

How Informal Land Institutions Shape Growth Patterns in China:

Evidence from Foshan in the Pearl River Delta

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Abstract: Political and economic institutions shape growth patterns. Land, as a key production factor, plays an active role in shaping development patterns, through both formal and informal land institutions. This paper studies how informal land institutions have promoted an indigenous and inclusive growth pattern in Foshan city in transitional China, revealing that decentralization leads to bigger role of informal institution. This has contributed to more efficiency and a more fair distribution of benefits. Thanks to decentralized governance and land control, property rights of land are better defined and protected, village collectives and township governments are incentivized to use land more efficiently through fierce competition. A sufficient supply of cheap land in the informal land market allows the establishment of domestic private and collective enterprises, leading to an indigenously driven industrialization. Simultaneously, the joint-stock mechanism ensures villagers a fair share of gains from collective land. Considering conflicts between local practices and formal land institutions, this paper calls for an inclusive treatment of the informality that has characterized the growth pattern of developing regions, and a reassessment of the role played by collective land owners.

Key Words: Informal Land Institutions, Decentralization, Industrial Development, Growth Patterns

1. Introduction

Economic institutions determine the incentives and the constraints on economic actors, and shape economic outcomes (Acemoglu, Johnson and Robinson, 2005). Land, as a key production factor, provides a foundation for economic activity. As a result, land institutions are of fundamental importance to economic performance and distribution of wealth. Well-defined land rights and the ability to transfer at low cost encourage investment and transfers of land rights, which greatly helps improve productivity (Deininger, 2003).

Institutions consist of formal and informal institutions. Helmke and Levitsky(2004) define that formal institutions are openly codified and accepted as official, while informal institutions are socially shared rules and practices, usually unwritten, that are created, communicated and enforced outside of officially sanctioned channels. North (1990) points out that formal rules make up a small part of the sum of constraints that shape choices, thus informal constraints should also be highlighted.

In China, when it comes to land, formal land institutions consist of rules officially sanctioned

by law and central government, while informal land institutions are mainly regional practices and rules that are tolerated or implemented as experiments by local governments. These are often in conflict with formal land institutions. Formal land institutions are consistent around the country, while informal land institutions vary among regions. Due to inertia, formal land institutions take longer amounts of time to adjust to changing national and regional circumstances, while informal land institutions cope better with the changing social and economic situations of their region. While the formal land institutions fail to provide clarity and protection in property rights, in some regions informal land institutions emerge to play an alternative role.

Though they play a vital role in China's development story, as informal land institutions are difficult to track and quantify, they are, to a great extent, overlooked in research. The considerable significance of informal land institutions in understanding the evolution of the land market and rapid growth of the Chinese economy raises critical theoretical and empirical questions about its operation. Given a consistent formal land institution, why have different land use and growth patterns emerged in different regions? What roles do informal land institutions play in regional development?

Erhard Berner (2000) emphasizes the fact that in the developing world, the formal land market serves only a minority of the population—it is far too small-scale to serve growing demand, and is too expensive to be affordable for start-ups and low-income groups. "Getting the incentives right" suggested by the World Bank is not only useful in the formal land sector, but also works in the informal land sector. However, until now the vital role of the informal land sector in China's economic growth has not been well studied. Current research consists mainly of case studies of African, Southeast Asian and other developing economies, and often suggests reconciling informal and formal land management to improve land use efficiency and its distribution (Kemp 1981, Yonder 1987, Cymet 1992, Kombe 1994, Thirkell 1996, Kombe and Kreibich 2001, Rakodi and Leduka 2004, Barry 2006, Ikejiofor 2006, Bellemare 2013).

This paper aims to bring informal land institutions back to into development analysis, revealing how informal land institution impacts growth patterns. Informal land institutions remain a grey area and the informal land market has evolved in a spontaneous and bottom-up manner. Compared with the formal land institution, it is more influenced by distributions of power and the interactions between local states and collective land owners.

Using Foshan as a case study, this paper proves that decentralized governance of the city provides greater room for informal land institutions, which results in a more efficient informal land institution, more inclusive growth patterns, and outstanding economic performance. Situated close to Hong Kong and within Guangdong Province in the Pearl River Delta, Foshan is a prime beneficiary of Deng Xiaoping's famous "southern tour" with Guangdong nominated as a reformist province. Since reform and open up, Foshan has experienced rapid industrialization and urbanization in a distinctly local and inclusive way. Now it is one of the best-performing cities in China, recording an impressive annual average GDP growth rate of 17 percent for 35 years, with growth becoming more stable over time. By 2012, Foshan's per capita GDP was higher than that of Beijing and Shanghai. By the World Bank Standard, Foshan is already a high-income economy.

