Cai, Meina: University of Connecticut
meina.cai@uconn.edu
Authors: Meina Cai, University of Connecticut
Jianyong Fan, Fudan University
Chunhui Ye, Zhejiang University
Qi Zhang, Fudan University

Title: Land Financing and Urbanization: How State Debts Impact Farmers in China

The state-led investment that features China’s rapid industrialization and urbanization seems at odds with rampant fiscal deficits facing the local state. The secret lies in the so-called land financing whereby the state uses land as a source of revenue and a source of collateral to obtain bank loans with which to finance state-invested projects. The rationale behind land financing has been widely speculated but neither fully understood nor empirically tested. We examine two contrasting driving forces (market vs. administrative) behind land financing. We find more state debts are associated with a lower compensation for loss of land paid to land-losing farmers, suggesting that the state uses the administrative rather than market force to maximize its share of land-generated revenue and alleviate its debt pressure. That is, the massive urbanization comes at a cost of impoverishing and marginalizing farmers, the original land users. Our findings are supported by analysis of a unique dataset we complied from two original datasets: a two-round household survey of land-losing farmers we conducted in 2011 and 2013, respectively, and local state debts generated from various land-financing vehicles. To our best knowledge, this is the first study that provides a systematic test of the rationale behind land financing. It contributes to a better understanding of debt-fueled urbanization in China, and, more broadly, of how urbanization impacts wealth distribution in transition economies.