

LAND REFORM AND LAND DEVELOPMENT IN SHANGHAI'S TRANSFORMATION

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Abstract: With China's adoption of economic reform and the open-door policy in 1978, Chinese cities have experienced dramatic changes. A series of land reform measures have been carried out in China. This symbolised the establishment of the market mechanism and the demolition of the traditional allocation system used in the central planning economy. The private sector is permitted to participate in land market and urban development. As Shanghai further integrates into the global economy, global investments start to involve in the local land and real estate market. This paper attempts to understand what consequences the land policy reform has brought the city of Shanghai in its land use planning, land development and the local real estate market. Furthermore, it hopes to identify what challenges Shanghai may face and tackle with the deepening of the land policy reform

Keywords: Shanghai; land reform; market value; land development; public-private partnership

1 Introduction

The extensive research on urban studies, planning and land policy issues have indicated that land policy and land development plays a crucial part in the economic development as well as in the urban restructuring (Wigmans 1998; Needham 2003; Olds 2001; Chan 2003; Cheng 2003). Land issues involve not only land resources and capital but also various parties who have direct or indirect links with the land resources through land ownership or land use right. Therefore, how we make use of land in an efficient way and balance the interest of different parties in land transfer, including the economically marginalised ones, will influence the speed and result of specific urban (re) development process.

As China continues its economic reform and open door policy, many Chinese cities have experienced explosive economic growth and dramatic transformation of urban environment. Shanghai, as China's most important economic centre that hailed to regain its image as China's window to the world and one of the international economic, finance, and trade centre on the west bank of the Pacific Ocean, pays special attention to improve its urban physical environment and enhance the attractiveness and competitiveness of the city so as to attract business and investment. How to actively use urban land in a proper way has become a priority for the local government to face in formulating its new urban land policy.

This paper examines Shanghai's land reform during the era of reform, with special focus on the changes that the land policy reform has brought to the city of Shanghai in its land use planning, land development and the local real estate market. Following the analysis of urban land reform in the national context, the paper focuses on land reform in Shanghai in both regulations and practice. The paper points out that land reform facilitates the participation of private sector and private investment into the on-going urban restructuring activities in Shanghai and stimulates the emerging real estate market. The last part of the paper concludes that the new land policy has changed the relationship between the state, the market and the society, leading to a direct change in land use structure and the inflow of investment. A new real estate market is in the making.

2 Land reform in China

Under the central planning system before 1978, urban land was state-owned while farmland was collectively owned. Land was not considered as a commodity and therefore had no value. The state decided what and how much the dominant state-owned work units (*Danweis* in Chinese) produced, how much profit they were allowed to keep and how much urban land they were allowed to acquire for production expansion and residence use. The allocation of land was then free of charge for an indefinite period and the constitutions banned land transaction. Meanwhile, collectively owned land in rural areas was converted to state-owned land

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through land acquisition. If the state acquired land from farmers, the farmers received a compensation package that included job opportunities, housing compensation, compensation for the loss of crops, and the granting of urban residency licenses, which made the farmers eligible to social welfare such as medical insurance, pension and retirement plans, access to higher-quality schools and subsidized goods that were not previously available for peasants at all (Cheng 2003: 110-111). The land tenure system formulated during this period (1949-1978) greatly influenced the land-use structure of the urban areas but raised a series of land use problems that were later encountered during the reform era. For example, in the land use plan, there is no difference in considering commercial, residential or industrial function. Factories and workers' villages were built side by side with each other in order to achieve efficiency. The mixture of land use was even strengthened due to overemphasis of industrialisation. Without much alternation, planners converted commercial sites to light industrial function. In Shanghai, More than 4,000 factories were established, taking up a quarter of the land in the city centre and becoming the main source of pollution of the city at the time (Wu 1999: 209). Furthermore, because the ownership of allocated land was ambiguous, these land acquired in the old regime could not be put in the emerging land market immediately due to the complex interest struggling between local government, developers, work units and individual households. It became a strong barrier for the making of a mature land market.

