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EAST ASIAN HISTORY AND CULTURE REVIEW

Territorialization of State Power through Land Development in Southern China [1]

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Abstract

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

Introduction

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

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

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

The issue under investigation here is situated at the interface of the existing lines of scholarly inquiry concerning changes in urbanization, land-use development, and central-local fiscal relations in post-reform China. In advanced capitalist economies, it is believed that the production of the urban built environment is intrinsically related to the accumulation and circulation of capital. What has been the case in a China undergoing market transition? How does capital accumulate via land development in a transition economy? What is the relationship between land development and local public finance, and how does this relationship change over time and across space?

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

The result has been a shifting emphasis of capital investment from the rural to the urban sector, or from the countryside in the 1980s to cities, especially large cities, after the 1990s (Ma and Wu 2005; McGee et al. 2007; Lin 2007, 2009b; Hsing 2006, 2010; Huang 2008). An integral part of this process of urbanization of capital has been a popular local practice to capitalize on the land within the boundary of the urban jurisdiction and its rural vicinity. This capitalization of land has been undertaken in at least three important ways. First, the land conveyance fee collected by municipal governments has been used to finance the development, improvement, and maintenance of the urban built environment so as to attract foreign investment and enlarge the tax base (Wu 1999, 2010; Lin 2009b). Second, the urban land owned by the state has been leased out by municipal governments in a differentiated manner to different users for different purposes. Industrial land is usually leased out at very low cost in order to lure foreign investment. Once the inflow of foreign investment has brought about the momentum of growth and increased land value, other kinds of land are then leased out for commercial and real estate development at high prices to compensate for any loss in early industrial development. A vibrant built environment for urban economic growth can then be created to generate sustained tax revenue

(Lin 2007, 2009b). Finally, urban land has been used by many investment and development corporations set up by municipal governments as collateral to obtain bank loans and mobilize the capital needed for the upgrade and expansion of the urban built environment (Xu and Yeh 2005, 2009; McGee et al. 2007). In accordance with Hsing's introduction to this special issue, this paper argues that the politics of spatial production is to be understood as a process of territorialization of the local state, conditioned by its capacity to control land and mobilize capital. Territorial expansion and consolidation through land development projects are key to local state building. In this process, the expansion and contraction of jurisdictional boundaries to force rural-urban integration for the sake of land control are key to the politics of territorialization in China today.

Definitional and Methodological Issues

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

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

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

The empirical case chosen for this study is Guangdong Province, which is located on China's southeastern coast with close proximity to Hong Kong and extensive preexisting social connections with overseas Chinese in the Western world. Among China's thirty-one subnational economies (provinces, autonomous regions, and special municipalities), Guangdong was ranked third in terms of total population (including migrants) and fifteenth in land area in 2010. However, this southern province was ranked first in gross domestic product (GDP), exports, and utilized foreign capital investment. The province has made an outstanding contribution to the national economy in exports (31 percent) and attraction of utilized foreign investment (24 percent), both of which are greater than its share of land (2 percent) and people (7 percent) by a large margin. Obviously, Guangdong represents a Chinese regional economy with wide exposure to the intrusion of global market forces. It should be acknowledged that this case study of a leading regional economy cannot be taken as representative of the entire country. Nevertheless, a study of Guangdong can generate significant insights into the nature and dynamics of the transformation of a socialist regional economy that has integrated itself with the global orbit of accumulation by dispossession. Furthermore, an evaluation of the experiences, both good and bad, of a province that has moved "one step ahead" of the country in regional development can yield important lessons for other Chinese regions that have yet to negotiate with the forces of marketization and globalization.

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

Guangdong as Forerunner

Among Chinese regions, Guangdong Province is the one most illustrative of how a regional economy under state socialism could be dramatically transformed by the forces of marketization and globalization. In contrast with other Chinese regions, Guangdong is characterized by its gateway location, easily accessible to overseas investors; its extensive social connections with overseas Chinese; and its position relatively distant from the political center of the nation. The existence of Guangdong's global social connections, coupled with its geographic proximity to Hong Kong and Taiwan, has allowed the region to enjoy greater opportunity than its peers in terms of external capital mobilization, information about the global market, advanced technological know-how, and modern managerial skills.

