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Changing Land Policy and its Impact on Local Growth: The Experience of the Shenzhen Special Economic Zone, China, in the 1980s

Jieming Zhu

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Summary. Having elaborated the transformation of land policy in the wake of Chinese economic reform and the background to the formation of a new land policy in the Shenzhen Special Economic Zone, China, this paper examines whether the new land policy, which is intended to assist inward and indigenous industries, has achieved positive effects on local growth in Shenzhen. In the course of implementation of the new policy, a dual land market has been created, which contracts commercial land supply on the one hand and encourages subsidized land hoarding on the other. Through the process of revived market-oriented property development, the survey has found that the main beneficiaries of the land subsidy are developers and property investors, while real tenants and the local government have not benefited as much as the land policy intended.

1. Introduction

As the momentum of the south-east and east Asian countries' economies has shown, there are justifiably high expectations that the world economic centre will be shifting to the Pacific Rim. The 21st century will be an unprecedented era for the region. In order to conform to the world trend and to participate in the world economy, China has launched an economic reform since 1978 aiming to change its system to a market-aware and a more productive regime. One of the programmes having remarkable significance is the Shenzhen Special Economic Zone (SSEZ), established in 1980. It has two purposes: to experiment with a form of the free-market system and, in the long term, to assist with the integration of Hong Kong's

economic structure when its sovereignty is resumed by the Chinese government. The SSEZ is situated in the coastal area of southern Guangdong Province, China, with a territory of 327.5 sq km. Overlooking the Da Peng Bay in the east and the Pearl River estuary in the west and separated from New Territories of Hong Kong by only a stream in the south, Shenzhen remains one of major channels for inland China in its trade and contacts with the rest of the world via Hong Kong. Before 1979, there was a population of 71 400 in the SSEZ. By the end of 1990, this figure jumped to 1 010 000.

Throughout the decade of 1980s, in the context of a form of market economy gradually taking precedence over the established

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planned economy, land and property were first revived as economic assets in the SSEZ—unlike regions remaining supervised by the centralised planning system where land and property remained public goods. Furthermore, the market orientation of the SSEZ also called for private participation in land and property development. Thus, the land and property sector constitutes a new frontier for the market interests in the SSEZ.

In this paper, an account will first be given of the transformation of land policy in the SSEZ in the course of economic reform. After the circumstances of the implementation of this new land policy have been elaborated, the consequences of the disparity in land allocation are evaluated, and an examination is made as to who has benefited from the policy. The conclusion contains suggested policy revisions to strengthen the effectiveness of the subsidised land supply in leveraging local economic growth.

2. Land Policy in the SSEZ

2.1 Land Policy before the 1980s

Before the 1949 Revolution, there was diversified land ownership where private ownership was included. Although the nationalisation of urban land was not officially finalised until the 1982 Constitution, private land ownership had virtually ceased to exist by the 1950s. Due to the nature of the overall public economy, the government did not want to subject public land users to a land-use charge system, intending to avoid the extra manpower and accountancy involved. Thus, from 1954 to 1984, urban land was used virtually free of charge in China. Complicated by loose control in land management, free land use resulted in serious economic inefficiency in land allocation and inequity between land users (Liu and Yang, 1990; Dowall, 1993). Also, according to Clause 4, Article 10 of the 1982 Constitution: “no organisation or individual may appropriate, buy, sell, or lease land, or unlawfully transfer it in other ways”, land was excluded from market transactions and

denied as an economic asset and a commodity.

2.2 Land Policy in the Wake of Economic Reform

The market-oriented economic reform not only brought an end to the monopoly public economy, but ended the institution of free land use. Having recognised the serious consequences of free land use and having broken the ideological taboo, on 3 January 1988, new legislation—*The Provisional Ordinances on Land Management of Shenzhen Special Economic Zone*—was promulgated by the Guangdong Provincial People’s Congress. It declared that state-owned land in the SSEZ should be recognised as a special commodity whose right of use could be leased. Moreover, it said that the right over the leased land could be transferred, assigned, bequeathed or mortgaged on the lessee’s will within the validated term. Later, an amendment to the 1982 Constitution was proposed and approved by the National People’s Congress on 12 April 1988, which reads: “the right of land use can be transferred in accordance with the law” (Tang, 1989).

However, as the SSEZ had already been chosen as the location for a comprehensive experiment of a market-oriented economic system, the improper free use of land had first been tackled in 1982. This first attempt was to introduce an annual land-use fee to land users within the SSEZ. It was designed as an interim measure to curb the inertia of three decades of land occupation free from any financial liability. Meanwhile, it coped with incoming overseas land users who were not supposed to be entitled to free land use. Although the land-use fee should apply to any land user as long as he/she receives commercial returns from the land use, many public land users were not affected because they negotiated with the government for exemption, on the grounds of real or unreal financial hardship caused by the unaccustomed land-use payment. However, land-use fees did not constitute a barrier to overseas investors, who paid for land use in various ways.