After the introduction of the open door policy, China adopted a land use right tenure system similar to the leasehold tenure system in Western countries, which separates land from buildings or improvements. In 1980, the State Council drafted the first regulation on construction land used by a Chinese joint venture with a foreign party, in which the charge of land use fee was mentioned for the first time. Then *People's Republic of China Land Administrative Law* passed in 1986 and amended in 1998 had legalised private organisations to access to the state-owned land. But it was not until April 1988 that China's constitution was amended to permit the transfer of land use rights from the state for a designated period of time (Cheng 2003: 113). The rights to use land, which is known as land use rights, are being commercialised, according to the *People's Republic of China Assignment and Transfer of Use Rights of State Owned Land in Urban Areas Temporary Regulation*, 1990. With the legal framework established to shape China's urban land-use rights reform, the State council further issued the *Provisional Regulation on the Granting and Transferring of the Land Rights over State-owned Land in Cities and Towns* in 1991, providing concrete legal guidance for land users to let, transfer, rent and mortgage land-use rights (Cheng 2003). China does not intend to create a capitalist land market (with full ownership rights), but rather a separation of use and management from ownership; state ownership remains a key priority during the commercialisation of land use rights. 'Given the characteristics of the Chinese land tenure system, private land ownership does not exist in China' (Chan 2003:138). The primary rationale behind this and subsequent reforms is to attract foreign investment in property and restructure the land supply and land allocation system to enhance economic efficiency (Olds, 2001: 173). These basic principles have directly consequences in the later land development.

Like most of the reform-era Chinese laws that "borrow extensively from Western legal doctrines, concepts, procedures, and terminology"(Pei 1997: 76; Guthrie 1999:127), the new land policy was based on the experiences from other countries and areas that have the leasehold tenure system and have years of success experience in maximising the land transfer for value, especially from that of Hong Kong and Singapore (Chan 1999: 54; Li *et al.* 2000: 349). In both cases, the governments own most of the land in their territories, if not all, and thus exert almost monopolistic control directly over land supply, planning and development control. Both governments use land as a revenue generator. In the case of Hong Kong, land lease through public bidding in Hong Kong maximises the land value and contributes to a large extent to Hong Kong's economic development and the government's revenue. These advantages have been taken into account in the various laws and regulations China established on land ownership and land tenure system. What is interesting is that, by adopting these Western legal doctrines, concepts, procedures, and terminology from various contexts, China's new land policy creates a certain flexibility and possibility for new and innovative land development strategies to be applied in the practice of land development.

"The gradualist urban land reforms are intrinsically linked with the incremental economic reform in transitional China" (Zhu 1999). Chinese land policy reform has experienced a long transformation process since 1978, pursuing a double-track system to allow the co-existence of both land allocation system and land market and integrate the two gradually into one unified land market in the 1990s. Even though the acts were

not firmly enforced immediately due to the resistance of the existing beneficial groups at local level, the change of land use regime and the increasing competitions of economic performance between cities for cross-border investment has a positive impact on land development, government finance and further urban growth, providing the local government the role of a major actor in urban development, as is illustrated in Shanghai's implementation mentioned below.

3 Shanghai's land reform: concept and measure

The national government provides basic principles for land reform at local level. However, it still requires the locals to further clarify the details for the operationalization in their local contexts. Shanghai started to charge foreign investors fees for land use rights in 1986. To establish its own land lease system more adaptable to the market system and more operational, Shanghai examined the legal system for land tenure ship and the operational procedures Hong Kong conduct its land lease operation. Shanghai hoped that by modelling the Hong Kong system, it could also obtain a large sum of income from land lease to supplement the budget deficit it faced in infrastructure development. Following the national land reform program, a series of local regulations on land issues were established in Shanghai since the 1980s. For example, the *Regulations for the Transfer of Land Use Rights in Shanghai*, adopted on 29 November 1987, symbolised Shanghai's first formal shift towards land reform (Lu 1999: 66). It regulates the procedures of gaining land use right and related responsibility, right and obligation of the investors. It also states the standard of ten levels in land use fee based on different land use function. The fee ranges from 60-100 Yuan/m² in the central commercial area to 0.5 Yuan/m² in the countryside (1 Yuan= US\$ 0.12). Later the municipal adjusted the fee standard to range between 130 Yuan/m² and 0.5 Yuan/m² in 1991 and 170 Yuan/m² - 0.5 Yuan/m² as the real estate market grows. (Shanghai Municipal Statistical Bureau 1994-2003). This regulation went into effect on 1 January 1988. In the same year, the first bid project for land leasing was conducted in Hongqiao District in Shanghai, involving six foreign real estate developers. The land-lease bid strategies in Hong Kong were adopted in this bid. The price was fixed according to the total construction area, reflecting the real market value, rather than the raw land area, as used under previous policies. This price also includes the provision of infrastructure by the government. The 1.29-hectare plot was finally leased at US\$485/m² by a Japanese developer (Lu 1999: 241). The success of Hongqiao bid had encouraged the Shanghai authorities to apply the land lease in a broader context. However, fearing severe opposition from the existing beneficial groups as well as possible failures in practice that may damage the local investment environment, Shanghai decided to conduct a pilot project to experiment its land reform in a restricted area before the application citywide. Pudong (see figure 1), an area on the east bank of Huangpu River in a relatively isolated geographic environment and to be built as the newly established economic centre of Shanghai, provided a perfect field to test Shanghai's market system and its market-oriented land policy. The *Draft Regulation on Pudong New Area Planning and Construction Administration and the Regulation on Pudong New Area Land Administration* in 1990 was issued, requiring all organisations and real estate developments to obtain the land lease rights in Pudong through bidding, auction or negotiation process. Land can be leased for forty to seventy years through direct negotiation, a tendering process or via auction. In fact, Pudong New Area is the first district in Shanghai that really enforced the land lease procedures.