2. Decentralized Land Control allows informal land institutions to

play a big role

In China, as in many other transitional economies, there are formal land institutions and informal land institutions. To keep control of land resources and reduce the cost of food security, ecological protection and social stability, China's central government has introduced a top-down land regulation system, including the land administration law, a series of land policies imposing quotas on construction land, marketization of urban land supply, and supervision of land use. Together, these constitute the formal land institution in China (Chen et al., 2015; Ding, 2003; Lin and Ho, 2005; Liu and Lin, 2014; Long et al., 2012).

According to the Land Administration Law, village collectives are entitled to ownership of rural land, with its management conducted by the collective's economic organizations or committees. If rural land is collectively owned by all farmers in a town or a village, then the land should be managed by the township government or village collectives. Decades ago, most land was rural agricultural land owned collectively by villagers, with the result that local village collectives and township or county governments could exert control over land resources. However, in most Chinese cities, the municipal government plays a dominant role both politically and economically, meaning that the municipal government is able to exercise tight control of land resources through means of land requisition, urban and land planning, direct intervention, and supervision. Thus in most cities, formal land institutions have a dominant impact, while the role of the informal land institution is rather weak.

And things are different in Foshan. Decentralized governance in Foshan ensures that lower-level governments have control of land resources, and that competition is fostered among towns and villages, driving them to better allocate resources to promote industrialization. Foshan's governance is decentralized as a result of its historical administrative legacies. Once five separate counties, after 1992 the counties changed status to cities, and in 2002 were merged to become the current Foshan city, with the original five counties becoming city districts. As a result, land rights were secured by lower-level government, rather than under the control of the municipal government.

Compared with central, provincial and municipal governments, township governments and village collectives have more adequate information about the extent and demand of land development, on-going land transactions and day-to-day conflicts emerging from conflicting interests in land. Decentralized operation thus leads to a more efficient and inclusive use of land and economic outcomes, which will be discussed in detail below. With the devolution of power to lower-level governments, reform measures can be better adjusted and structured to fit in the local land market conditions (Mabogunje, 1992; Dowal, 1996).

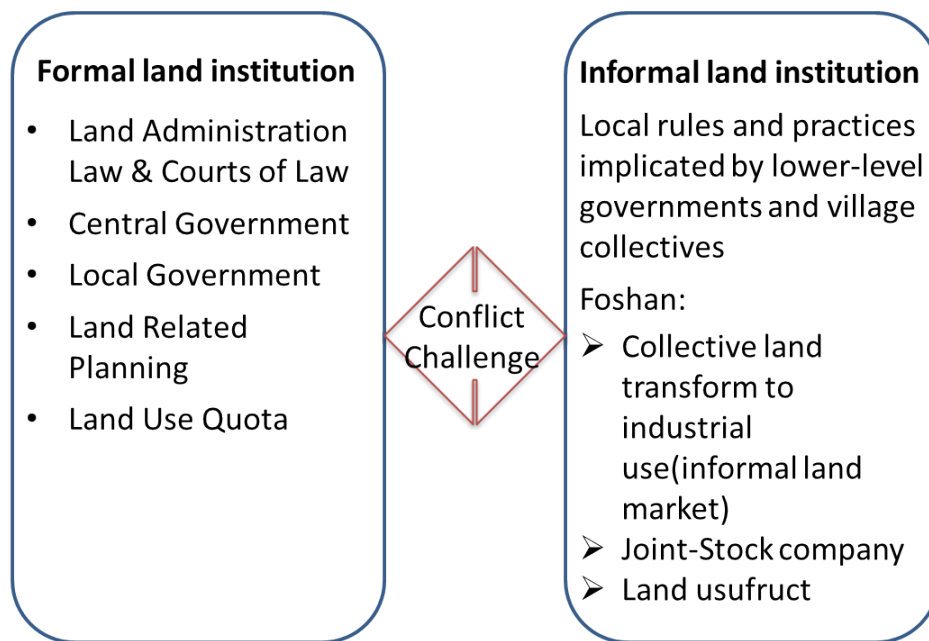


Figure 1. Formal and Informal Land Institution

Source: Author's analysis.

To make it more clear, as the interests, powers, and interactions of state and market, the extent and structure of land market demand, the maturity of local urban land market, and the scarcity of land resources vary among regions, formal and informal land institutions interact differently and bring different impacts. While in most Chinese cities formal land institutions play a bigger role, in some cities including Foshan, informal land institutions dominate and shape different growth patterns.