The debate on land transactions lasted so long that impatient Shenzhen reformers decided to let practice go forward ahead of ideological debating. A milestone in China's land management was the first transaction of land-use right occurring in the SSEZ on 9 September 1987, when the Shenzhen municipality sold the use right of a plot to a local public company for a lease term of 50 years. Although the price was settled by behind-the-scenes negotiation, this case set a first example of land commercialisation, even running the risk of violation of the national constitution. With the intention to deepen the reform of land management, the Shenzhen government later tried two other forms of land transaction—i.e. bid and auction. This series of land transactions set a precedent for the coming changes in land-use management and finalised the formalities of the land-use-right transfer.

Although land management reform was confined to land-use right transfer while ultimate land ownership remained a state monopoly, it deserves recognition for it had a dramatic impact on the general economy. The land-use-right transfer grants the land-use right by bid, auction or agreement, to land-use applicants for a fixed period after a lump-sum payment has been made. Purchasing by bid and auction is through market competition, reflecting full market values, while purchasing by agreement is a market allocation with government subsidies through which local government implements its policy of facilitating targeted industries. In accordance with the common belief that inexpensive land supply would act as one of many incentives to lure local economic expansion, the Shenzhen government decided to supply cheap land to certain land tenants in the good faith that they would fully utilise the allocated land and realise their investment intentions (Shenzhen Economic Development Bureau, 1991). Due to the gradualist nature of the economic reform, state enterprises were given a time allowance to delay exposing themselves to market competition. Thus, the category of land purchase by agreement also provides an umbrella which

caters for the existing land tenants (mostly state enterprises) which already enjoy the free land use offered by the previous land-use regime.

As a result, a dual land market has been created: in one, a full charge is made for land uses; in the other, land uses are allocated subsidies of up to 100 per cent. Although the former is relatively small in size, its influence over the latter is enormous, as will be demonstrated later in this paper. These two markets remained in parallel, in practice even after the free land-use regime was officially abolished in 1988.

3. Underlying Philosophy and Practical Constraints behind the New Land Policy

The element of cheap land supply in the new land policy was very much intended to activate local economic development. However, it should be borne in mind that this policy was also incited by the sceptical attitude towards commercial developers and by the limited financial capacity of the then local government.

3.1 *Underlying Philosophy*

Land is a prerequisite for most economic activities. The proportions of land consumption costs to total production costs vary among different land users, depending on their requirements for land location and degrees of intensiveness of land use. Nevertheless, other things being equal, lower costs of land occupation will reduce land users' financial capital involvement in business operations, or enable them to reduce final-product prices in order to have a competitive edge. The former either lowers the investment threshold and admits investors with less disposable capital, or leaves possibilities of business expansion by reinvesting the saved capital. The latter can speed up business turnover because of a quicker capitalisation of products, owing to a lower price offered than by other competitors. Both can accelerate local economic growth on the assumption that land users reinvest locally. It is also

logical to expect cheap land to lure inward investment based on the same theory mentioned above. As the lower cost of land occupation is perceived as one of the main factors appealing to business investors—since total production costs would fall—to ensure that final land users are able to absorb the land subsidies, the land should be leased directly to the land users. Based on such a belief, the Shenzhen government wholeheartedly passed subsidised land directly to the inward and indigenous land occupiers. In contrast with the absence of suspicion about the sincerity of the land users, property developers were traditionally suspected of being prone to speculation and of taking advantage of the monopoly in the land and property market maliciously to hold premises for the purpose of profit maximisation. Therefore, speculative property development was discouraged by the great friction in obtaining land. As a result, by 1990, the greater part of 103.4 sq km (out of a total stock of usable land of about 155 sq km) had been given away to various land users or prospective land users at prices considerably lower than market ones.

3.2 Financial Constraint Faced by Local Government

The SSEZ authority did not have adequate financial resources appropriated by the central government to cover the initial costs of infrastructure provision. Since 1980 when the SSEZ was put into effect, the quantity of land development sponsored by the local government has been marginal, because of its inability to carry out full-scale physical development. Without sufficient back-up from the central treasury, the SSEZ local authority was forced to adopt unconventional methods of carrying out government responsibilities. Actually, the situation forced the local government to opt for pragmatic methods in line with the whole national economic reform, which did not have a clear plan of implementation at the beginning.