Both transferring of land use right by sale (*Tudi Suoyouquan Churang*) and leasing of land use right (*Tudi Zulin*) are based on the principle of separating land use right from land ownership. Based on the land value the state or its representatives can transfer the land use right for a certain period of time to the land future user -individual, developers or organisations. The difference between the two methods lies in the following two aspects: one difference is the value of land use right. If the land use right is transferred by sale, during the period of land use transfer the land user enjoys full right of occupation, use, benefit and part limitation in handling the land; if the land use right is leased, during the period of land use lease the leaser only enjoys the occupation right and any possibility of handling the land use right is limited by the land owner. The other difference is the amount of payment and paying methods. If the land use right is transferred by sale, the land user should pay land use transferring fee at one time; if the land use right is leased, the leaser pay lease rent annually (Zhou 2003: 254). The leasing of land use right at a flexible period of time was adopted from the

middle of Asian Economic Crisis in 1997-1999. It aimed to provide flexibility for the investors who are in trouble of acquiring a large sum of bank loan at the time because of the financial crisis. The change of land lease approach shows the flexibility Shanghai reacts to the change of the market, especially to the Asian Economic Crisis.

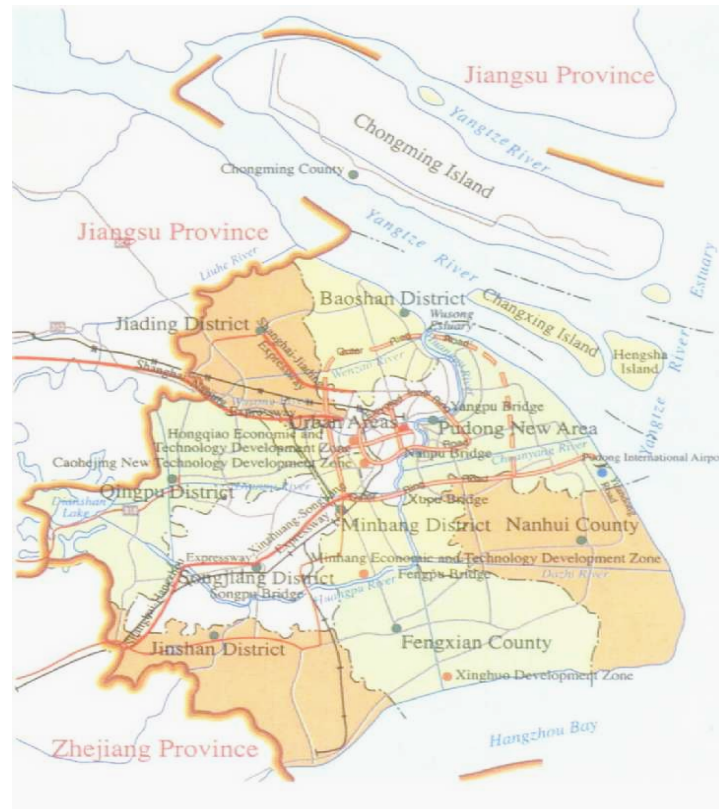


Figure 1 Location of Shanghai and Pudong

Whether using the model of transferring land use right by sale or the model of leasing land use right, Pudong has required the whole land development firmly follow the principle of land commercialisation in its administrative territory through negotiation, bidding or auction based on the land price standard established by the local municipality. The principle also accounts to those pieces of land allocated to state-owned enterprises before 1990. In the part of the urbanised area in Pudong, the land of some enterprises and neighborhoods have been allocated by the state for dozens of years while some new real estate development also started before the master plan of Pudong was issued in 1990-1991 with the newly allocated land in the 1980s. To those enterprises and neighbourhoods who have already received the allocated land for dozens of years, the reform has embedded a redevelopment option in these use rights. This means that two results may occur, depending on the official master plan of Pudong: the enterprises and institutions could relocate to a more spatial area if the original function is not compatible to the new plan; or they may redevelop the land at a higher floor-to-area ratio and a higher quality to create more building space for commercial business use, if the original function is compatible with the new requirement in the new plan. In the former case, the state will provide a certain amount of compensation for the interruption of its production and efforts during relocation. The compensation that the relocated enterprises or institutions receives can be used for purchasing the land use right of a new piece of land at a preferential price provided by the state through negotiation. In the later case, the enterprises and institutes are allowed to conduct their redevelopment after they pay the fee for transferring land use right (a general preferential price lower than normal price) (Wan and Yuan 2001: 98).