3. The Informal Land Institutions Shape Foshan's Indigenous Industrialization

From the supply side, we know that Foshan's decentralized governing structure ensures decentralized land control. From the demand side, most non state-owned enterprises started with very limited capital and could not afford land in formal land market. As a result, it created a sudden demand for affordable land that the formal land market was unable to meet. In response, collective landowners began leasing out the use rights to their land, creating an informal land market.

Though contrary to national policy, such actions were tolerated and even encouraged by Foshan's municipal government and the Guangdong provincial government. This was made possible by the fact that Guangdong was given the opportunity to implement pilot reforms and projects — a freedom that had been granted to the province by a central government seeking to build a testing ground for a market economy.

Foshan took full advantage of this and helped foster the market for land use rights, which drove the city's economic transformation. The practice of collective land use played a key role in Foshan's early industrialization. As village collectives, township governments, and county governments were able to provide cheap collective land to individuals and firms, industries emerged in a dispersed geographical manner in Foshan. This contrasts with most

Chinese cities, in which industrial activity is concentrated in one or two industrial parks, and which the government uses to attract large multinational companies or state-owned enterprises.

For example, to compete with neighboring Shiwan town to build a ceramic industry, in 1991 the Nanzhuang township government required each village to establish at least one ceramic factory on its own land.¹ Attracting industries with preferential land policies was also encouraged by local governments, in order to improve the economic performance of their jurisdictions. From 1978 to 1991, the combined revenue of Foshan's township and village enterprises reached RMB 21 billion, growing almost 44 times in nominal terms. The ability to work around centrally-planned land quotas, combined with the low cost of land, helped to promote indigenous industrial development.

We can see the role of informal land institutions from the size of the informal land market in Foshan. A 2010 Foshan municipal survey revealed that out of a total 1,333 square kilometers of construction land, almost half of it, 645 square kilometers, was collective land. This is in addition to plots of collective land used for non-agricultural purposes, which have not been accounted for by the survey. Consider the example of Nanhai district's Pingzhou sub-district, which in 2002 reported to the municipal bureau of land and resources a total of 2000 *mu*² of collective non-agriculture construction land. The real figure was actually about 8000 *mu*, meaning that the 6000 *mu* gap is agricultural collective land in the informal land market, used illegally for non-agricultural uses. Underreported official data on collective construction land might be quite common in Pearl River Delta (Gao Shengping, Liu Shouying, 2007).

The informal land market in Foshan dramatically reduced entry costs in the city's new market economy, and created an accessible alternative to state-sanctioned land use. The comparatively low cost of collective land is attributable in part to differences in property rights. State-owned land rights are a legal commodity, and as such have more clearly defined property rights, are marketable, and can even be used as collateral for borrowing. Collectively-owned land, on the other hand, brings with it the risks of trading an unregulated and technically illegal good.

Existing as a shadow market, data on prices for collective land use are difficult to obtain. However, there are indicators that shed light on the difference in pricing. In 2013, the Nanhai district government released benchmarks of collective land use prices for its residents to reference when conducting transactions. The commercial, residential, and industrial collective land use benchmarks were set at RMB 967, RMB 687 and RMB 471 per square meter, respectively. As a rough comparison, the benchmarks of state-owned construction land in Chancheng district were set at RMB 2491, RMB 2039 and RMB 866.³

¹ Firstly issued in 1986, Land administration law entitled county governments and lower-level governments with control of collective land—as long as the proposed land use is consistent with planning. As a result, with permission from country (or county) governments, non-arable collective land could easily be used for TVEs, infrastructure and facilities. The decentralized control of land makes it easy for village collectives to make full use of collective land, especially to use it to build TVEs.

² 1 *mu*=666.7 square meter (*m*²)

³http://epaper.nfdaily.cn/html/2013-07/29/content_7211412.htm

Both Nanhai and Chancheng are the most developed districts in the city.

Thanks to the informal land institution, Foshan has been able to utilize its comparative advantages of low land cost and low entry barriers for industrial development, especially for thrive of small- and medium-sized domestic non-state enterprises. Comparing with neighboring cities such as Shenzhen, Guangzhou or Dongguan, counterparts such as Suzhou in the Pearl River Delta, or with the average level of 105 major cities in China, the price of industrial land in Foshan is the most competitive, as the table below shows. Today, on average, one in 20 people in Foshan owns an enterprise. Foshan has developed some 30 specialized markets or supply clusters built across competing townships. It is a city of domestic small- and medium-sized enterprises, which account for the largest share of its output and employment.