Thus, the conventional role of local government as an infrastructure builder was

reduced to that of a coordinator and a promoter, or a partner at most. In order to promote SSEZ growth, various innovations had to be initiated. Some public builders were converted into land developers who took green land from the local government and then invited partners possessing financial capital across the border to create joint-ventures for land development prior to investment schemes which utilised the developed land. Alternatively, land users directly obtained the raw green land from government, with a view to developing it themselves. The essence of such arrangements was the passing of financial burdens of land development to land users, who would have to pay for land levelling and other necessary on-site facilities before the land could be used. Because of the leases of raw green land, land users were in a stronger bargaining position than the land owners in terms of land prices.

4. Consequences of Implementation of the New Land Policy

Two much pursued commodities at the turn of the decade between the 1980s and 1990s in the SSEZ were share securities and land-use rights. The former were chased by ordinary investors, while the latter were competed for among developers and land users. Both phenomena manifest a simple fact of demand substantially outstripping supplies. Eight out of a total of fourteen developers interviewed by the author openly expressed their anxiety concerning land access and necessary land holding for business operations. Accordingly, land chasing was prevalent. The most striking confrontation between land demand and supply occurred in the housing land market, which was unambiguously demonstrated by three land-bid events in 1991 (*Shenzhen Real Estate Express*, 12 August, 2 and 12 October and 2 November 1991). The dichotomy between commercial land supply and subsidised land supply had resulted in many problems.

4.1 Commercial Land Shortage and Subsidised Land Hoarding

In fact, a great amount of land has been given away since the SSEZ was set up. Of its 155 sq km of usable land stock, 49.5 per cent or 76.8 sq km had been leased out by 1987. On average, 8.5 sq km was appropriated to land applicants every year. From 1988 to 1990, 26.6 sq km was taken up by land users, at an average rate of 8.9 sq km per year (*Shenzhen Real Estate Markets Year Book* Compiling Committee, 1992). Land supply did not appear to be unresponsive to land demand, as some developers had claimed. In terms of the percentage of land released to total usable land stock, it was 49.5 per cent in 1987 and reached 66.7 per cent in 1990. However, much of the land offered was not available on the open market. The proportion of the commercial land-use-right transfer against the total land supply since 1987 was much lower than it should have been on overall land supply. From 1987 to 1990, commercially transferred land accounted for 18.7 per cent of the land supply. This ratio rose from 2.0 per cent in 1987 to 15.3 per cent in 1988 and to 33.3 per cent in 1989, before it reached 34.0 per cent in 1990. But on the whole, commercially transferred land only represented 6.3 per cent of total land supply by the end of 1990. The commercial land-use-right transfer is the only channel through which newly registered developers, who account for the majority in terms of its quantity, can obtain land. On the other hand, 99.8 per cent of land released before 1987 was free of charge or at very little charge. This figure dropped to 93.7 per cent by the end of 1990, most of which had been retained by the final land users who were not supposed to transfer their land to the open market.

A substantial amount of land laid idle in the hands of land users. Referring to Figure 1, the mounting of unused land from 1979 to 1983 kept up with the land supply rate. Following that, 1984 and 1985 saw a boom in the economy and in associated land utilisation. The standstill of 1986 stopped this

short-lived euphoria before a recovery in 1987. The cycle repeated itself in the period 1987–90. Overall land hoarding reached its first peak in 1984, when 30 sq km land lay idle. Then, idle land reduced to 18.8 sq km in 1987. But again, overall land hoarding mounted to 37.3 sq km in 1989. In terms of the ratio of land hoarding/total supply, the peak occurred at 1983 when it reached 73.2 per cent, which declined to 33.0 per cent in 1990 when the unused land amounted to 34.1 sq km.

Industrial land had been in generous supply all the time to meet the final land users' demands, in accordance with the government determination to absorb inward industrial investment. However, the phenomenon of land hoarding was also more significant than in the overall picture. Since 1981, a substantial proportion of industrial land has been held unused, increasing at the rate of 115.3 ha per year, and land hoarding reached a peak of 10.6 sq km in 1990. In 1985, 55.3 per cent of total land supply lay unused, and this ratio rose to the highest level so far of 56.4 per cent in 1990 (see Figure 2). As the land utilisation rate lagged behind the land supply rate, there was an ever-increasing amount of unused industrial land. A comparison between the aggregate take-up of industrial land and the aggregate industrial floorspace shows that the overall industrial land-use density had substantially increased. If the floorspace density in 1983 is taken as 1.0, it rose to 3.5 in 1986 and 5.1 in 1990. The rising industrial land-use density suggests that the genuine land users might have been squeezed by speculative land banking. With the existence of an ample industrial land stock, industrial land was, however, becoming less readily accessible to the real tenants. Ostensibly, the cheap industrial land supply did not greatly stimulate economic production, given the assorted evidence of land hoarding and of rising industrial land-use density.