Even though they may continue for their redevelopment plan, ‘the value of this option is quite different than it would be for the owner of a property in a market economy, where such a redevelopment option can be sold and has no expiry date’ (Fu 1999: 49-78). In case of illegal trade of land or occupation, the occupiers not only have to pay their fines but also have to pay back the full fee of transferring land use right. Through these measures, all enterprises and institutions are included in the land commercialisation process. Thus a fair start is created for both existing parties and newcomers.

Besides the regulation of land commercialization for existing urban land, Pudong also regulated the process of expropriate collective-ownership agricultural land. Pudong used a ‘land bank system’ to ensure that enough land was held in reserve for further expansion. The expropriation process of farmland is considered as a main source of maintaining the land bank system. The Pudong New Area covers 520 km², of which 300 km² is still farmland. Under this policy, the government expropriates the required farmland by paying off 30% of the current expropriation compensation first as a deposit to acquire the farmer’s land, paying the other 70% at the time of acquiring the land. Different from the urban land ownership, the land in the rural Chinese area is collectively owned by farmers and is considered as a living capital for its owners. To expropriate farmland, it is not only necessary to take into account of the land value but also the social compensation for those who lose their living capital or property, including employment and pension issues.

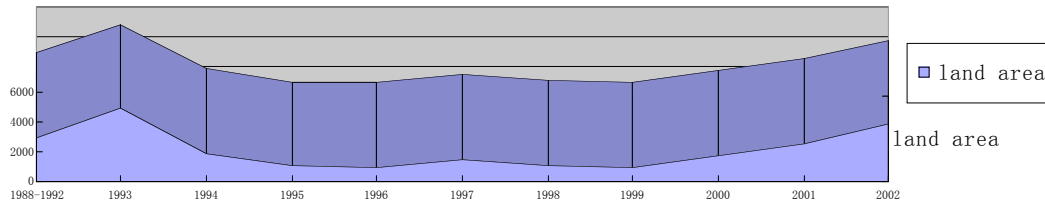


Figure 2 land transfer in Shanghai (Unit: ha)

The experiment of implementing land reform at full-scale in Pudong New Area has provided a good reference for Shanghai to further implement its new land policy city wide. The new land policy provides a relative fairer environment to attract developers from both China and abroad to compete in the new economic booming Shanghai. In total 23053 ha land areas were granted of land use rights in 14 years between 1988 and 2002 (This figure excludes the land areas and gross floor areas of granted land with contract terminated and acquired back by paying back land premiums)(Shanghai Municipal Housing, Land and Resources Administration Bureau, Shanghai Municipal Statistics Bureau 2004) The new land institution facilitated the participation of the private sector from China and abroad and the inflow of private finance to the land market and the real estate sector in Shanghai. Consequently, the amount of land transfer is heavily influenced by the condition of local real estate market and local / international financial market. As figure 2 shows, during the peak of local real estate market in 1993, the area of land transfer in 1993 alone is more than that of the total amount in 4 years between 1988 and 1992. However, during the Southeast Asian economic Crisis, the amount of land transfer dropped almost to the lowest point. Furthermore, the commercialisation process of land not only prevents the loss of state resources but also helps generate a large sum of capital that can be later invested in land development and infrastructure development in Pudong. For example, only the payment collected from the enterprises and institutes who wanted to redevelop the allocated land for commercial business use has reached 1.5 billion Yuan (US\$ 0.18 billion) in 1996, covering a total land area of 3.85 km². The total fee collected from land leasing till 1995 reached 1.1 billion Yuan and 52 million US\$, a total of 185 million US\$ (Wan and Yan 2001: 98-101). In fact, since Shanghai applied the new land policy city wide, Shanghai has raised more than 100 billion Yuan (12 billion US\$) investment from land transferring to invest in its infrastructure system by the end of 2000. (Shi et al 2003: 13)

