SESSION 4: INVESTING IN CITIES

THE CASE OF CHINA

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1990

Shanghai Pudong

2015
SHENZHEN

1980

2015
COUNTRY BACKGROUND

- China is **politically** highly centralized
- But **fiscally** it is only half-decentralized, with the central government holding taxing power
  - Tax revenues: Central 46%, Local 54%
  - Revenue expenditures: Central 15%, Local 85%
  - Local governments are not allowed to borrow by the Budget Law until recently
- **Land policy:** Urban land is owned by the state (represented by municipal governments), rural land is collectively owned by the villages, and only the state has the power to convert rural land for urban use
- **User fees** for urban infrastructure services are generally accepted by the public, but for many types of services user fees do not fully cover costs
GDP Growth Target Set by Central Government

- Local Tax Revenues
- Real Estate Development
- Employment
- Attracting FDI and other investment
- Public infrastructure investment
City governments respond to incentives under policy constraints...

**Constraints**

1. No tax power
2. Not allowed to borrow directly

**Solutions**

1. Land concessions
2. Borrow through urban financing platform
3. Boost real estate and other businesses
But the urban infrastructure finance model causes a number of urban problems…

PROBLEMS

Urban housing prices

Housing vacancy rate

Local debts

Social tension

Inefficient and Wasteful land use
The new round of economic reform announced by the central government attempts to deal with these problems...

- **Land reform**: to form a construction-land market that unifies urban and rural areas, and allow the sales, leasing and demutualization of rural, collectively owned buildable land under the premise that it conforms to planning.

- **Taxation**: to accelerate property tax legislation.

- **Municipal finance**: the newly amended Budget Law permits local governments to issue bonds within the limits set by the State Council, but prohibits other forms of local government borrowing.
Thank You!