4.2 Property Capital Value Upsurges

Because insufficient land was available to the commercial property market, the capital val-

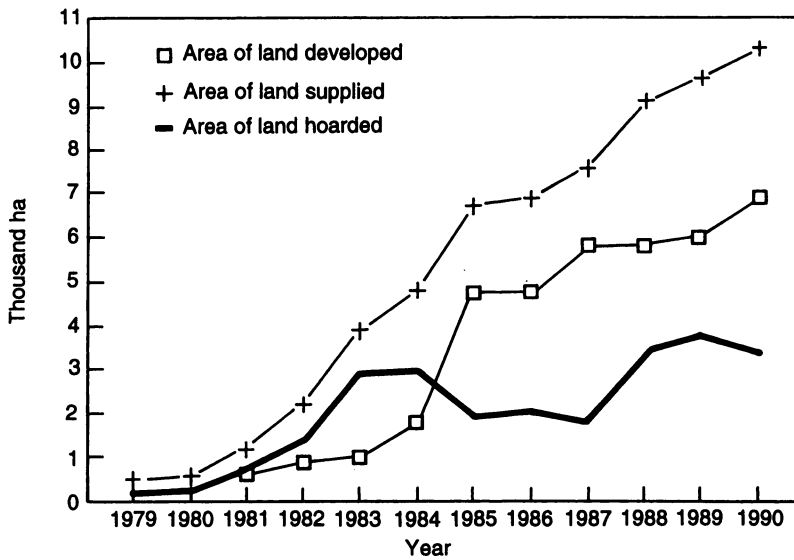


Figure 1. Overall land hoarding in Shenzhen. Source: *Shenzhen Real Estate Markets Year Book, 1991*.

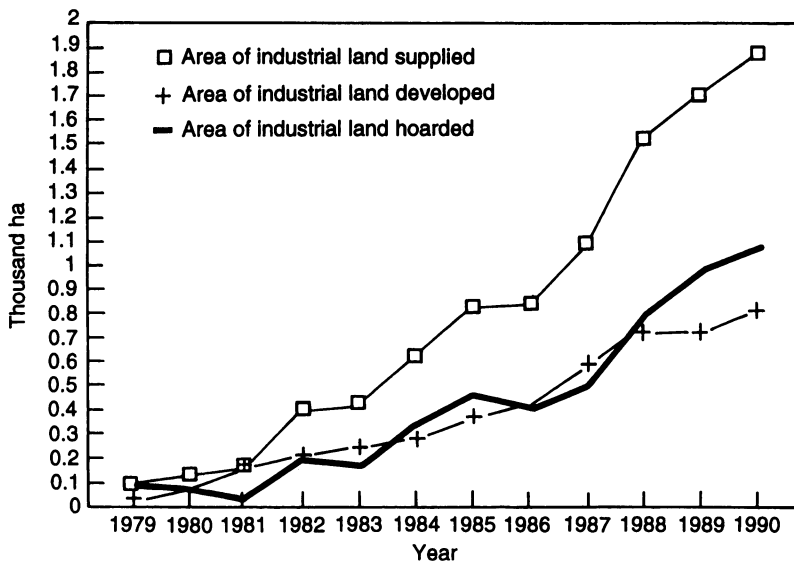


Figure 2. Industrial land hoarding in Shenzhen. Source: *Shenzhen Real Estate Markets Year Book, 1991*.

ues of some properties experienced an unprecedented upsurge to different degrees (of inflation-index adjusted). Every property sector in the markets for external customers had undergone persistently rising values. Multi-storey housing had a 79 per cent increase in property value in 1990 (on a 1984 basis), while retail, high-rise housing, industrial

property and offices maintained increases of 50 per cent, 41 per cent, 38 per cent and 23 per cent between 1984 and 1990, respectively (*Shenzhen Real Estate Markets Year Book*) Compiling Committee, 1992). Because of high inflation in 1986 and 1988, and the consequent political upheaval in 1989, industrial, housing and office property mar-

kets for domestic customers saw their real capital values decline during these periods. However, in late 1989 and 1990, all sectors realised considerable capital gains of between 100 per cent and 12 per cent on their 1984 value bases.