4 Changing in perimeters: land use, land development and real estate market

Urban land reform consists of a significant part in China's urban reform since land tenure ship and land policy

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is related to various factors within and beyond the urban territory boundaries, ranging from economy, finance, land use, property market to social factors. The emerging land market reshapes the relationship between the state, the private investors, existing beneficial groups from the old regime and the individuals who are directly or indirectly affected by the changes of the current land use plan and land market. Five changes are highlighted in the observations of the changes in Shanghai as a result of the land reform conducted at the national and local level:

First, the market value land reform brought gradually changed the land use pattern in Shanghai during the two decades of urban (re) development process. The new spatial distribution is reconfigured by respecting the land value due to different functions and the demand for land in specific locations from the market. The land use price for the land leasing as well as the properties in the city centre (especially those area around the Central Business Area and commercial centers) has sharply increase, whereas the land value and property price in the most distant urban and suburban districts increase, although in a more moderate speed. As a result, the original mix pattern of residential and industrial area in the inner city has altered. The city has seen a concentration in functions, with commercial and mix-used development (commercial and residential function) in the core, residential projects in relatively distant districts, and a noticeable cluster of low-density villa projects further located in the new developed area. Most manufacturing plants, especially those heavily polluting ones, were relocated to suburbs, leaving more space for more added-valued commercial and mix-use developments clustered at the centre of Shanghai.

Besides industries, a large number of residential populations have also retreated from the city centre to the suburb areas during the relocation process, as table 1 has demonstrated. One reason for the decentralization of population is the cost of resettlement. Since the district governments have the responsibility to resettle residents and enterprises displaced by redevelopment, they have to take into account of the balance between the cost for resettlement and the income from land leasing. Giving the density of Chinese cities and main principle for resettlement that households must receive adequate replacement quarters in associate with the minimum government standards for unit quality and size, which is general much large than the households' present living condition, redevelopment can result in very high cost. In Shanghai, district governments report that between 60 and 70 percent of the district land lease revenues finance the resettlement. To clear every hectare of land, 800 to 1000 residents have to be relocated (Fu *et al* 1999). The magnitude of resettlement efforts have forced the district government to change from in-site resettlement to off-site resettlement of displaced occupants, which further accelerates the urbanization process and the rapid expansion of new districts in the suburb areas.

Table 1 Building resettlement in Shanghai 1995-2003

Year	Number of resettlements (units)	Of which	Floor space resettled (10,000 m ²)	Of which
		residential		residential
1995	75777	73695	322.77	253.90
1996	89132	86481	342.95	258.86
1997	79857	77388	479.67	363.16
1998	78205	75157	452.22	343.94
1999	75185	73709	342.50	248.17
2000	70606	68293	365.77	288.35
2001	73728	71909	515.65	386.66
2002	101097	98714	644.53	485.00
2003	80858	79077	584.93	475.47

Source: Shanghai Statistical Yearbook (2004)

Second, land reform has actively facilitated an emerging real estate market in Shanghai. The growth of the real estate market can be seen from the increasing scale of real estate companies. In 1979, the first two real estate companies were established in Shanghai. The number has increased to 94 in 1991 and 2635 in 1995.