Guangdong was chosen by the post-Mao regime as a laboratory to test the feasibility of developing a socialist market economy with Chinese characteristics. Since 1979, the province, along with Fujian, has been allowed to implement special policies (*teshu zhengce*) and move "one step ahead" of the country to experience reforms and "opening up" (*gaige kaifan*). Such a special arrangement was made not so much to give Guangdong preferential treatment, but to use it as a testing ground for an uncertain idea that carries a risk of failure. To the postreform regime, Guangdong was the chosen one because any possible failure of "reforms and opening up" there would not have devastating effects on the mainstay of the Chinese economy. Although no additional state capital investment has been committed to Guangdong since the reforms, the region has indeed been given greater leeway than its peers to practice market forces, attract foreign investment, promote exports, and engage with global capitalism.

Land Development in the Pearl River Delta

The process of land development in Guangdong since the reforms took place initially in the towns and villages of the countryside, particularly in the extended metropolitan regions of the Pearl River Delta in the 1980s (McGee 1991; Lin 1997, 2001). Politically, the rural areas have always had the weakest links with the state in terms of both central supports and control, which made it both necessary and possible to pursue locally driven economic growth. The rural areas were also the places where economic reforms were initiated earlier and more successfuly than in their urban counterparts (Naughton 1995; Lin 1997). Furthermore, foreign investment as one of the main sources of capital mobilization was pioneered by investors from Hong Kong in the early years of the opening up. Many of the rural townships and villages in the Pearl River Delta region were the hometowns of Hong Kong investors and therefore became destinations of foreign investment (Vogel 1989; Johnson and Peterson 1999). Finally, land and labor in the countryside were easily accessible to both domestic and international developers. As a result, regional economic development in Guangdong in the first decade of reforms and opening up was characterized by dramatic growth of the rural economy. The magnitude and extent of rural industrialization and urbanization of the countryside in Guangdong throughout the 1980s were so phenomenal that the leading positions held by large cities, such as Guangzhou, Foshan, Jiangmen, and many others, were effectively challenged and undermined.[2] The peculiar experience of rural industrialization and urbanization in Guangdong has been the subject of extensive documentation and various interpretations, ranging from the enthusiastic observation of a surprising "trickledown" effect at such an early stage of economic growth to the proposition of "region-based urbanization" as a viable alternative to city-based urbanization (Xu and Li 1990).

The emergence of many rapidly industrializing and urbanizing economies in the extended metropolitan regions of the Pearl River Delta has posed great challenges and competition to central cities such as Guangzhou. Decentralization of power and responsibility has compelled localities to find their own ways of mobilizing capital for economic development. Marketization and the opening up made it possible for localities to race and compete in the new field of locally driven economic development. Competition among localities has also been underscored by the new political reality, whereby the promotion of local cadres is directly linked with the record of local economic growth, so that government leaders of cities, counties, and towns have every incentive to speed up local economic growth and beat their rivaling neighbors. Competition extends into many sectors of the economy and areas of the province, but two main types of competition can be easily identified: competition among localities in the same region and competition among localities of the same level in the country. For instance, Guangzhou municipality faces strong competition from its neighboring economies, but it also has to compete with many central cities of the same rank in the broader national context. In a similar manner, Dongguan, a country-level economy and a major recipient of Hong Kong and Taiwanese investment, faced competition not only from its neighboring economies in the Pearl River Delta, but also from faraway rivals in the lower Yangtze Delta region, such as Suzhou and Kungshan. Whether the rivals involved are near or far, they are competing primarily for the attraction of external capital, setting up of export processing industries, and ultimately the growth of GDP.