This property value appreciation was also in part due to rising land prices. The proportion of land value in the final capital value of property is an indicator revealing the impact of land price on the final price of building. Land demand is a derived demand; therefore, the residual valuation method for the land value assessment is widely adopted. But it should be noted that the prerequisite for using this method is that land be in an ample supply. In other words, the capital value of a building determines the value of land where the building stands, provided that land provision is not a constraint. When the land supply is restricted, it can be the land value that determines the final property capital value, if there is still room for property prices to grow. Take some housing cases in the SSEZ, for example, where the coefficient of land value/property capital value was 0.35 in 1987 and 0.39 at the end of 1990. Then it escalated to 0.54 in the middle of 1991, and to 0.64 in September 1991. It was reported that the figure would reach the historical level of 0.76 according to an inference based on last land-bid prices (*Shenzhen Real Estate Express*, 1 February 1992). Clearly, the shortage of land commercially available was attributed to the escalating of property prices.

4.3 Drainage of Local Government's Potential Revenues

Land rents or land-related incomes are important sources to the local government treasury. Thus, subsidised land supply inevitably impairs government financial income, if it is not paid off by the expected economic growth. Furthermore, land laid idle is another great loss to the local government in terms of its losing control of the future land supply and recovering appreciated land value. Because of the loophole in the new land policy

which led to too much subsidised land supply, up to the end of 1990, the Shenzhen government only received 912.9m yuan in the form of land-use fees and lump-sum payments from land-use-right transfers (*Shenzhen Real Estate Markets Year Book* Compiling Committee, 1992). If the principle of commercial land supply had been firmly adhered to, government income from land transactions would have been 2254.1m yuan, in the sense that 50 per cent of land released justifiably belonged to the category of fee charge. Actual income only accounted for 40.5 per cent of the total which should have been collected. Cheaply supplied land not in full use is not productive, which constitutes a hidden waste of public assets. Therefore, the financial drainage from local government and the inefficient use of public assets were substantial and alarming.

5. Is this Land Policy Justified?

This evaluation of the new land policy raises two questions. First, has cheap land done what the government expected in promoting economic growth? Secondly, does this land policy help local government to build up its long-term financial capacity in such a self-sustained development?

5.1 Land Users' Own Assessment

A survey of the Shenzhen tenants' assessment of offered incentives was carried out by the author in the form of a mailed questionnaire to addresses randomly picked from a Shenzhen enterprise directory. The survey was designed to find out land users' preferences between various incentives offered to them. The three main incentives are: tax allowance, low workforce costs and subsidised land provision; and they were asked to rank these in order of significance to their business operation. Based on the returned questionnaires in the manufacturing sector, 55.6 per cent of respondent indicated cheap premises to be the least significant incentive,

while the rest saw this as the second-least-important condition. On the whole, cheap premises deriving from cheap land was ranked lowest of the respondents, 88.9 per cent considered that their occupied premises were not at all expensive, which implied that they could pay more for the same premises. In the office sector, all respondents thought that having a good location was particularly important, and worth paying more for. Despite all being satisfied with their office locations, they did not regard the prices paid for space and its location as expensive. In other words, all investigated offices would be prepared and willing to pay more for their occupied premises.

The capital value appreciation of various properties implies that property prices were not an issue of very much concerned to users. At least, leasehold tenants, in 1990 who accounted for 64 per cent in housing, 46.6 per cent in office, 50.8 per cent in industrial and 21.2 per cent in retail, were not worried about the rising costs of premise occupation in view of the fact that rising prices were a consequence of competitive bidding between the users. Thus, the rising price of obtaining space was no obstacle to the competitive land users. The sector of owner-occupation also demonstrated that industrial investments were not, by and large, stimulated by the cheap land supply. Referring to Figures 1 and 2, ostensibly cheap land supply did not stimulate the use of land. On the contrary, there was a quite high correlation between industrial land supply and land hoarding. Therefore, the cheap land supply was not really a principal cause of appeal to land users.

5.2 Government Financial Status and Economic Growth

Without sufficient financial means, local governments can hardly fulfil their role of providing public goods and utilities which are not normally supplied by the private sector. Although the economic reform diminishes government's liabilities from those of

omnipotent operators to those of market regulators, it has by no means discarded the government function of actively promoting social progress and economic growth. Urban social housing and infrastructure development remain prime concerns of local governments, constituting a basic condition for long-term sustainable local development. However, the reform also diminishes governments' tax income by allowing public enterprises to retain more revenues and by giving private companies tax concessions. The SSEZ authority was told not to expect very much tangible top-down help. Instead, it was expected to become a self-reliant city, though it was a new town development. Therefore, in order to build up a sound local fiscal base and to maintain its roles both as an economic promoter and as a local social and physical infrastructure provider, and in the absence of an adequate development allowance from central government, the SSEZ local government was put into a situation of thoughtful calculation rather than one of the single-minded giving of incentives. The task of consolidating the SSEZ government's financial capacity is of equal importance to that of maintaining the momentum of local growth.