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The growth is also reflected in the share of investment in fixed assets, real estate sector and commodity housing. The investment in fixed asset increased dramatically, from 22.30 billion Yuan (2.7 billion US\$) in 1990 to 161.85 billion Yuan (US\$ 19.5 billion) in 2003. The investment in real estate sector also increased dramatically, from 0.8 billion Yuan (US\$ 0.1 billion) in 1990 to 90.1 billion Yuan (US\$ 10.9 billion) in 2003. The investment on development and construction of commodity buildings in Shanghai in 6 years between 1986 and 1992 was 5 billion Yuan (0.6 billion US\$), but the investment in 2003 already reached 90 billion Yuan (10.9 billion US\$). The construction area of commodity buildings in Shanghai between 1986 and 1992 was 82 million m² in 6 years, but the construction area of commodity buildings in 2003 in one year alone was already 69 million m². As a result, Shanghai has experienced a booming period of real estate development in its urban history. The growth of real estate market is based on strong demand in housing sector and office space need due to years of shortage. This demand is further driven by Shanghai's continuous urban redevelopment process in the inner-city that leads to vast relocation and resettlement. From 1991 to 2000, Shanghai demolished 26 million m² and relocated half a million households to new-built apartments. Consequently, vast investment efforts improved the housing situation, with per capita net floor area increasing from 6.6 m² in 1990 to 13.8 m² in 2003.

Third, land reform legitimises the involvement of private sector and private finance, especially the penetration of foreign direct investment (FDI), in urban (re) development process. Since land transfer is based on value, both public-backed enterprises and private investors can operate in a fair environment in term of land transferring. Private sector, especially foreign investors, is considered significant in stimulating local economy and real estate market. In fact, there are a series of policies in Shanghai to encourage private sector to invest in Shanghai and its special economic zones. Pudong has encouraged foreign investors since the 1990s. Their strategies include providing preference in tax deduction or tax exemption for these investors, providing cheaper good price in land transferring, allowing private sector (including foreign developers) involving in land development, infrastructure upgrading and other sectors that used to have limitations for private sector, encouraging joint ventures between public development companies and private sector (foreign developers, banks and investment companies). Through various tactics, private sector increasingly joined in Pudong for land development or real estate development (Chen 2004). The large amount of capital they brought in has become a main source for infrastructure development, which helped speed up land development in the whole district. What needs to be highlighted is the steady increasing role FDI has played in Shanghai's urban development. Since 1988 Shanghai has made heavy use of land lease to attract FDI flows, restructure the city, generate capital for infrastructure projects and fund new housing for residents (primarily in suburban locations) (Olds 2001: 184). Shanghai has seen significant growth of foreign investment. In 1996 about US\$ 1.05 billion of foreign investment was in the real estate sector. US\$10.7 billion of FDI was pledged in Shanghai's real estate sector between 1983 and 1994. Between 1991 and 1996, US\$ 10 billion was invested in infrastructure, gradually increasing in the mid- 1990s to US\$ 22.1 billion between 1994 and 2000 (Olds 2001: 180). The implementation to the major infrastructure projects is, to a large degree, also funded by the foreign capital flow.

Fourth, land reform, to certain extent, urges the local government to respect the market rules and act more business-oriented in order to create an enabling environment for the market. In Shanghai, most of the municipal bureaus at the local level are involved deeply in the operationalisation of various market reform measures. In term of land reform, they need to provide detailed interpretations so that the laws from the central government become more operational at local level. The gradual process of building up the land legal system shows the amendment and reform made during different period by the local government to adapt to the changing situation. Moreover, the gradual implementation of land reform increasingly put pressure for the local government- the land supplier to be opener and more transparent in dealing with the market. In Shanghai, only dozens pieces of land were transferred through bidding about ten years time, while the majority deals were down through negotiation, a flexible yet opaque process claimed many critics as a method lack of equality and openness. In the negotiation method the developers with better connections with the local government and local officials tend to acquire land at better locations or with cheaper price, which is suspected by many critics as the main source of corruption and the increasing speculation activities that raiseangers in the society from time to time. Shanghai issued the *Decision on Amendment of Methods of Grant of Land Use Rights in Shanghai by the People's Government of Shanghai* on July 1st, 2001 to ensure that the

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grant of land use rights for the commercial function land are all acquired through public bidding. In the second half of 2001, the land use right of 137 pieces of land in Shanghai were transferred through public bidding or invited bidding (China Daily 2003). Even though the process of bringing more openness and transparency to the land market is just a start, it has brought more information not only to the developers who do not have advantage connections but also has brought more publicity to the citizens who may have interest in participating in the decision-making process of a development plan. Although the local government intends to benefit from a booming market by involving private sector and private finance, it also face the consequences of boom and burst market real estate sector brings, such as the current speculative ‘hot money’ from abroad. The inflow of 20 billion US\$ foreign capital into Shanghai’s real estate market in 2005 alone reveals the active speculative activities of the international players. With the housing price rise sharply in just a few years, the fear of the bust of the real estate sector has obliged the central and local government to take fierce measures to curb foreign investment in real estate sector.