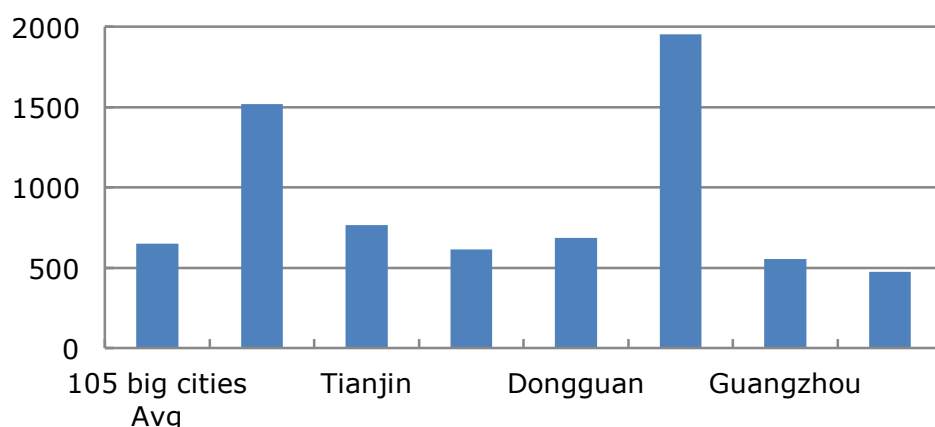


Figure 2. Industrial Land Price in 2011(Unit RMB)

Source: China Statistical Yearbooks Database & Foshan Bureau of Land and Resources.

Compared with Suzhou and Guangzhou where state-owned industrial land plays a dominant role, Foshan's informal land institution has resulted in a higher percentage of industrial output contributed by domestic firms—a more indigenous mode of industrialization, rather than the FDI-reliant mode, which is the experience for many of Chinese cities. In Suzhou and Guangzhou, domestic firms contribute less than 40% of gross industrial output, while foreign firms contribute around half of gross industrial output. However, in Foshan domestic firms dominate local industrial output, contributing 60% to 70% of total industrial output over the last decade, while foreign investment's share of gross industrial output is only around 13%, as the table 1 below shows.

As in Suzhou and Guangzhou, political and economic power are not decentralized but in tight control of municipal governments⁴, formal land institutions dominate, which is different from the case in Foshan. To be consistent with central policy and to maximize fiscal revenue, municipal governments tend to requisite collective land and transfer to state-

⁴ For further discussion, please refer to Qi Zhang and Mingxing Liu(2012,2013,2015), which provide extensive discussions and explanations on political power structure, political survival of local officials, and their impacts on political, economic and social outcome in different regions.

owned land, build industrial parks and offer favorable conditions, especially low-priced industrial land, to attract overseas investments (including Taiwan and Hong Kong enterprises) to broaden the long-term tax base. Thus, in a path-dependent way, these cities evolved to the current export-orientation, overseas-dominant industrial pattern (Tao Ran et al., 2007; Fubing Su et al., 2013).

Table 1. Gross Industrial Output per capita and Structure (Unit: 100 RMB)

Year	Suzhou			Foshan			Guangzhou		
	Domestic	Foreign	Gross	Domestic	Foreign	Gross	Domestic	Foreign	Gross
2000	178	122	353	163	32	292	113	64	258
2005	433	658	1307	502	103	824	205	270	635
2006	517	803	1548	666	139	1073	230	284	692
2007	605	913	1804	900	176	1422	286	369	845
2008	672	1059	2041	1034	199	1621	429	408	943
2009	748	1101	2165	1107	241	1704	327	441	958
2010	797	1212	2355	1372	271	2018	366	497	1088
2011	870	1335	2641	1318	299	1995	424	570	1232
2012	936	1317	2725	1339	300	2018	523	507	1157
2013	1013	1384	2873	1587	335	2347	510	576	1330

Source: China Statistical Yearbooks Database.

Table 2 shows that Foshan outperforms other big cities in China, including Beijing, Shanghai, Guangzhou, Shenzhen and Suzhou, thanks to Foshan's indigenous, bottom-up industrial development, which traces its origins to the informal land institution. Between 2005 and 2010, Foshan enjoyed the highest Compound Annual Growth Rate (CAGR)—14%—while Beijing and Suzhou only grows at 11%.

Table 2. Comparison of Economic Performance

	GDP per capita (RMB)					
	Beijing	Shanghai	Guangzhou	Shenzhen	Suzhou	Foshan
2005	45,993	49,649	53,809	60,801	55,667	42,066
2006	52,054	54,858	63,100	68,441	61,500	50,232
2007	61,274	62,041	69,673	76,273	69,151	59,329
2008	66,797	66,932	76,440	83,431	78,875	68,033

2009	70,452	69,164	79,383	84,147	83,696	71,691
2010	75,943	76,074	87,458	94,296	93,043	80,313
CAGR%	11	9	10	9	11	14

Source: CEIC Database, author analysis.