5.3 Who has Benefited from the Subsidised Land Supply?

Whether the targeted recipients can secure the designated benefits is the most important aspect in policy evaluation. We expect to find out who has benefited from cheap land by examining the land and property development process in the SSEZ. Green land should be installed with facilities and premises be built before land users can start their various social and economic activities. This process is called "property development" which is "an industry that produces buildings for occupation by bringing together various raw materials" (Cadman and Austin-Crowe, 1991). Another alternative definition emphasises the outcomes of property development and considers that it is "the process by which

Table 1. Development profits of all property in aggregation

	1984	1985	1986	1987	1988	1989	1990
Development costs (Ym)	283.3	589.4	987.1	827.6	1261.9	1583.9	1507.6
Capital value (Ym)	479.4	1027.5	1818.7	1620.8	2449.7	3019.5	2669.2
Development profit (%)	69.2	74.3	84.2	95.8	94.1	90.7	77.0

Note: Development profit = (capital value—development costs)/development costs.

Source: *Shenzhen Real Estate Year book, 1991*; *Strategic Planning in Shenzhen (1989)*; and *Chinese and Foreign Real Estate Times (92/1 p. 41)*.

development agencies, together or on their own, seek to secure their social and economic objectives by the improvement of land and the construction or refurbishment of buildings for occupation by themselves or others" (Byrne and Cadman, 1984). The land and property development process involves many actors, among whom developers dominate and are largely in control. The other significant actors are land owners, investors, and end-users as well as government.

Table 1 reveals the general profitability of property development between 1984 and 1990. Comparing it with its counterparts elsewhere, developers in the SSEZ captured a greater margin in property development, in spite of having had recently to make concessions to other actors in the property game. Although development profitability had been falling relatively since reaching a peak in 1987, property development in general remained an extremely lucrative business.

However, because a substantial amount of land went at a low price or free to land users, the land owner or the local government was not in a position to benefit from the property boom by way of rising land rents. Table 2 demonstrates that the proportion of free land use in total land allocation has been declining since the new land policy took effect in 1987. But, the quantity of land being used which was exempt from fees and/or rents still accounted for more than 80 per cent at the end of 1990. Therefore, the land owner/local government was not a beneficiary during the property development.

As far as the property investors are concerned, the indicators of capital value appreciation/depreciation and of yields are

employed to examine the performance of property investment. Capital value appreciation occurred in all property sectors to varying extents, despite the industrial sector in the domestic market only seeing a slight increment in 1990—after four consecutive years' falling from its 1984 base line. The real investment yields look very satisfactory. With respect to average annual total returns, generally speaking, property investment at Shenzhen is a very-well-performed business (see Table 3). It can be concluded that investors on the whole had gained substantially from their property investments.

Finally, it is found that tenants were generally paying more and more due to the tight supply of rental premises. From 1984 to 1990, tenants faced average annual rent increases of 2.1 per cent (multi-storey housing), 5.4 per cent (high-rise housing, by 1987), 16.3 per cent (office), 7.7 per cent (retail) and 4.1 per cent (industrial) in domestic markets, and 4.3 per cent (multi-storey housing), 6.4 per cent (high-rise housing), 22.1 per cent (office), 12.2 per cent (retail) and 13.8 (industrial) in external markets. All these increases are adjusted by the inflation index.

By and large, the benefits derived from cheap land and gained during the property development process were retained in the forms of rising rentals, capital appreciation and substantial development profits. Therefore, developers and investors were the prime beneficiaries, while tenants bore the rising expenditure of premise occupation due to property undersupply, and the land owner (government) not only failed to receive a proper share from the booming market but

Table 2. Financial categories of land allocation (percentages)

Year	By bid and auction	By agreement	Land-use fee levied	Land used free
1986	0.00	0.00	7.70	92.30
1987	0.07	0.14	7.23	92.56
1988	0.12	2.58	7.88	89.42
1989	0.16	4.42		88.02 –
1990	0.26	6.03		86.74 –

Note: Due to lack of data on land plots being charged land-use fees in 1989 and 1990, the amounts of land used free in those two years would have reached a maximum if the total quantity of land being charged land-use fees maintained the same level as that in 1988, which was 721 ha.

Source: *Shenzhen Real Estate Markets Year Book 1991, Shenzhen Real Estate Express 1991, 1992, weekly*.