Competition among localities for capital investment, industrialization, and GDP growth has to be materialized and grounded through the development of land, however. In the case of Guangdong, and arguably beyond Guangdong as well, land has become instrumental to the attraction of foreign capital investment, promotion of exports, and expansion of the local economy for a number of reasons. First, foreign investors are usually induced to China through the offer of tax concessions and low-cost land. For the localities in Guangdong, offering tax concessions provides little leeway to manipulate because central taxes are standardized and local taxes take only a small share.[3] By comparison, local governments (i.e., municipalities and county governments) have greater power and authority to determine how land is to be used by foreign investors and at what price, because, under the current land regime, municipalities and county governments are entrusted by the state to claim property rights over the land within their jurisdiction (Lin and Ho 2005). As a consequence, offering foreign investors low-cost (and sometimes no-cost) land, at least in the initial few years, has become a popular approach adopted by the cities and towns of Guangdong. Second, the growth of foreign investment, export industrialization, and GDP is commonly believed to be conditioned upon the improvement of the land-based urban built environment with an established infrastructure of telecommunications and transportation. This belief has been widely shared among local economic planners in their slogans of "building an attractive nest to lure a phoenix" (*zhuchao yinfeng*) and "building road networks to channel fortune" (*lutong caitong*). As such, the development of a land-based urban infrastructure has been taken as essential to the attraction of external capital, promotion of exports, and expansion of the local economy. Finally, land has been used as probably the only valuable, tangible, and fixed asset under the direct control of the municipal and county governments as collateral to obtain bank loans for initial urban growth, improvement of economic infrastructure, and further urban expansion. Unlike fluid forms of capital and labor, land is immobile and clearly demarcated within different territorial and jurisdictional boundaries. The competition among localities for foreign investment, industrialization, and GDP growth has been boiled down to a territorialized competition for land development.

Since the mid-1990s, many municipalities in Guangdong have engaged in a new project of land-based urbanization to meet the challenges and competition raised by their rural counterparts as well as other cities of the same level elsewhere in the country. The response of large cities in Guangdong to the competition of their rural counterparts has taken various forms, among which three are directly relevant to land development. To make cities attractive to foreign investment, many municipal governments have set up economic and technological development zones (*jingji jishu kaifaqu*), which are larger in scale and boast better infrastructure than their rural counterparts. Because the inner city has suffered from congestion and pollution, most of the newly established development zones are located in the outskirts of the city, with easy accessibility to ports and other transport facilities. A prime example is the Huangpu Economic and Technological Development Zone, which was established in 1984 in the outskirts of Guangzhou. Although many of these development zones have given concessions in land leasing and taxation to foreign investors, the subsequent inflow of capital investments and the agglomeration economies brought about as well as the upward effect on land prices in the city have been sufficient to make a long-term profit for the city.[4] As such, the land development involved in the setting up of "development zones" has served the double purpose of mobilizing capital from foreign investors and property appreciation for local revenue generation.

The second urban response to rural competition has been to substantially improve, upgrade, and expand the urban built environment so that the comparative advantages associated with the city and urbanization economies are further enhanced. The approach adopted was similar to the practice of "place-making" and "place-promotion" already well documented in the literature of urban entrepreneurialism in the West (Harvey 1989; Hubbard and Hall 1998; F. Wu 2000; Lin 2007). The Chinese case is distinguished, however, by the direct involvement of municipal governments, not simply as planners but also as investors and developers. Since the 1990s, large cities in Guangdong and particularly the Pearl River Delta region have engaged in upgrading and expanding their urban ring-road networks to break the bottleneck that had existed for decades because of Mao's strategy of urban containment. Once the bottleneck was removed, new urban space was created to enable the development of a large number of urban entrepreneurial projects, such as new city centers, shopping malls, commercial housing, and all kinds of urban amenities. In the capital city of Guangzhou, a new urban developmental strategy was formulated in the 1990s, aimed at a substantial upgrade and expansion of the city's built environment. The strategy has been implemented through the development of three ring-road networks; a metro railway system; a new city center; the sixty-three-story Tower of China International Trust and Investment Corporation (CITIC), which serves as the signature building of the new central business district; an international convention center; an Olympic sports stadium; an international airport, which has the largest capacity of freight and passenger transport in the region; and a new port in Nansha (Gaubatz 1999; Lin 2004; Xu and Yeh 2005). Improvement of the urban built environment has helped Guangzhou to reassert its leading position as a regional center of transnational capital and multinational corporations. Moreover, an upgraded urban built environment has had the immediate effect of boosting land property prices for the city and thereby contributing to the growth of the urban economy and generation of revenue for the municipal government. Although the improvement and upgrade of the urban built environment required capital input, which usually takes the form of loans from state banks, the overall outcome of urban development has significantly benefited municipal governments in their attempt to enhance urban competitiveness, attract global capital, and generate local revenue.