Table 2 Standard price of land compensation in Shanghai (2003)

Level of area	Area	Minimum compensation per square meter construction area (yuan)	Subsidy
Three A	Tangqiao Xin Lu, Pudian Road, Yanggao Nanlu, Yuanshen Road, East bank of Huangpu River	4170	20%
Three B	Within the inner-ring road, Level three area out of A Area in Level three, and Huamu Town	3900	20%
Three C	Level three area except those included in A and B	3500	20%
Four A	Jiyang Road, Huannanyi Evenue, Yanggao Nan Road, Chuanyang River, Luoshan Road, Yanggao Bei Road, Zhaojiagou and the border of level three	3150	20%
Four B	Level four area except those included in A	2700	20%
Five		1891	20%
Six		1668	20%

Note: 1 yuan = US\$ 0.12

Sources: Shanghai Real estate Market Statistic Book 2004

Fifth, land reform has also triggered a new relationship between the government, the market and the societal forces. The new relationship is built up on interaction between the different parties in urban development following the rules of market mechanism. However, it does not seem to be a balanced game. Parties that control more power or capital tend to hold stronger position in the decision-process, whereas those who have less power have difficulty in securing their interest. In some cases, these weak groups try to block the decision that is not in their interest with drastic or violent actions, like what had happened in some relocation projects. In Shanghai, one-tenth of the total population has been relocated during the last two decades because of urban redevelopment. The process of relocation has increasingly created tensions between the government, the developer and the inhabitants, despite the fact that financial compensation has been raised and published to the public (table 2 is a recent compensation standard for relocation in 2003), relocation houses are often home-ownership houses and professional staffs have been placed to deal with relocation projects. The decision-making process has, however, largely excluded public participation to voice their concerns. To reduce more disputes arising, it is therefore important to get more citizens involved in the earlier

stage of making and revising relocation regulation. It is also important later to provide better information for relocated households prior to a relocation project. Only through more open and democratic discussions and procedures about the redevelopment process, can the tensions be reduced. After all, in the end it is the local people who create the city and preserve its history and culture in a period of fast transition.

5 Concluding remarks

In this paper we have reviewed the changes of land reform at the national and local level. The primary rationale behind this and subsequent reforms is to enhance 'economic efficiency in land use and attract foreign investment into property. In the newly established land use institution, land is treated as a commodity and the private sector's participation in urban development is legitimized through land transfer in the land market. In China the land leasing system provides a unique mechanism for the local state to intervene in the real estate sector since the local state is the main land supplier in the land market. The increasing dependence of land revenue from the local government has found a new incentive to further pursue the development of a local land market.

Land reform has played a central role in facilitating urban development in Shanghai. On the one hand, it defines the rights, investment and income involved in the process. On the other hand, it also relates various parties involved in the different phases of the process, including those who may benefit and those who may suffer from the changes of occupants and land using right. Olds (2001: 172) states that 'land reforms have encouraged the development of market relations, the influx of foreign capital, and the decentralization of power over land to lower levels of government'. What is interesting to observe is the process how land reform is conducted in Shanghai and the changes following the application of land reform. The land reform in Shanghai has not only followed the principles set at the national level but also apply them to the local reality with pragmatism attitude. As we have explained before, the pattern of land use in Shanghai is changed to reflect more and more the market sayings. The redistribution of commercial, residential and manufacturing function is one of such examples. Furthermore, the strategies of land development used in Shanghai and especially the experiment in Pudong has strengthened the role of private sector and private finance in urban development, urging the government to reinvent its role in the new market system focusing more on creating an enabling environment for market operation. Finally, the reconfiguration of the relationship between the government, the market and the societal forces can become a double-edge blade for urban development in Shanghai. On the one hand, the new relationship emerges from the application of market mechanism in the economic reform in China that is ruled by market value; on the other hand, the new land institution has not developed into a full-fledged system that can protect the interest of each party fairly, which may create more conflicts in the urban development or even delay the urban transition process.

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