

The “Three-Old” Policy of Community Renewals in China:

Based on Cases in the Pearl River Delta Region

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Synopsis: The wide-ranged community renewals in the PRD Region

The Pearl River Delta (PRD) Region , with an area of 41.7 thousand km² and a population of 430 millions, is an important global manufacturing base lies in the South coast of China. Encouraged by a regional policy named “Three old”, which is specially permitted by Chinese central government as a compromise to the reality, this region has been undergoing a wide-ranged community renewal since 2009. According to the statistics from Department of Land and Resource of Guangdong Province, these renewals have covered more than 600 km² urban and rural built-up area by 2013, which is 3.5 times of the total built-up area in Hongkong.

What caused the wide-ranged community renewals in this region recently and why the authoritarian government compromised? What was the mechanism for policy implementation and why these renewals regarded as the origin of community engagement in China ? These questions will be further discussed in this paper.



Figure 1: The Pearl River Delta (PRD) region in south China.

1. Fundamentals of the “Three-old” Policy for community renewal and engagement

1.1 Regional background :renewal as the only way out from the dilemma for local governments.

According to the building life limit and the economic life limit, community renewal is inevitable after a period of urban development (Arthur O'Sullivan, 2011). After World War II, western countries had gone through wide-ranged community renewals from the manufacture era to the post-industrial era. However, these renewals had not occurred in China until 1990s. As the expansion of urban population in PRD, a large number of industrial lands had been replaced by residential area. Moreover a upsurge in community renewal was in the making for the “land quota” was put into operation in 2006.

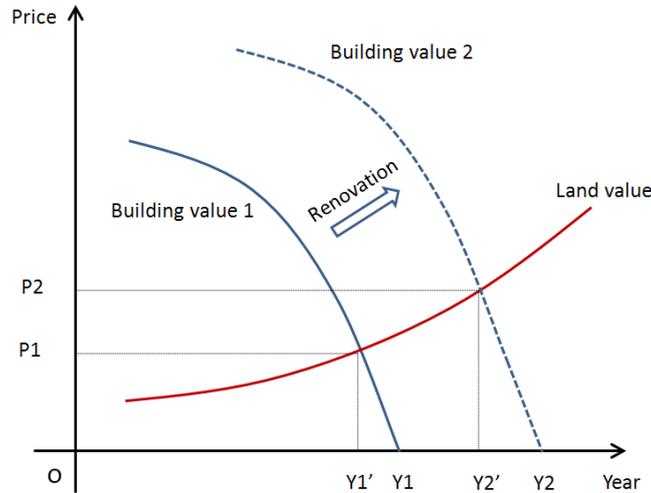


Figure 2: building life limit and the economic life limit

(Y1: building life, Y1': economy life, Y2: building life after renovation, Y2': economy life after renovation. According to Arthur O'Sullivan, 2011)

The “land quota” was addressed by the Central Government of China who hold a tense attitude towards massive consumption of farmland during rapid urbanization, as Chinese written history shows that riots of starving refugees were the main reason of 24 dynasties fell in the past thousands of years. By publishing the Planning Framework of National Land Use(2006-2020) , the Ministry of Land and Resource stipulated the bottom line of farmland with an amount of 1.8 Billion MUs (300 million Acres), and the remaining land quota will be distributed to provinces and municipalities as construction land year by year. Though the quota itself is highly questioned as the food supply has been guaranteed by modern agriculture and international trade today, this policy implement strictly. By such means, the constraint of urban expansion named “construction quota” is founded. No one, including the local government, could occupy any extra farmland without the distributed quota.

As the earliest industrialized region of China, the GDP of the PRD Region soared from 6.5 billion US dollars in 1978 to 757.9 billion US dollars in2012. Meanwhile, urban built-up area expands from 1765km² into 6671km² during past two decades according to the figures of National Bureau of Statistics. The quota for major cities in the PRD Region was nearly exhausted. Take Guangzhou, the capital city of Guangdong for instance, 41 km² of farmland was constructed annually by average from 1996 to 2009, and if this continues, the land quota 2020 for Guangzhou will be spent out before 2014. Community renewal (reconstruction for built-up area needs no quota) is the only way to cope with the dilemma between quota shortage and rapid development.