Finally, the urban housing sector, as one of the defining features of Chinese cities under socialism, has been subject to commodification and commercialization. The cities in Guangdong are among the first in the country to have commercialized the urban housing sector because of its special allowance to practice, its local established tradition in trading, and, most importantly, its geographic proximity to Hong Kong as the source of capital, information, and buyers. By commercializing housing provision, municipalities have managed to turn housing development from a burden of social welfare into a major source of revenue generation and, hence, original capital accumulation. This has been done in two important ways. Municipal governments could take land from the public sector of free administrative allocation (*huabao*) and lease it out through conveyance (*churang*) to the commercial sector for housing development. The price difference between free administrative allocation and paid conveyance has then contributed substantial profits for the municipal government to make. There is another way of making housing development even more lucrative. Municipal governments can use the exclusive authority given to them by the state to expropriate land from the rural vicinity at low cost and lease it out through conveyance to developers for commercial housing developments at a high price. The difference between the cost of land expropriation and the income from land conveyance can be another source of profits and revenue generation (Lin and Ho 2005).[5]

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

The Twin Process of Land Development and Urban Administrative Expansion

The process of land development described in the foregoing section can be illustrated with data and information collected from Guangdong. Given the centrality of land in local revenue generation and its sensitivity to state monitoring, it is no easy task even for the central government to know exactly how much land every locality has and how much of it has actually been used for development purposes. It was not until the early 1990s that the central state became determined to undertake a nationwide land census to gather detailed information about China's precious land resources. It took nearly eight years for the census to be completed for all localities in the country. The result was then adjusted to a standard date of 1996, in a manner similar to that of a population census (Lin and Ho 2003). A comparison of the data for 1996 and 2004 reveals a pattern of land development characterized by industrialization and urbanization. In a time span of eight years, agricultural land shrank by 242,000 hectares (1.6 percent), whereas land used for industrial and urban development expanded by 220,000 hectares (19 percent). At the same time, land used for transportation increased by more than 31,000 hectares (40 percent).[6]

Within agricultural land, the biggest drop was in cultivated land (6.7 percent). Although there was an increase in the land used for orchards and plantations (*yuan di*) as a result of the growth of market farming and the commercialization as well as diversification of the agricultural economy, the loss of cultivated land and forest exceeded the gain of orchards and other agricultural land by two-thirds. Obviously, much of the lost cultivated land had been used for nonagricultural purposes, such as industrial, urban, and transport developments. For the land used for industry and settlements, the biggest increase occurred in "stand-alone industrial and mining sites" (*duli gongkuan*) (58 percent), the growth of towns (52 percent), and the expansion of cities (21 percent). Clearly, much land has been taken away from cultivation to set up industrial and development zones, build highways and roads, and support the growth of cities and towns. Geographically, land development has been focused on the Pearl River Delta region. Of the reduction of agricultural land in Guangdong, more than half (58 percent) occurred in the Pearl River Delta region. In a similar manner, expansion in industrial and urban land in the delta region accounted for 77 percent of the provincial total.