4. Informal Land Institution ensures inclusive distribution of growth benefits

4.1. Foshan's industrial mode results in geographically scattered land appreciation

The supply of cheap land from Foshan's collective owners was a substantial boon for the city's industrial growth. However, as mentioned above, private enterprises were not the only beneficiaries of cheap collective land. The emergence of the formal land market and presence of an informal land market, combined with market-oriented reforms and policies in land requisition and urban redevelopment, have helped foster productivity growth in Foshan, which has in turn driven rapid increases in the property market.

The city is not home to any single economic or industrial center. While some districts are more industrialized than others, growth has been spread throughout all of Foshan. The figure below shows the great boom of businesses across the city (as table 3 shows)⁵, which has resulted in a more dispersed appreciation of land value (as we can see from the table of land prices below), and thus a relatively more equal geographical distribution of wealth gains from land appreciation.

Table 3. Number of enterprises in Foshan's five districts

	Total	Chanchen g	Nanhai	Shunde	Sanshui	Gaomin g
1980	1740	334	513	428	204	261
1990	20909	1404	10461	5227	1675	2142
2002	32745	4833	15620	9236	1788	1268

Source: Foshan city record. Volume 1. P195. 2002.

Decentralized governance allowed for various jurisdictions (district, township and village) to compete with each other for enterprises to operate there, which served to decentralize the city's growth, while fostering clustering and supply chains. Collectives could compete with each other to attract users to rent out their land, or alternatively use their own land for

⁵ Note: There are much more enterprises in Nanhai district because they are mainly SMEs.

collective industrial purposes. Not only did this create a business-friendly environment throughout the city, but most collectives were also able to benefit directly from the appreciation in land prices.

Table 4. Land price in Q1 2011 in 5 districts of Foshan

	Commercial	Residential	Industrial	Avg
Avg	6210	3756	477	3755
Chancheng	6530	4888	606	4904
Nanhai	6268	4230	460	4170
Shunde	6335	2528	578	2249
Sanshui	3758	1946	361	1369
Gaoming	3393	1870	340	1223

Source: Land price survey of Foshan city report.

Unlike other cities that are experiencing property booms without sustained growth in the real economy for them to be anchored in, Foshan has a robust industrial sector. Industrial growth and productivity gains create wage and price increases within the tradable sector. This in turn raises prices in the non-tradable sector, including the property market.

Below we compare the property price and GDP per capita (as measurement of productivity) of Foshan and other pioneering cities in mainland China with Hong Kong. Foshan's GDP per capita is over one third of Hong Kong's, yet its average property price is only 7 per cent that of Hong Kong's. Compared to its peers in China, it appears to have a much less inflated property market.

Table 5. Property Prices and GDP per capita Comparison

2010	GDP per capita(RMB)	% of HK	Property Price(RMB/Sq m)	% of HK
Hong Kong	214,390	100%	95,860	100%
Beijing	75,943	35%	17,782	16%
Shanghai	76,074	35%	14,400	13%

Guangzhou	87,458	41%	11,921	11%
Shenzhen	94,296	44%	19,170	18%
Foshan	80,313	37%	7,545	7%

Source: CEIC, World Bank Databank.

http://www.rvd.gov.hk/en/property_market_statistics/index.html.

4.2. Joint-Stock Mechanism ensures villagers fair share of land gains

A steady appreciation in Foshan's land value generated wealth for landowners, including collective landowners, urban property owners, and governments. It is common for urban property owners and governments to benefit from the appreciation in value of state-owned property with clear property rights in the formal market. Foshan is famous for its informal land institution, which allows collective landowners to enjoy a fair share of land value appreciation through rents from the informal land market.

As industries emerged, villagers recognized the potential value of land. In 1987, the first joint-stock company was established, which proved to be an effective mechanism of land management and distribution of land value appreciation, and soon spread around the city. Villagers in Foshan were able to benefit directly from land appreciation through this particular joint-stock reform. Collective committees managed the land owned by the collective, leasing it directly to enterprises or building properties for the purposes of leasing them out. After subtracting expenditures for management and public service for villagers, such as social security, the remaining revenue was distributed to villagers according to their shares of land and other collective assets, as figure 2 shows.