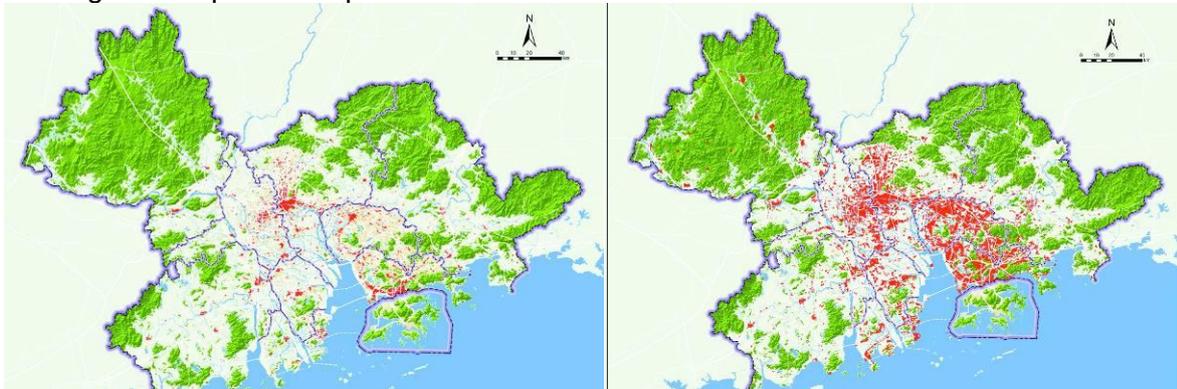


Figure 3:Rapid expansion of constructed land in the PRD Region from 1990 to 2005

1.2 Legislative Background: the “Three-old” policy as a compromise to the reality

According to the Land Administration Law of the PRC (2004), all land in city belongs to the nation as a whole. Any organization, enterprise or individual can rent the state-owned land from the local government for profit-making development through auction. The lease time differs from planning functions: 70 years for housing, 40 years for commerce and 30 years for industry. According to the statistics published by the National Bureau of Statistics in 2010, land rental revenue summed up to 300 billion US dollars by 120 major cities in China which contributed more than 50% of local financial revenue. Chinese local government is becoming land-running enterprise in reality. On the other hand, the law defines that land in rural area (except for mines, meadows, forests, waters, deserts) belongs to village collectives. All rural land are divided evenly and rent to all villagers for free. In order to maintain monopolistic revenue for state-owned land the law also defines that rural land can only be constructed for villagers' dwellings or other agriculture structures. If a real estate program (housing program, commercial program) or a factory needs to be constructed on rural land, the land must be sold to the local government as state-owned land at first in low price, and then it can be sold to developers through auction in remarkable monopolistic price. That is the biggest “commercial confidentiality” of Chinese urban economy.

During the past 30 years, numerous factories had been established on rural land in the PRD Region as “village-ship factories” which belong to rural structures in the name of serving agriculture. At the beginning, these factories were founded by village collectives to deal with agricultural product indeed, which were sanctioned, but more rural land was rented to small enterprises for profit making after a period of time. The local mercantilism governments often took laissez-faire attitude to these illegal factories for two reasons: first, their contribution of tax and GDP; second, the price of land to be developed into industry area was very low so it seemed to be no damage to government benefits. These illegal constructions did not touch the bottom line of the local governments until the local governments realized that the land quota was largely occupied by these factories. Thus the local governments felt obligated to deal with these factories, illegal dwellings and factories should be torn down according to the law. However, there were too many to deal with after a long term of acquiesced attitude from local governments and demolish all illegal constructions was no longer an option at all.

To break the deadlock and encourage community renewals, Chinese central government proposed the “Three-old” Policy (policy of renewal for old towns, old factories and old villages) in 2008 in the name of “encouraging intensive land use”. It is actually a compromise to regional reality. Accordingly, illegal construction land before June 30, 2007 can be exempted and registered as legal property only if the owner willing to pay a certain amount of fine and reconstruct the land following the zoning ordinance. Otherwise if the owner choose to sell the land, he will get a compensation with an amount of 60% of the land revenue through auction organized by local government. The policy is only permitted in the Guangdong province, which is always considered as “traditional pioneer” of reform and opening-up area of China. Encouraged by such compromise, wide-ranged community renewals started in the PRD Region since 2009.

