KEY ISSUES IN LAND USE POLICY AND LOCAL GOVERNMENT BEHAVIOR IN CHINA

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Abstract- Globalization, marketization and decentralization process have changed the role of central – local state in land governance and land-use making policies in China. This paper comprehensively analyzes the key issues including land ownership, land acquisition and land financing mechanism of China in the period of transitional economy and institutional reform. These issues reflect the idea of socialist land regimes that strengthen the state's power to direct and discipline the domestic property markets. Under the pressures of local fiscal shortages and regional competition, the local authorities, empowered by land policies, are highly motivated to increase the production of space through land development to bolster economic growth, and to express entrepreneurial behavior through land seeking or growth coalition.

Keywords- China, Decentralization, Land use Policy, Local Government, State.

I. INTRODUCTION

The economic reform process that started in 1980s marked a significant transition from a planned economy era to market socialism. On the one hand, China gradually opened up the market to attract global capital; on the other hand, it promoted the pace of administration reform through decentralization processes. The effect of globalization and marketization has changed the role of local governments in both countries from agents of the central governments to stakeholders in their own right, who are participating in regional competition and actively pursuing economic growth and political benefits (Zhang et al., 2006; Wu, 2003). After fiscal reform the local governments obtained the initiative in economic management, but at the same time they also lost financial support from central government. The proportion of expenditure on the building of local infrastructure and public goods, which had been increasing year by year, caused more pressure on the local budget (Zhang and Duan, 2013).

Under the pressure of urbanization and this financial dilemma, land development has become an important resource for local government to attract investment and participate in market competition, land finance becomes a local economic pillar. Although China has undertaken market oriented economic reforms, the land policy still retains the core ideology of the socialist roots which emphasizes power of the state in land management. With the decentralization process, land management powers in delegated from central to local level, local government also were granted large proportions of land income in the tax sharing system. At present, the China has not yet established a stable legal system in the market-oriented economy and decentralization. The land policy is still in the process of constant adjustment and improvement. This article comprehensively analysis contemporary land use policies issues to explore a profound logic behind the local government's behavior and the issues in land use policy in post-socialist country.

Following sections explore a series of issues in land ownership, land acquisition and land taxes system in China. It also reflects an incomplete land use policy which are now under the process of decentralization and economic reform.

II. 'FUZZY' LAND OWNERSHIP SUBJECT

Land in China belongs to the public. Land in urban parts of China is owned by the state, whilst land in rural area, which includes farm land, collective land and rural housing land, are owned by the collectives. Even though China's Constitution affirms the equal status of the state-owned land and collective land in law, the Property Law, established in 2007, also calls for protection of property under collective ownership ,state ownership and private ownership. Apparent equality does not mean that all land owners share the same socio-economic position to obtain these rights. While urban residents were able to sell, lease and mortgage their Land use rights, rural peasants have been strongly restricted from doing the same with rural Land use rights. Compared to urban land users, peasant LURS, which are under collective ownership, are quite limited, while farmland remains limited to agricultural use purposes in the time period of rural management contract. present, the basic attitude of legislation has strict limitations on the transfer of the homestead use rights, and it can only be transferred inside collective organization. From a theoretical perspective, Chen and Yang stated that 'the farmer collectivity' is just an 'abstract aggregate', an ensemble without a legal personality meaning" (Chen, J and Yang,S.L, 2014), the rural land belongs to rural collective organizations , village group or villagers' committee ? The fuzzy nature of collective ownership leads to the fact that LURs cannot be specific to each user. This fuzzy definition of the 'public ownership', 'collective ownership' and the incompleteness of property rights in China also increase the imbalance

between the state's power and the right of land users. On the one hand, it granted the supreme authority on land management to the state, but, on the other hand, reduced the protection of legitimate rights of the land users. The fuzzy nature of land ownership subject and the incompleteness of property rights also causes the loss of managing rights, development rights and punishing rights of land users in land development process.