Theoretically, the expansion of the land used for industrial and urban development can take two forms: the sprawl of existing cities and towns or the establishment of new cities and towns. It is interesting to note that, in the case of Guangdong, land-use development has been dominated overwhelmingly by the sprawl of existing cities and towns. Few, if any, new cities or towns have been set up in recent years. On the contrary, existing cities and towns have been either annexed by central cities or merged to form bigger ones. From 2000 to 2005, the total number of prefectural cities (*diji shi*) in Guangdong remained a constant twenty-one. However, three important changes occurred. First, the number of counties and county-level cities declined from 77 to 67; second, the number of urban districts comprising a city of large scale increased from 45 to 54; and third, the number of towns decreased from 1,556 to 1,145 (Guangdong Province Statistical Bureau 2001, 79; 2006, 47, 129). This pattern suggests that there were two simultaneous phenomena at work. First, existing counties and county-level cities were turned into urban districts, many of which were in large cities, and second, existing towns were turned into urban districts or merged to form bigger towns. In other words, existing cities and towns, particularly the larger ones, have expanded their urban space by incorporating those smaller ones in their vicinity.

The recent expansion of urban space in some large cities and towns in Guangdong is closely interrelated with the pattern of land-use conversion identified earlier. The conversion of agricultural land for industrial and urban development has taken place primarily in the outskirts of large cities, where the demand for land has been high. Once the agricultural land within the municipal jurisdiction has run out, new land resources have to be found beyond the municipal boundary, and the boundary has to be broken through major administrative changes. This has been made possible by sometimes forceful annexation of both counties and county-level cities in the suburban areas of a central city and their transformation into urban districts under direct control of the central city. This approach has been adopted by central and large cities in the Pearl River Delta region. It started in the central city of Guangzhou, where a major administrative change was announced on May 21, 2000, to incorporate two of its suburban cities (Huadu to the north and Panyu to the south) into the urban districts. This practice was soon followed by many other cities in the region. On June 22, 2002, Jiangmen, a prefectural city, announced its annexation of Xinhui—a suburban city with a much bigger land area. An even more drastic and controversial administrative change was made on December 8, 2002, when Foshan—also a prefectural city with a small urban built-up area—incorporated four suburban cities (Nanhai, Shunde, Sanshui, and Gaoming) and turned them into urban districts under its direct control.[7] This process of annexation of suburban economies by central cities explains the increase of urban districts and reduction of counties, county-level cities, and towns.

The twin process of land development and urban administrative expansion has inevitably involved a territorial power struggle between a municipal government moving to claim and extend its power over the control of an expanded territory and the relocated suburban counties, towns, and villages hopelessly protecting their own territorial autonomy. Central to this political battling is the control over land as an asset and resource increasingly valuable to both sides. This territorial power struggle has involved a variety of practices, including zoning and "cluster" building, as well as new town developments (Cartier 2001; Ong 2006; Hsing 2006; Lin 2009a). In the case of Guangzhou, the forceful annexation of Huadu in the north and Panyu in the south into the urban district in May 2000 did not change the existing fiscal arrangement. Huadu and Panyu continued to function as separate administrative units with the same responsibilities and power in revenue collection. The annexation did not change the existing ownership of land, either. In other words, rural land in Huadu and Panyu continued to be owned by the rural collectives, and urban land in cities and towns continued to be owned by the state. Even the existing dichotomy of agricultural and nonagricultural populations in the household registration system remained intact, despite the change of Huadu and Panyu from a suburban county-level cities to urban districts. What really changed was the power to directly determine the planning and development of the land within the jurisdiction of Huadu and Panyu. Such power rested in Huadu and Panyu previously, but it was transferred to Guangzhou after the administrative annexation in May 2000.

With the power to control and determine land development in the annexed territory, Guangzhou's municipal government has been able to rearrange urban infrastructure in a much bigger space. The Baiyun International Airport, originally located within the urban district of Guangzhou, was moved out to Huadu in the north. Construction on the relocated and expanded Baiyun International Airport broke ground in August 2000, three months after administrative annexation took place, and was completed in August 2004 with an investment of RMB 19.8

billion. In a similar manner, the newly annexed Panyu district has been chosen as the site for the development of China's first high-speed railway station, for the train connecting Guangzhou with Wuhan and eventually with Hong Kong in the future. The newly acquired territories of Huadu and Panyu have been turned into new sites to accommodate not just the airport and railway stations, but also many old and polluted industrial facilities, as well as warehouses relocated from the central city so that the land vacated in the downtown area could be transformed into more profitable commercial and real estate developments.