2. Community engagement based on the “Three-old” Policy

As situation mentioned above, the policy is no longer dealing with simple technical issue of land-intensive use, but a redistribution of land vested interest. However, the land fit for renewal are mainly owned by the village collective, which make the villagers as important as the powerful government and wealthy investors. Though the constitution and land law of China define no individual owns any land, the policy implies that villagers had the rights of profit-making through land ownership, just like the local governments.

Based on Muller's theory of public choice (Mueller, Dennis C, 2003), the human society is composed of economic market and political market. Subjects of economic market are consumer (demander) and vendor (supplier). While subjects of political market are electorate,

interest group (demander) and politician (supplier). People has to make decisions on both economic market and political market. The theory further claims that, people always try their best to maximize their benefits on both markets.

In renewal projects, the local government, social investors and land owners (such as the village collective, etc.) constitute a benefits triangle. The government concerns not only economic profits but also political performance, prestige, fame and other political benefits. Based on perspective of the Development Economics (Yujiro Hayami et al, 2005), the government can be regarded as economic organization with public authority. Through renewal projects, the government seek public support for their governance and economic benefits as well. Therefore, the bottom line for local government is the benefits from politics and economy exceed the costs from political and economic risks. It also means the government trends to approve unprofitable program sometimes for political reasons.

The motivations of social investors and land owners in renewal cases are much simpler than local government. From the perspective of "Economic Man", both of them just seek maximum profits and minimum risks in the economic market. Social investors such as capital stakeholders willing to obtain reasonable return on their investment and to avoid potential risks like policy inconsistency, conflict in renewal projects, capital chain fracture and project cycle extension. Land owners such as village collectives are willing to accept the benefits like increasing of land incomes and improvement of living condition but to avoid losing their land rights easily. Land owners like village collectives always trend to choose lower risk plan in the game for their lack of information compared with the other two sides of the triangle.

Based on motivations analyzed above, the game in this triangle is the procedure of redistribution for land vested interest. The transfer of land ownership (if any), compensation for vested interest, demolition-resettlement plan and the FAR are the main issues to be negotiated in the game. If the agreement can be reached in tripartite negotiation among local government, social investors and land owners, a local development union will be formed in a renewal program (Chen Chen, Min Zhao, 2013). Then the renewal plan can be carried out for implementation, otherwise the renewal plan will have to be discarded. Moreover, if there are many "land owners", such as old village dwellings owned by villagers and factories owned by all villagers in one collective, involved in one piece of land, people should vote to decide whether a renewal will take place and which kind of renewal (or compensation) they will accept. Accordingly, the policy stipulates that if 90% of the "land owners" vote for renewal, and meanwhile the owners who vote for renewal got possession of more than 90% of the buildings on the land, the negotiation starts and renewal planning can be made. It called the "double 90" principle in the "Three-old" policy. Besides, other important decision like the type of renewal or compensation, should not implement until it pass the "double 90". So the community engagement is the most important process in every renewal case.

	ROLE	IMFORMATION	ANTICIPATION	BOTTOM LINE
Local government	Public authority	Complete	Political fame Economic Returns	political-economic risks
Capital stakeholders	Social Investors	Well-informed	Maximum Returns	Economic Cost
Village Collective	Land Owner	Incomplete	Maximum Compensation	Land Ownership

Table 1: The benefits triangle of the game for renewal projects in the PRD Region

According to the Ladder of Citizen Participation Theory (Arnstein, Sherry R, 1969), the benefits triangle has constituted a partnership when each side has the power of veto. It represents the senior phase of the citizen power in renewal projects. Therefore traditional

technical renewal planning promoted by powerful authority of government in other places of China is not suitable in this region. Renewal plan should not only propose a technical solution but also respond to all the parties of the vested interest. The voices from villagers should be considered as crucial as voices from powerful government and wealthy investors during implementation of community renewal projects. Therefore the community renewal in the PRD Region guided by the "Three-Old" Policy is widely considered as the origin of community engagement in China.

In following renewal cases of Guangzhou and Foshan, partner engagement and role of planning in policy implement will be further studied.

