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Dr. Tao received his PhD in economics from the University of Chicago in 2002. He is a long-time research fellow at the Peking University–Lincoln Institute Center for Urban Development and Land Policy and was previously a Shaw Research Fellow of Chinese Economy at the University of Oxford's Institute of Chinese Studies. With funding from PKU–Lincoln Institute and from other agencies, such as the National Science Foundation of China, he led a research team and started a large survey on urban migrants and dispossessed farmers in 12 cities across China's four major urbanizing areas: the Yangtze River Delta (Jiangsu and Zhejiang provinces), the Pearl River Delta (Guangdong province), Chengdu–Chongqing region (Sichuan province and Chongqing municipality), and Bohai Bay Area (Hebei and Shandong provinces). He is also working on a project to pilot new urban village redevelopment models in Shenzhen municipality and the Pearl River Delta.

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LAND LINES: *Why is the study of China's political economy and its transition so important to the country's future?*

TAO RAN: After enjoying nearly double-digit growth in the past three decades, China has become the shining star of the 21st-century global economy. People marvel at its successful transformation from a third-world country into the world's largest manufacturing base and second largest economy—an evolution that lifted 450 million people out of poverty. As China grows, however, it faces widening income inequality, serious corruption and pollution, and social injustice that has left hundreds of millions of temporary migrants without access to decent urban public services and tens of millions of undercompensated, dispossessed farmers transitioning into industrialized urban economies.

My research explores the institutional sources of China's fast growth in the past decades as well as the implications, positive and negative, of China as an alternative model for the developing world—as an effective, growth-oriented autocracy with heavy investments in infrastructure and industries, massive exports of manufacturing goods, and selective government intervention and industrial policies. I believe it's essential to predict what will happen to China in the near future, because it will have important implications for the whole developing world.

LAND LINES: *Why do you think it is important to study land and household registration? What do these studies say about the current state of China's socioeconomic structure?*

TAO RAN: China is in the midst of an urban revolution, sustaining a massive volume of rural-to-urban migration every year in the last three decades. About 200 million rural migrants are working and living in Chinese cities. Yet, under the persistent hukou (household registration) system, a majority of migrants with hukou registration in their homelands exist as “outsiders” or “temporary population” in their new cities of residence. They are denied access to welfare benefits, subsidized public housing, and urban public schools.

Their difficulties are compounded by highly distorted land use patterns. Typically, when countries urbanize, less than 20 percent of newly utilized land supports manufacturing, leaving a majority of that territory to accommodate migrant housing. Under the current Chinese land requisition-leasing system, local governments lease around 40 percent of newly utilized land to build industrial parks, leaving only 30 to 40 percent of the area every year for residential purposes.

China's current land use and household registration systems help to generate several dual socioeconomic structures as well. Besides the widely acknowledged urban-rural dichotomy, there is also a dual structure of urban permanent residents versus migrants. Another duality separates homeowners from urban renters who lag far behind in terms of wealth accumulation. As 90 percent of homeowners are permanent residents, and 95 percent of renters are migrants, these dual structures lead to a highly divided society.

LAND LINES: *What land use challenges will China face in the coming decade?*

TAO RAN: Many cities have constructed industrial parks, or “garden-style factories,” that make very inefficient use of land. Industrial companies lease land at an extremely low price and use only a part of it, leaving other areas undeveloped or allocated for large-scale greening projects. Local governments undersupply residential and commercial land in order to maximize profits, leading to undersupplied commercial/residential land markets, followed by serious bubbles in the real estate sector. The rapid rise in urban housing prices and the formation of a real estate bubble over the past decade has made it impossible



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Migrant worker dorms like these are common in Shanghai and other Chinese cities receiving a massive influx of rural workers.

for the vast majority of rural migrant populations to afford commodity housing in cities. In fact, even new labor force entrants with university degrees find that today's housing prices are far higher than they can afford. Clearly, housing affordability has become the main challenge to China today.

The aftermath of the 2008 world financial crisis had a huge impact on China. The fiscal and financial stimulus package implemented by the central government mainly benefitted local governments, which have continued to invest in even more industrial parks. Consequently, the Chinese economy has experienced more overcapacity in industrial infrastructure and manufacturing goods as well as more serious housing bubbles across all tiers of cities. This path is all the more unsustainable considering that China already suffered from overcapacity in manufacturing and real estate bubbles before 2008. Given the moral hazards of borrowing from state-owned banks and the fiscal illusion that



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the housing bubble will continue, local government debts have reached an unprecedented level of 10 trillion RMB, half of which was accumulated after 2009. If there is no real reform in the systems governing land, hukou registra-

tion, and local public finance, the Chinese economy will slow down quite significantly. In the worst-case scenario, the housing bubble will burst, leading to a full-scale financial and economic crisis.