On the other side of the battlefield, land has become the most important and, indeed, last countable asset for the county and township governments to effectively claim their territorial autonomy. The increased fluidity of capital and labor has meant that they can hardly be grasped in the hands of local governments. Only land with a demarcated administrative boundary can be taken as a resource from which revenue may be derived and political power may materialize. In a similar manner, and for obvious reasons, land has always been the basic resource for peasants to make their living. The forceful incorporation of rural counties and townships into the urban districts of central cities has therefore met with strong resentment from both rural governments and individual peasants. The immediate resentment and protests did not come from individual peasants, however. Many peasants simply have no knowledge about the long-term effects of a change in the administrative boundary of their land. To change the status of a rural county or town into an urban district of a large city may even create a (mis)perception among peasants that their residential status would be upgraded. Only the local cadres of rural governments are sophisticated enough to understand the negative effects of the administrative changes. The retitling from a mayor of a county-level city (*shizhang*) or county governor (*xianzhang*) into a district head (*quzhang*) is usually taken as a demotion, even though the official rank is kept at the same level. Such a "retitling" has meant, however, that local cadres of rural governments are now under the direct supervision of the municipal government and can no longer exercise any autonomy. The immediate resentment to urban administrative expansion into the rural hinterland have therefore come from the officials and cadres of the affected rural governments.[8] In recognition of the contentious nature of urban administrative expansion, the municipal government has taken advantage of its power in personnel assignment to instantly remove leading officials of the annexed rural governments and have them reassigned to positions elsewhere. In other words, territorial tension and contestation of power is reconciled through a territorial dismantling and relocation of power.

Social and Political Origins

The interrelated phenomena of land development and urban expansion identified above have to be understood in the broader context of a changing socialist political economy, particularly the reformulation of central-local fiscal relations that concerns investment and taxation. In the earlier era of state socialism and central planning, investment in capital construction (*jiben jianshe touzi*) was primarily a business handled by the central state through its budgetary allocation. Prior to the institutional reforms of the late 1970s, central budgetary allocation accounted for over 80 percent of China's investment in capital construction (McGee et al. 2007, 17). Under that system, local governments had neither the authority nor the ability to mobilize capital for their own investment. That system allowed the central state to maintain tight control over capital investment to fulfill its developmental agenda. However, it was unable to respond adequately and efficiently to various local demands for regional development. To arouse local enthusiasm for economic development, the central state has, since the late 1970s, relaxed its control over local developmental affairs, decentralized the power of decision making, and shifted its responsibility of capital investment to the locality. Local governments are now allowed, and indeed encouraged, to explore their own ways of mobilizing capital for investment. Consequently, the share of the central budgetary allocation in capital construction declined substantially, from over 80 percent in 1976 to less than 10 percent in 1992 (McGee et al. 2007, 17). For Guangdong, the contribution of state budgetary allocations to the investment in capital construction dropped from 65 percent in 1978 to less than 5 percent in 1992 (Lin 2009b, 272). With the gradual withdrawal of the central state as a provider of capital, local governments have to find all possible methods of capital mobilization and accumulation, including bank loans, foreign investments, and land development.

The shift of investment responsibility from the central to local governments was initially compensated by a system of "fiscal contract" (*caizheng baogan*), in which local governments were allowed to retain their surplus revenue after a fixed lump-sum revenue had been remitted to the central state. The system provided great incentives to local governments for revenue generation. Because the lump-sum remittance was fixed for a period of time, the surplus revenue retained by local governments has enjoyed dramatic expansion as the Chinese economy made its double-digit growth. In other words, the benefit of rapid economic growth has been enjoyed by local governments, and little has been given to the central state. The turning point was in 1994, when the central state in Beijing took action to confront Chinese provinces and introduce a "system of tax-sharing" (*fenshuizhi*) to replace the previous "system of fiscal contract." The decision was made at the third plenum of the Fourteenth Party Central Committee in November 1993, became a budgetary law (*yusuanfa*) at the second plenary session of the Eighth National People's Congress in March 1994, and was implemented one month later (Chung 1994; Liu and Lin 1998; Tsang and Cheng 1994; Zhang 1999; Zhao and Zhang 1999).[9]