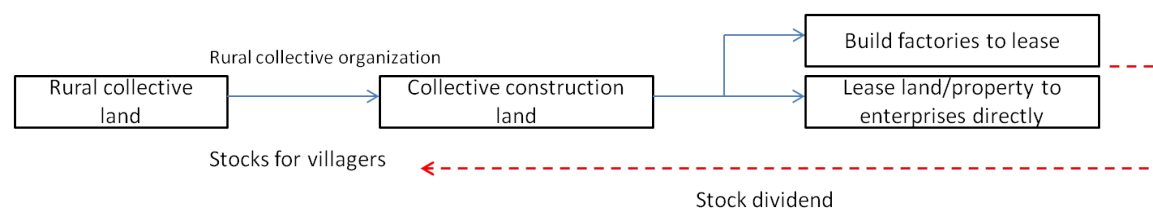


Figure 3. Mechanism of Rural Collective Land Use and Revenue Distribution

Source: Author Analysis.

As a result, between 2005 and 2010, per capita property value quadrupled, reaching almost US\$50,000. In the same period of time per capita bank deposits grew 1.7 times to reach almost US\$2,000.

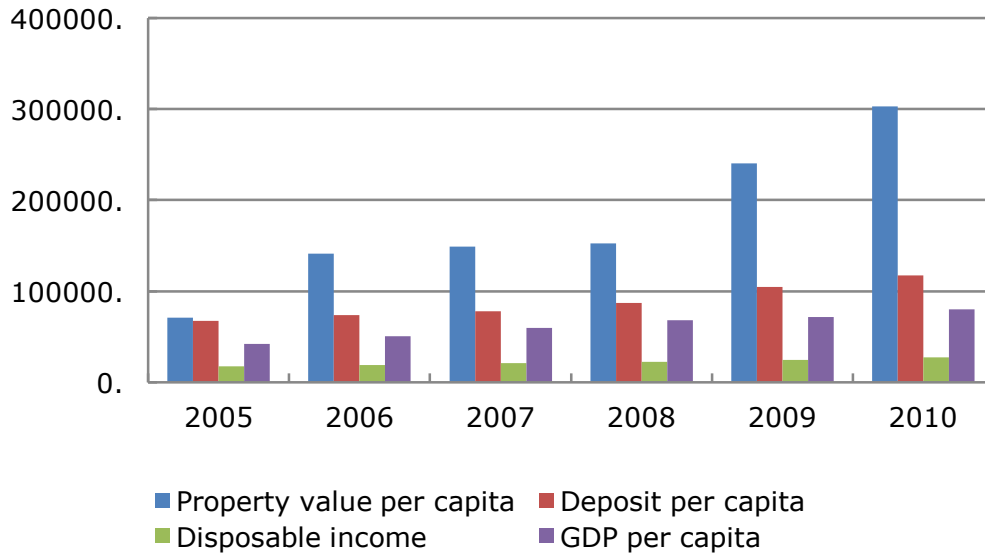


Figure 4. Wealth Growth in Foshan (Unit:RMB)

	Property value per capita	Deposit per capita	Disposable income	GDP per capita
2005	70796	67357.44	17,680	42,066
2006	141000	73880.84	18,894	50,232
2007	148913.3	77587.15	21,112	59,329
2008	152287.1	86912.15	22,494	68,033
2009	240094.8	104893.4	24,578	71,691
2010	302711.4	117546.9	27,245	80,313

Source: CEIC data.

It is important to note that property prices reflect an important component of household income. These prices capture the expected value of all future rents from a property, so increases in property prices also reflect an increase of future income.

Additionally, the informal land market and market-oriented policies pursued by Foshan's government has created greater distribution of the city's accumulated wealth derived from property appreciation. With the non-traditional industrial use of collective land, local collective landowners would have been the largest beneficiaries of property appreciation. Under central government policies, only state-owned land can be used for non-agricultural purposes. The result is that collectively-owned rural land gets requisitioned by the government, reclassified, and leased out at market value by the government. However, in Foshan wealth gains from rising property prices of collective land get distributed amongst the collective land owners. Furthermore, as will be spelled out in following sections on requisition reform, Foshan has compensation for original land owners that is more in line with market value.