Table 3. Average annual total returns, 1984–90 (percentages)

	Multistorey housing	High-rise housing	Office	Industrial	Retail
Domestic market	28.3	20.5	18.5	17.9	42.4
External market	32.1	21.9	15.4	21.8	20.4

Note: All data are adjusted by inflation index.

Source: *Shenzhen Real Estate Markets Year Book, 1991*.

also lost the edge in manipulating the land market for public benefits due to the fact that a large amount of idle land was in the hands of end-users. The exception is the self-developed owner-occupation land user, who can secure the retention of the land incentive because there is no way for benefits to leak to other actors. Most state/public enterprises fell into this category; thus it can be said that they are beneficiaries in that they do not have to pay higher market prices for land use and premises' occupation.

5.4 An Alternative Road Led by Subsidised Land Supply

The potential value of a large quantity of green land was the asset which allowed the SSEZ government to kick-start the stagnant local economy by offering inexpensive land leasing which could be traded-off against the prospect of land users' implementing their investment proposals. No sooner would initial business be established, it was supposed, than an internal driving force would have been created, providing a source for future

government revenue income, although small at first. With the first fiscal income received, local government would then be able to start to play a positive role in promoting local economic development by investing in upgrading physical as well as social infrastructure. As a result, the better infrastructure would facilitate further economic growth. During that process, the external thrust of government assistance would be phased out, while market strength gradually took over. Gradually, this benign circle would enable local government to gather strength to allow further substantial infrastructure development. When that circle spiralled to a certain level, accompanied by other favourable market conditions, the take-off of the SSEZ's economy would be possible (see Figure 3). This is just a supposition. In spite of that, it is noted that it would commonly take a fairly long time to reach that stage.

However, the practice of land hoarding does not fit in with this hypothesis. The cheap allocation of raw land led to faulty ignition of the economic machine, as the statistics of land hoarding give evidence.

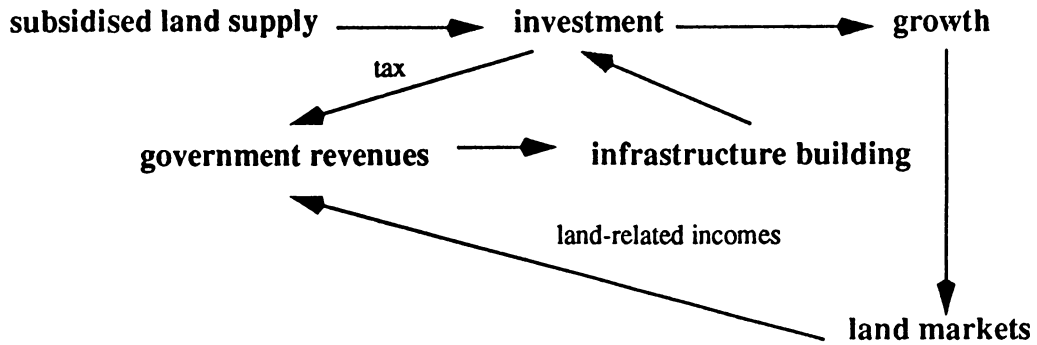


Figure 3. The road to growth.

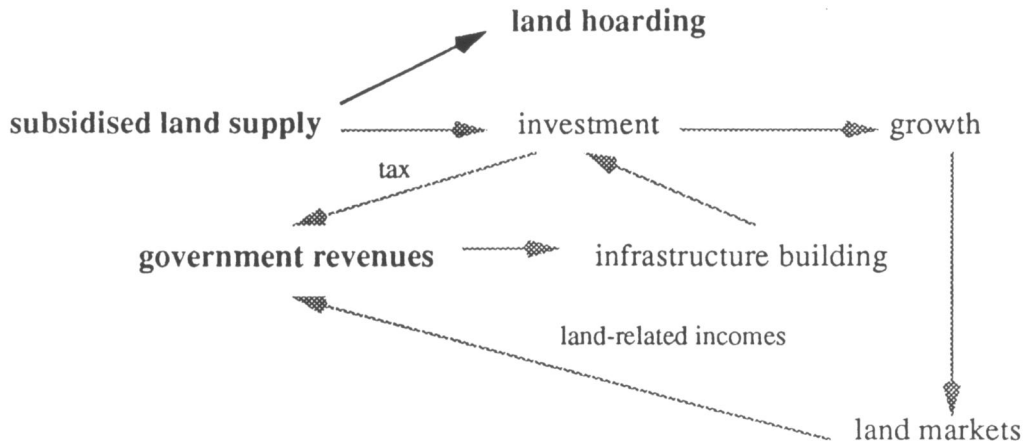


Figure 4. The road to growth is by-passed by land hoarding.