The impact of implementing the new "system of tax-sharing" since 1994 on China's national and regional development has been far reaching. It has become a watershed in the formulation of central-local fiscal relations in the postreform era. During the earlier years of the reforms in 1978–1994, local governments retained the bulk of the revenue generated under the arrangement of "fiscal contract" (*caizheng baogang*). In 1994, the central state managed to use its power and claim a share of the revenue roughly equal to that of local governments. Much of the revenue generated locally and retained locally to finance regional development has, since 1994, been taken away by the central state. Under this new arrangement, local governments have had to look for new methods of revenue generation outside and beyond the taxable budgetary categories. It did not take long before local governments came to realize that the most viable alternative would be to expand their extrabudgetary revenue, in which "selling" land or, more precisely, land conveyance, was one of the most important sources of revenue generation.[10] An analysis of the growth of local extrabudgetary revenue in both Guangdong and China between 1978 and 2005 reveals a pattern characterized by rapid expansion after 1994. The ratios of income from land conveyance to local extrabudgetary revenue are equally important. For China as a whole, income from land conveyance made up over 26 percent of local extrabudgetary revenue during the period from 1995 to 2002 for which data are available. The ratio was over 30 percent for Guangdong for the same period of time.[11] These ratios represent only the average level of the province and the nation as a whole. For municipalities and townships in some rapidly growing economic regions, income from land conveyance must have contributed a percentage of local extrabudgetary revenue significantly higher than the average figures reported here. Clearly, land development since the 1990s has become a main source of revenue generation and capital accumulation for local governments. The practices of land development and urban expansion that have characterized Guangdong since the 1990s have been driven by the motive of capital mobilization to finance the growth of the regional economy in a competitive world, and this motive has become an imperative after the reformulation of the central-local fiscal relation since 1994.

Conclusion

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

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

The territorialization of capital in contemporary China has manifested itself in two simultaneous dimensions: a region-based conversion of rural land into high-valued urban, industrial, and commercial developments across the country (a bottom-up urbanization) and a city-centered expansion of urban space into the rural vicinity (a top-down urbanization). Both dimensions are characterized by fierce competition for the power to control the increasingly valuable, yet dwindling, land resources. In both cases, territory is not simply a container, and territorialization is not a passive outcome of economic growth. Instead, territorialization has become a state project actively pursued by municipal and local governments to claim, consolidate, and strengthen power. Territorialization has functioned as one of the essential elements that constitute the complex "China story," with multiple implications for not only the evolving trajectories of economic growth but also uneven spatial development and societal transformation.

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Notes

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[2] For instance, the GDP generated by Guangzhou city (*shiqu*) contributed over 34 percent of the regional total generated in the Pearl River Delta in 1992. Significantly, this share dropped to only 23 percent in 1995, as other county-level economies in the hinterland dramatically expanded their shares. For detailed documentation, see Lin (2004, 34).

[3] For a detailed discussion of China's changing taxation system, see World Bank (2002) and Wong and Bird (2008).

[4] The concessions offered to foreign investors usually included a total tax exemption in the first three years of entrance to the zone and a 50 percent tax exemption for the following two years. The management committee of the zone (i.e., *Kaifaqu Guanweifei*) was given special authority by the central government to approve the establishment of foreign ventures in the zone up to a certain limit (e.g., US$30 million per project) beyond which central approval would need to be sought. The inclusion of real estate and commercial activities into development zones has been an interesting and arguably more profitable practice widely adopted. The establishment of a development zone usually starts with the leveling of land and the set-up of infrastructure (a road network, electricity, sewage discharge system, etc.), which requires capital investment. One popular approach is to form a partnership or joint venture with foreign developers who can provide the needed capital. The other approach is to use land as collateral and obtain bank loans from domestic or foreign sources. Once the infrastructure has been set up, the land within the zone will have a higher value than before and will generate profits when it is "sold" (i.e., conveyed) or leased out to commercial users. For detailed discussion, see Li (1998), Cartier (2001), and Lin (2009).