III. STATE MONOPOLY POWER IN LAND ACQUISITION

In recent years, China have experienced rapid urbanization process, a massive land taking in order to meet the growing demand for urban expansion and industrial development. In the name of 'public interest' which was unclearly defined, local governments in China were promoting the speed of land conversion and the urban space production through the mechanism of land conversion, especially from agricultural land to urban land. The definition of 'public interest' in China cannot restrict government's expropriation decision because of their abstractness. This confuses economic growth and urban development, led by the government, with the actual public interest of citizens, which can easily cause damage to the legitimate right and interest of land users.

The defects in the mechanism of Collective-owned land expropriation is the most serious issue of China's dual-land tenure system. Due to the fact that the land contract and management right of farm and collective LURs can only be internally circulated within the town and collective's members, so the only legal way to transfer the land from rural sector to urban land market is by the expropriation process of local government, either for 'public purpose' or commercial purpose; this has granted local government the 'monopoly power' in land taking. From one side, the government offers low compensation payment to the farmers correspondingly according to the average annual output value of agricultural products and the original purposes of the land. From the other side, local governments gain huge profit from land value increment after the transfer of the rural land to the urban market (George C and P.S.Ho, 2005). This process reduces the compensation cost of the government and induces excessive government expropriation of collective land.

IV. UNSUSTAINABLE LAND TAXES SYSTEM

The fiscal decentralization process and the establishment of tax sharing policy brings more financial pressures to local states in China. The local governments have a weak local revenue authority. Their income depends on the tax revenue shares with central state as a form of intergovernmental transfer. The tax sharing system in China divides the proportion of revenue income and expenditure duties between central-local states. The land revenue of Chinese government includes two major categories: land taxes and fees and land conversion income (rental fee). The tax sharing policy divides into land value-added tax, urban land use tax, title tax and arable land occupancy tax and land title tax to local revenue. There are some fees collected by land bureau such as arable land reclamation fees or fees for new construction in town. Besides, land rental fee (which mean total income of local government after land conversion and leasing process) is also directly divided to the local revenue (China's State Budget Law).

At present, the land tax system in China has many problems. First, only 16,4% of local tax revenue compiles various taxes on land and property in 2013, the local government relies upon one-event income such as land conversion fees. Second, China's current property tax structure focuses more on tax burden at the transaction stage than at the possession stage (Zhang and Duan, 2013). For example, annual urban land use tax and the real estate tax at the possession stage compiled only 4,87% of local tax revenue in 2013, while local tax revenue at the land development and property transaction stages was about 11.53%. The imbalance in land revenue structure and the inefficiency of property tax disables the local government from obtaining stable fiscal revenue expectations, which leads to imbalance between local revenue and expenditure. Under the pressure of finance shortage and development demands, the local government is losing willingness to improve the current land tax system for sustainable income from land and property tax, but tends to obtain one-event income such as land rental fees through the expansion of land taking and land leasing.

CONCLUSIONS

Because Land use policies in China reflect transitional process of economy and administration reform under market socialism. The state plays a key role in regulating and coordinating the land market through legal authority of land use planning and state owned land value increment. Through the authority of land management, the governments can coordinate the market economy to realize the planning visions, protect the cultivated land, and balance the supply and demand of the land market. In addition, the authority of governments in land use planning, approval and land reserve mechanism helps the governments actively reserve land in order to meet the land demand of future development and to implicate the city blueprint.

From the above analysis the following conclusion can be drawn: the dual track of land ownership and land tenure is the core issue of current China's land use system. Under this system, the value gap between market oriented land price and the low compensation of land which decided by governments creates huge

profit of value increment in the conversion process from collective land to urban land.

After Tax sharing reform, the tax revenue income of local budget in both countries have obviously decreased, but local's expenditure duties on the building of local infrastructure and public goods have increased, which caused serious imbalance between local revenue and expenditure. Under the pressure of finance shortage, local governments have to find appropriate ways to increase income in order to effectively fulfil its functions. Land revenue naturally becomes a rational choice of governments to solve the problem of local finance shortage.

As analyzed above, the globalization, marketization and decentralization process had a profound impact on the local government's financial and management authority. While facing the market economy transformation, the land policy in China still retains the core ideology of the socialist root, emphasizing the top-down system, giving the government the supremacy of land management but threats to the legitimate rights and interest of the land users, especially to land users in rural area. As two developing countries, the current land system of China still has many defects and needs to be analyzed and discussed in depth if it is to be improved in the future.

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