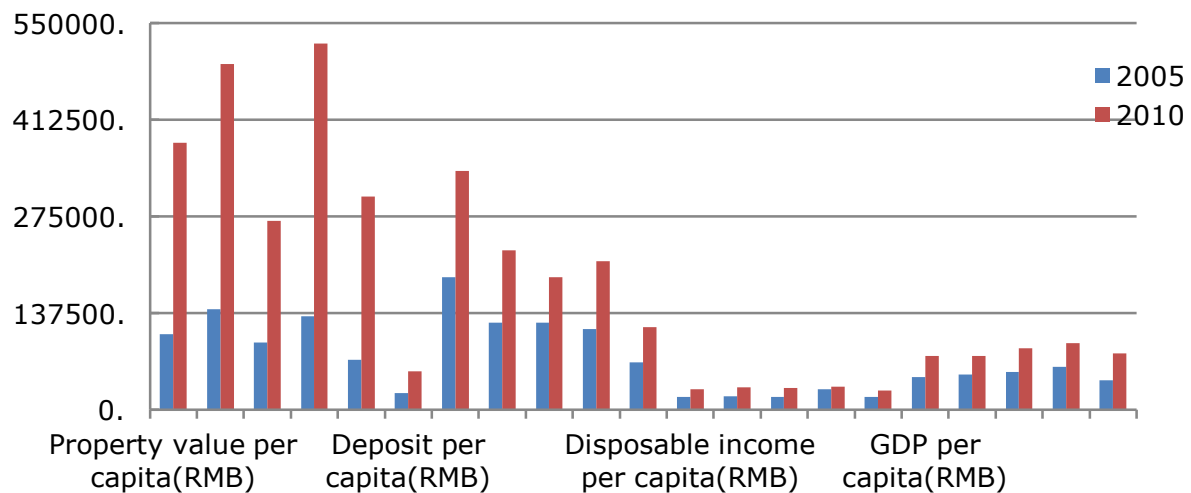


Figure 5. Comparison of Property value, Deposits & Income (RMB per capita)

Source: CEIC data.

From the figure above, it is evident that the property value in Foshan, as in other leading cities, is multiples of income and GDP. However, Foshan is more balanced than its peers, as it has relatively higher disposable income and GDP per capita compared with its property value per capita.

By enabling collective land owners to rent their land out for non-agricultural purposes, Foshan's informal land institution effectively redistributed, both geographically and demographically, the city's economic growth as well as the dividends of that growth.

4.3. Land usufruct provides original land owners a sustainable share of land appreciation

The process of land requisition in China, though creating a great supply for the formal land market, also brings with it a host of detractions and criticisms. Not only does it grant the state decision making powers over a resource that could be left to the market, it does so at potential cost to the original land owners. Much of the requisition that has occurred over the course of China's development has happened with limited efforts to provide fair and equitable compensation. Foshan, however, has implemented reforms aimed at tackling many of the inequalities that arise from requisition. More market-oriented local policies in requisition have given rise to more inclusive and fair compensation.

After 1979, the use of land requisition as a government tool in Foshan grew, involving an increasing number of rural collectives. Collective landowners could enjoy rents thanks to the informal land market, thus their intimate knowledge of land value increased their bargaining power when negotiating with local government. As a result, to ensure adequate compensation for original owners and users (and to reduce resistance to the reforms), Foshan's municipal government developed policies with clear standards and procedures for land requisition. These cover financial compensation, job placement, agricultural to urban *hukou*⁶ transfer, and long-term land usufruct.

⁶ An internal registration system that restricts legal residency and work to where one is registered

Land usufruct has been instrumental to the way Foshan has handled land requisition, and serves both to ensure a more fair distribution of profit from land requisitioning, thus providing incentives for collective owners to accept urban development. This involves the government returning a portion of the requisitioned land back to collective landowners after it has been reclassified as state-owned land. Reclassified land has legally defined property rights, can be legally traded, and, as a part of a development or redevelopment project, has added market value. In this way, returned land can sustainably generate greater profits for collective landowners than it could before requisition. This also means that the local government can offer less monetary compensation to collective landowners. The arrangements create a win-win situation both for original landowners and local governments.

And in addition to land usufruct, the government has also steadily increased the amount of monetary compensation that it provides (shown below), to provide greater incentives for collective landowners to cooperate on land requisition and redevelopment projects. These practices provide collective land owners with a larger share of the value of appreciated land, caused by the industrial boom.

Table 5. 1979-2002 Cost of Land Requisition in Foshan (RMB per mu)

Year	Land value	Compensation payment	Compensation as % of land value
1979-1986	18000	—	—
1986-1987	25000	—	—
1988-1991	40000	11520	29%
1992-1999	55000	11520	21%
2000-2002	75000	24000	32%

Source: Foshan City Record (1979-2002) Volume 1. Regional Record Press, 2011 Aug, p393.

5. Converging informal to formal: Central and Local efforts

Informal land institutions help drive the emergence of the informal land market, which acts to satisfy the demand for land caused by industrial development. However, it also causes problems of low efficiency⁷ and property right disputes⁸, which now proves to be a constraint

⁷For example, in Nanhai district's Beiyue village, factories have a floor area 13,300 square meters with only 3,530 square meters of building area, a floor area ratio (FAR) of only 0.27.