[5] A land conveyance fee is essentially a top-up price over the land after covering the cost of land expropriation (and infrastructure preparation, if any). For a detailed discussion of the difference in prices between land expropriation and land conveyance, see Lin and Ho (2005).

[6] The data used in this and the following paragraphs are from Guangdong Province (2005).

[7] It is interesting to note that Nanhai, Shunde, and Sanshui have been some of the most rapidly expanding county-level economies that occupied leading positions not just in Guangdong but in the nation. In contrast, Foshan had a much smaller economy and land area. This administrative change was so controversial that it involved the direct intervention of both the provincial and central authorities.

[8] One of the incidents reported in the news media was a riot mobilized by the local government of Daye, a county-level city located in the suburban area of Wuhan, Hubei Province. On August 6, 2005, the local government of Daye organized over ten thousand residents to protest against the annexation of Daye into the urban district of Huangshi municipality. The riot was subsequently cracked down. Top officials of the Daye government, including its deputy party secretary, deputy chairman of the People Congress, chairman of the Political Consultative Committee, and director of the Bureau of Civil Affairs, were sacked and stripped of their party memberships (Editor 2006).

[9] Guangdong was among the first allowed to practice the "system of fiscal responsibility" (*caizheng baoganzhi*) in 1980. Under this arrangement, a fixed sum of revenue was negotiated and agreed on between the central and provincial governments for remittance to the central

government. This lump-sum remittance was fixed in amount for five years. Since the remittance was fixed not by ratio but by amount, the locality was greatly encouraged to raise more revenue, because any surplus generated could be retained within the province. As the economy expanded later, this arrangement became a disadvantage to the central government because the share of the surplus increased but the amount of remittance remained fixed. It was subsequently changed and replaced in 1994 by a "system of tax-sharing" (*fenshuizhi*) in which localities were mandated by law to transfer to the central government taxes proportional to local income. For detailed discussions, see Chung (1994); Liu and Lin (1998); Tsang and Cheng (1994); Zhang (1999); Zhao and Zhang (1999).

[10] Extra-budgetary revenue includes five main categories: first, fees collected by administrative and institutional units; second, self-raised funds by township governments; third, income from government funds; fourth, income from state-owned enterprises and their administrative departments; and, fifth, other revenues. An analysis of comparable data during the period from 1998 to 2004 revealed that the largest source of income, nearly 70 percent of the revenue, lay in the fees collected by administrative and institutional units to which income from land development belongs.

[11] It is generally known to the central government and Chinese researchers that the bulk of local extrabudgetary revenue has been contributed by income from land development. Unfortunately, the exact magnitude remains unknown. For obvious reasons, local governments have every incentive to conceal the income made from land sales. It was estimated that China collected a land conveyance fee of 910 billion yuan between 2001 and 2003, was the equivalent of 35 percent of China's local budgetary revenue. Land conveyance fees collected in 2004 totaled 589 billion yuan, or 47 percent of local budgetary revenue. See Editorial (2006, 1). Another estimate widely circulated among Chinese researchers and in the news media has been that land conveyance fees accounted for at least 60 percent of the local government's extrabudgetary revenue. See Fu (2006) and Wang (2006). Ping Xinjiao, an economist from Peking University, estimated that China's local revenue generated from land sales and land leasing in 2004 was 615 billion yuan, 30 percent higher than China's total extrabudgetary revenue (470 billion yuan). See Ping (2006, 15). Li Xun's study of the case of Guangzhou suggests that land-related income accounted for 23 to 36 percent of the integrated revenue (both budgetary and extrabudgetary) of Guangzhou municipality between 1992 and 1999. See Li (2005, 32).

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