Impacts of land finance on urban sprawl in China: The case of Chongqing

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A B S T R A C T

Uneven land reform and entangled land-use regulations are extensively regarded as the key to urban sprawl in large cities in China. Although the significance of land issues has been substantially recognized, conflicts regarding land finance seem to be a generally under-evaluated factor in explaining the phenomenon of urban sprawl. This study conducted an extensive literature research and proposed a conceptual framework to demonstrate the effects of land financial incentives on urban sprawl in China. Urban sprawl in China manifests in multiple forms, such as leapfrogged industrial parks, low-density residential communities that are discontinuous from existing urban centers, and chaotic peri-urban informal development. These forms of urban sprawl may be closely associated with failures in government and market forces under the land financial incentives. We used this framework to analyze the experiences of Chongqing and found that local governments have heavily relied on land finance through formal and informal means. The proposed framework and the challenges of anti-sprawl policies were also discussed.

1. Introduction

Urban sprawl, a prevalent phenomenon in cities of Western countries, have long attracted considerable attention from scholars and policymakers (Ewing et al., 2016; Gillham, 2002). Empirical studies also illustrated that urban sprawl has emerged in Chinese cities, such as Beijing, Shanghai, Guangzhou, Hangzhou, and Wuhan (e.g., Jiang et al., 2007; Yu and Ng, 2007; Yue et al., 2013; Yue et al., 2016). Similar to the West, the negative consequences of urban sprawl are acknowledged in China, such as rapid loss of farmland, excessive rural–urban land conversion, inefficient land use, increased traffic jam, and degraded ecological system function (Yew, 2012; Zhao, 2010). However, in contrast to the extensive literature on Western cities, the study of urban sprawl in Chinese cities has not received sufficient attention.

Despite the debate on the definition and measurement, urban sprawl is generally defined as low density, leapfrog (i.e., scattered, or noncontiguous), and single-use urban development that reduces open space in cities in the US and Europe (Ewing et al., 2002; Galster et al., 2001). Urban sprawl in China has been used to describe the phenomenon of urban expansion even with a lack of clear definition in early studies (Fung, 1981; Zhang, 2000). Some scholars simply referred to urban sprawl as disproportional or inefficient urban expansion into undeveloped land (e.g., Davis et al., 1995; Fung, 1981; Lin, 2001; Wu and Yeh, 1999). An increasing number of studies tends to characterize urban sprawl as an inefficient or excessive urban expansion (e.g., low-density and single-use), as well as leapfrogged or scattered development at the fringes of an urban built-up area (Yue et al., 2013; Zhang, 2000). Chinese cities have demonstrated different characteristics of urban sprawl from the US cities, such as the coexistence of high-density housing projects and low-density development zones with plenty of open space, and peri-urban (or semi-urbanized) informal development with limited open space and basic services (Deng and Huang, 2004; Tian, 2015; Wei and Zhao, 2009; Yue et al., 2013).

While urban sprawl in the western countries, such as the US, appears to be caused mainly by market failures, such as undervalue of external costs of traffic congestions and undervalue of open spaces,
along with extensive use of private vehicles (Brueckner, 2011; Galster et al., 2001), scholars have not yet reached a consensus for main causes of urban sprawl in China. A few researchers argued that government actions, such as massive relocation, frequent administrative annexation, and compulsory land expropriation, should be blamed for the sprawl (Davis et al., 1995; Fang and Pal, 2016; Yew, 2012). Some scholars emphasized that institutional forces that distort the market system, such as undervalued price of land purchased from farmers, ambiguous property rights, and illegal transfers of land use rights, were responsible for the sprawl (Zhu, 2005). Other studies have generally attributed property rights, and illegal transfers of land use rights, were responsible for the sprawl (Zhu, 2005). Some scholars emphasized that institutional forces that distort the market system, such as undervalued price of land purchased from farmers, ambiguous property rights, and illegal transfers of land use rights, were responsible for the sprawl (Zhu, 2005). Others argued that government governments’ monopoly of land development rights and the associated revenues owing to public land ownership. Local governments generated urban development by land finance, thereby changing their behavior from being “assisting-oriented” in the central planning era to “grabbing-oriented” in the market-oriented era (Wu et al., 2015).

The heavy dependence on land finance among local governments in China has raised considerable public concern and research attention. Critics of land finance argued that overreliance on this method led to the volatility of land revenue, encroachment on farmland, inter-generational and inter-regional inequities, possible housing bubbles, corruption, inadequate compensation, and social unrest (Ye and Wang, 2013). While others alleged that land finance provided an alternative method for immediate revenue generation, accumulation of sufficient investments for infrastructural facilities, and acceleration of capital formation with a high re-investment rate (Zhao, 2014).

Several studies attempt to explain the formation of land finance from the political and fiscal perspectives, such as central-local governments relationship, intergovernmental tax arrangements, state entrepreneur, cadre evaluation and promotion system, regional competition, and land value capture (Cao et al., 2008; Pan et al., 2015; Wang and Ye, 2015; Wu et al., 2015; Ye and Wang, 2013; Zhao, 2014). Wu et al. (2015) concluded that fiscal decentralization and competition among city governments to promote economic growth are two major causes of land finance. Wang and Ye (2015) analyzed the impacts of fiscal incentive in land on the behaviors of local governments, including land grabbing, building infrastructure, and attracting investment. Existing studies extensively employed econometric models to disclose the effects of land finance on the rural-urban land conversion based on provincial- or prefectural-level cities panel data sets (Cao et al., 2008; Pan et al., 2015; Wu et al., 2015; Ye and Wu, 2014). The findings confirm that the amount of LCFs had significantly positive relationship with the pace of urban land conversion and rate of economic growth.

Although researchers have realized the risks and made abundant research of land finance from a variety of perspectives, the systematic study on its implication on urban sprawl is still missing in the literature. This paper endeavors to fill this gap by examining the impacts of land finance on urban sprawl in China. In order to demonstrate the complex mechanism, we explore the different incentives of land finance under different forms of urban sprawl, based on the institutional foundation in China.

(2) Urban sprawl in China

Urban sprawl in China is one of the most noticeable effects of urbanization (Lin, 2007). Davis et al. (1995) observed the spillover of previous urban activities into peripheral areas to create new districts of undifferentiated urban sprawl. Deng and Huang (2004) regarded that development zones and semi-urbanized villages are the major types of urban sprawl in terms of inefficient patterns of urban expansion. Wei and Zhao (2009) further distinguished “urban spillover” and “local urban sprawl” as follows: the former refers to prefecture-level development zones and gated communities that are well-equipped with infrastructure; the latter refers to local development zones and semi-urbanized villages that lack infrastructure.

Early studies in China employed a single metric to measure urban sprawl, such as the growth ratio of urban land consumption relative to population change, similar to the studies in the US (e.g., Fulton et al., 2001; Lopez and Hynes, 2003). However, an increasing number of studies has adopted multidimensional components to assess sprawl in China (Gao et al., 2016; Jiang et al., 2007; Tong et al., 2017; Yue et al., 2020).
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