Thus, land hoarding roughens the path to economic take-off. Any delay in land development and subsequent occupation leads, whether due to the intention of land speculation or by financial restraints, to a discrediting of any local government fiscal plan which envisages self-sufficient future incomes as soon as the urban economy commences to run (see Figure 4). Land revenues and corporate taxes are two major sources for local government income. Handicapped by reduced

income from land rents, local government could not put into full operation its plan of providing public goods without a sufficient flow of complementary business tax income.

5.5 In-built Pressure on Land Release and Land Market Corruption

The parallel supplies of subsidised and of commercialised land create a dual land market. On the one hand, land can be accessible

at a price much below the market level. On the other hand, land users who do not have access to cheap land have to compete for land on the open market. Putting aside the issue of equal opportunity, which should be addressed in a supposed market economy, the disparity in the modes of land provision has imposed an enormous pressure on government to release subsidised land using various excuses. The presence of a dual land market creates an in-built pressure on subsidised land release, which leads to a vicious spiral of ever-greater pressure of demand on cheap land supply. An abundant supply of subsidised land contracts the commercial land supply, which coerces commercial land prices upwards. The consequent widening gap between the prices of subsidised and of commercial land provides enough motivation to land users to claim more subsidised land, for whatever reasons. The subsidised land can make a huge potential profit in trading with other lands users who do not have the right to claim cheap land. Easy gains from land trading drive land dealers to impose further pressure on the government to supply more cheap land. The interaction of the two land markets results in more land being drained away cheaply. Because of a unique government structure and having a tradition of an omnipotent state and public-sector economy, it has been very hard for the Shenzhen local government to resist land demand pressures from the state enterprises and various public bodies who have turned to commercial business. And in an environment where entrepreneur spirits are encouraged, illegal land trading is hardly controllable, for land transactions occur in the name of joint-ventures or something else of ostensible respectability.

6. Conclusion

Having found that the cheap land incentive has not fully achieved the goal of facilitating land users' production, the land supply policy in the SSEZ clearly needs revision. Although the policy is designed to reduce land-use costs, the land-use costs are in fact

determined by market forces and the market equilibrium of demand and supply. Meanwhile, the provision of cheap land has become a drain on local government revenues. Furthermore, complicated by lax administrative control and inadequate legal discipline, land hoarding has made the SSEZ government lose its edge in the control of the land market for public benefit.

The SSEZ particularly needs investment in land and property to make more land and premises available to coming users, as economic development takes place by means of quantitative business commencement rather than qualitative technological innovation. Industrial firms in 1990 were 24 times more numerous than in 1979, and employment expanded 20.8 times during the same period (Shenzhen Statistics Bureau, 1981–92). Obviously, land availability to genuine land users is a crucial prerequisite in Shenzhen's economic growth. Because of the financial handicap of the local government in carrying out land development, urban areas without adequate infrastructure have delayed the opening-up of areas beyond the built-up districts of the SSEZ. In that sense, private sectors can play and should be encouraged to play an essential role in land and property development in order to facilitate local economic growth.

In a country where free land utilisation has existed and the state economy has been overwhelming for more than 30 years, resistance to land-use reform is enormous. The old land-use system has been closely incorporated into the system of public enterprises which still forms the majority part of the national economy. In the absence of an effective legal system, administrative control on the disciplines of land use and land transactions is hard to implement, particularly in a period of drastic transformation where innovations are specifically encouraged. Without effective management from the government, corruption in land markets is bound to occur if alternative market disciplines are not applied. This half-baked land policy does not lead to the final establishment of the market allocation mechanism.

Therefore, the ongoing land policy should be changed in order to create a properly functioning land market, compatible with general practice in a market-oriented economy. First, the practice of cheap land provision should be abandoned and the dual land market abolished. In cases where financial subsidies besides tax exemptions are really needed by land users, a form of ear-marked allowances rather than of cheap or free land could be adopted. Secondly, the regulations about land developments have to be seriously observed to deal with the legacy of land hoarding. The SSEZ government should be firm in tackling this economic corruption, and take back any unjustified stock of underdeveloped land for other development uses. Finally, in order to curb land speculation and to retain any incremental value, the SSEZ government should make planning permissions lapse after a specific time—say, two years from the date of grant of such permissions, if no development occurs. Meanwhile, a special tax could be levied to punish holding vacant land. Then, the development charge should be applied to the newly initiated development schemes, if the site value has appreciated substantially due to the new market conditions. By doing that, a proper

land-market mechanism could be established to assist the general task of social and economic development.

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