence becomes less common.

All of these campaigns indicate that Xi attempts to discipline and change the behaviors and norms of bureaucrats. The nature of the campaigns and many others similar to them is the orientation of different government agencies and bureaucrats around the same agendas. Yuhua Wang and Carl Minzner observe this phenomenon in their study on China's "stability maintenance" operations. They find that government agencies formally responsible for security issues are not the only ones participate in the "stability maintenance" projects; other government agencies seemingly with no relationship with security are also involved.¹⁴⁹ Because the central agendas of political campaigns are delineated and defined by the leaders of the CCP, political power is concentrated to the same group of people. Factionists supported by extra-legal forces cannot be tolerated and by eliminating factionists, Xi is removing what he believes to be the source of chaos and concentrating power to the Party.

The effects of Xi's power concentration specifically on the land market remain anecdotal, but given the political campaigns' focus on political norms and behaviors, it is unlikely that they will substantially alter something as complicated as land market in the short term. And due to the patten of governance discussed throughout the thesis, the campaigns can also create new issues, prompting another problem-solving cycle.

149. Yuhua Wang and Carl Minzner, "The Rise of the Chinese Security State," *The China Quarterly*, no. 222 (2015): 351. <https://doi.org/10.1017/S0305741015000430>

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