LAND LINES: *What are some potential policy implications of your research on local governance and public finance in rural China?*

TAO RAN: China needs to reform its land and household registration systems so that migrants can access affordable housing and decent public schooling services in cities. Land has played an essential role in the making of China's growth model in the past 15 years—but it is also responsible for current economic woes. In my

view, a reform package that centers on land and urbanization provides the best chance of creating a better balance between the country's import and export rates by unleashing huge domestic demand and relieving the overcapacity problem in many Chinese industries.

I propose a gradualist approach that aims to build a more equitable dual-track system. Under the current land regulatory regime, land ownership is separated into urban and rural; while urban governments have the authority to allocate rural areas for urban development, rural governments do not have the same rights in reciprocity. This bias deprives rural residents of their development rights and leads the Chinese economy down a destructive path.

Total liberalization, however, may result in a crash of the existing housing bubbles when a large volume of rural land is made available to the market. To alleviate this concern on the part of local governments and urban homeowners, China may need to set up a rental property market track targeting the 200 million rural migrants who already live and work in cities. Half of them currently live in dormitories provided by their employers, and the other half reside in illegally built housing in urban villages without good infrastructure or access to urban public services such as education for migrating children. I propose a reform that would allow rural communities in suburban villages of migrant-receiving cities to take their nonagricultural land onto the urban housing market under one condition: for the first 10 to 15 years, they could build properties used only for rental purposes. After the transitional period, those houses would gain full rights, and they could be sold directly on the housing market.

LAND LINES: *What are the advantages of this design?*

TAO RAN: Insulating developable rural land in the rental market initially provides a cushion for the existing real estate market and prevents market panics and a bursting of the housing bubble. Merging the two tracks, however, would send speculators a credible signal that residential building prices will not rise further, and

so the central government could phase out its strict regulations on real estate markets installed since 2010 to curb the housing bubble. Such a reform package would contribute to a healthy growth of the housing market. Moreover, granting rural communities development rights—even if those rights were restricted during the transition period—would open the legal channel for them to apply for development loans.

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This opportunity would unleash a housing construction boom in urban villages and suburban areas and provide a lift for construction-related industries with significant overcapacity. Unlike the current housing bubble, this kind of real estate development is more socially beneficial and economically sustainable. Rural residents, particularly those living close to urban centers, would benefit directly. The growth in the rental property track also makes housing affordable for hundreds of millions of migrant workers, enabling them to settle in cities permanently. Urbanization has the potential to turn the Chinese economy away from the investment-driven model.

LAND LINES: *What is the key to the success of this reform?*

TAO RAN: The attitude of local governments is critical. Their concern over revenues is perfectly legitimate and needs to be addressed in the reform package. Under the current system, local governments are burdened with too many spending responsibilities, and they lack adequate revenues. After the reform, they would have limited power of land requisition and lose the sizeable land lease fees and bank loans associated with that

power. In the long run, municipalities should levy property taxes to generate a stable source of income for local public finance. Considering the strong resistance from wealthy and politically powerful residents of the cities introducing the property tax on a trial basis, however, it is unrealistic to expect this new tax to take effect soon.

I believe that another untapped source for local governments is underutilized industrial land. According to various reports, the floor-area ratio is only about 0.3 to 0.4 for industrial parks even in China's developed areas. Through reorganization by negotiation, it is possible to double land development intensity and convert some industrial land for residential and commercial construction. Our estimates show that local governments would be more than compensated for giving up the power of land requisition, and they could also use these revenues to pay back the debts and avert a financial crisis.

At the current stage of development, no reform in the Chinese economy is going to be easy. One certainly should not have any illusions about a quick fix. But the proposed dual-track reform package offers some real hope of boosting domestic consumption and alleviating the overcapacity problem in many sectors. One particularly favorable factor for this reform is the new leadership's emphasis on urbanization. Premier Li Keqiang has spent years on this issue and seems to have a genuine interest in achieving breakthroughs. This proposal may provide a realistic roadmap for such reforms.

LAND LINES: *What lessons can China teach?*

TAO RAN: The Chinese model successfully effects growth. It also generates several negative consequences, such as the overleveraging of land, social unrest resulting from land grabbing, environmental damages, and housing bubbles, which burden the urban population. The Chinese lesson is that for a country to grow, the government is essential; but that same government may overdo things and, in the long run, generate distortions that finally damage the sustainability of the economy and society. **L**