⁸Although local governments tolerate common practices of collective land use, when stakeholders take disputes to court, judges still have to be consistent with national law (as an element of formal land institutions) instead of local land policies. As a result, the judgment is usually that land use rights are to be returned to the village committee, and rent returned to the tenant. Some firms try to take advantage of this by refusing to pay rent immediately before the expiration of their contract. Should they end up in court, the ruling is in their favor

for further development.

There have been some efforts made by central government in these areas. In 2008, the third plenary session of the 17th Communist Party's Central Committee aimed to form integrated construction land markets for both rural and urban land, ensuring that exchange of rural collective construction land could be conducted in open, legal ways, and sought to ensure that collective land could be treated in the same way as state-owned land. Although progress has been made through national policy, enforcement and consistency of enforcement are still far from sufficient. When it comes to local practices, there is still much to do to protect the right of collective landowners, and many laws and policies need to be revised.

Responding to these challenges, Foshan's government has begun to implement urban redevelopment policies which aim to clarify property rights, formalize the informal market and eliminate uncertainties for business—in other words, turning the once informal institution into formal institution.

In 2007, Foshan began its Three Olds (*san jiugaizao* 三旧改造) urban redevelopment policy⁹. This policy aimed at making Foshan a more attractive city for high-end talents and industries, while improving its land use efficiency and promoting industrial upgrading. Three types of land were targeted in the policy's long-term projects: old villages, old towns and old factories, covering a total of 364 square kilometers of land.

Besides the direct cause of land shortage, the key target of the urban redevelopment policy was also to legalize and regulate collective land ownership and land use rights. The policy created standards and regulations for land use to be maintained as collectively-owned, or alternatively to be transferred into state-owned, while land use rights remained collectively-owned. This legalized existing practices in Foshan, and began to clarify property rights. In addition to helping define property rights, under the new policy a plot of land's use type could be changed from industrial to commercial with the approval of the local government, and thus could be sold for higher prices.

So far, redevelopment projects have seen numerous successes. Till mid-2014, total investment for redevelopment projects is expected to be RMB 900 billion, and expected returns from related industries is around RMB 2 trillion. As of 2011, urban redevelopment projects covered 20 square kilometers of land, with an increase in floor area ratio from 0.8 to 2.0. Thanks to clear property rights and better planning, collectives have been able to enjoy much higher rental incomes and upgraded properties. For example, in Chancheng district's Puhua village, the per capita dividend from collective ownership increased 1,000 per cent. Indeed, this urban redevelopment policy has garnered enough attention that it is now implemented across the entire Guangdong province.

as landowners have no legal right to rent out their land. Alternatively, the lack of property rights can be used against firms, as village committees can force firms to relocate without any notice. These disputes lead to unstable expectations surrounding the use of collective land, which decreases the efficiency of the land market and increases transaction costs.

⁹ Three Olds Urban Redevelopment(Sanjiugaizao): Redevelop old villages, old towns and old factories.

6. Conclusion

Thanks to the decentralized governance and informal land institutions, Foshan has gradually developed a strong manufacturing sector consisting mainly of local private enterprises. Foshan's specific informal land institutions have shaped its indigenous development pattern, which has emerged as more efficient and inclusive—achieving outstanding economic performance, providing opportunities for mass population of the city (entrepreneurs, migrant workers and original collective land owners) and sharing growth dividends among them. From this case study of Foshan city we can see how the informal land institution has a significant positive role in growth and distribution.

However, conflicts between informal and formal land institutions raise challenges and costs for all stakeholders, becoming a constraint for further development. Suggested future steps would be to recognize the existing informal land institution, to bring the effective informal institutions which prove to work fairly well into the mainstream to improve efficiency and fairness, and lay a foundation for sustainable and inclusive growth.

Foshan has consistently been in the vanguard of China's reforms, yet it's not the only city experience fast industrialization and urbanization in a more inclusive way through evolving informal land institutions. There are also other coastal regions including other cities in Pearl River Delta and Zhejiang Province in which informal land institutions play a significant role and bring similar impacts. For other regions, what they could learn from these pioneers is to provide more autonomy to lower-level governments. In this way, the competition among local officials will drive them to promote or tolerate institutional innovations that shape better growth patterns. China's cities compete against each other, yet not all cities decentralize power and resources to lower-level governments thus prevent them from realizing full potential. However, how to encourage and make good use of bottom-up institutional reform while to limit negative outcomes as well as to converge informal and formal institutions still remains a crucial challenge for policy makers and researchers.

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