3. Renewal Project of Lianjiao District, Foshan

3.1 The Event of Emma Maersk

Lianjiao district became world famous for the event of international garbage shipping. According to British Sky Broadcasting Co.(BSY) In November, 2006, the Emma Maersk, one of the biggest container ship in the world, carried 15,000 TEU of garbage back to China after she shipped Christmas presents to Europe. All the garbage was shipped to Lianjiao, a small village in Dali town seated between Guangzhou and Foshan. The event was broadcasted on the SKY TV called "toxic shocked China" which described the garbage collection industry in Lianjiao. As the report had gained widespread concern at home and abroad, China Central Television(CCTV) broadcasted another program to report the situation in Lianjiao. According the report from CCTV, this district had been dealing with garbage sorting, especially plastics, for years and involving nearly a thousand small garbage companies. The annual garbage sorting capacity of Lianjiao exceeded 200,000 tons with poor technique of waste disposal. Therefore, Lianjiao was heavily polluted with toxic smoke in the air and black water in the rivers.



Figure 5: photo of garbage sorting industry in Lianjiao(2006)

3.2 The developing process of Lianjiao district

The situation in Lianjiao is a microcosm of typical rural industrialization in the PRD Region in the past 30 years. According to the research literature (Yang Lian, Yuan Qifeng, 2010), since 1980s, taking advantage of convenient transportation between Guangzhou and Foshan, the village collective gathered farmland from villagers for rent after certain land readjustment and infrastructure construction. In 1992, An industry park for garbage sorting was founded, which covered an area of 112.5ha, 70% of which belonged to Lianjiao village and the rest came from another 4 villages (Lizhong, Lidong, Yayao and Pingdi). The land was all rent by small plastic garbage collection enterprises in shabby bungalows. The total amount of rent from the park was 4 million US dollars in 2006, with an ratio increased by 20% every 3 years. Villagers were satisfied with long term incomes from the rent though they had to suffer from severe pollution. However, the local government could only get 640 thousand dollars from plastics garbage industry as the annual tax, which is one-tenth of the total from Lianjiao district. As the "Emma Maersk" incident exposed, local government considered that community renewal is imperative.

3.3 The plan of community renewal in Lianjiao district

As the fundamental of negotiation, renewal plan for Lianjiao district was proposed by the local government. It provided a future vision for the villagers and investors. According to the planning, trade business was suitable in Lianjiao district for it lies in the joint of Guangzhou and Foshan. In addition, the newly developing business center of Foshan, situated to the south of Lianjiao, trended to extend northwards. The renewal plan concluded that Lianjiao district would be a new part of Foshan city, and the renewal function would include professional trade center, wholesale markets, industry headquarters office, hotel, public services, as well as residential and leisure program.



Figure 6: Renewal planning for Lianjiao district

3.3 The negotiation and engagement for implementation of renewal

The view of renewal plan would undoubtedly bring more profit and the pollution would be controlled. Villagers also expected for more profit and better environment but they always put their ownership of the land at first place. In order to implement the renewal plan, negotiations got started and the process was noted by scholars (Yang Lian, Yuan Qifeng, 2010).

As the land rent was the income source for the villagers of Lianjiao district, villagers in Lianjiao and other 4 villagers mainly opposed to sell the land as "state-owned land". Even the estimate land value may reach 2.75 billion yuan (350 million US dollars in 2006) though auction and the villagers could get 60% (around 200 million dollars) at one time according to the "Three-old" policy. Villagers insisted on maintenance of the land ownership for long-term income. Then three models for development were further discussed with such fundamental.

- (1) MODE 1: Local government control. The local government rent all the land of 112.5 ha for 40 years (which is equal to the rental period of commercial use on state-owned land), and run all programs planned with social investors. The villagers get paid each year as rental and the land, including all buildings above will return to villagers after the rent expired in 40 years.
- (2) MODE 2: Village collective control. The village collectives carry out land readjustment according to the plan and found an incorporated company with social investors to run all programs.
- (3) MODE 3: Local government-Village collective cooperation: The government and the village collectives cooperate found an incorporated company together and share all the incomes and risks.

	MODE 1	MODE 2	MODE 3
Implement the Goal of Planning	GOOD	NORMAL	GOOD
Financial Risk of the Government	HIGH	LOW	NORMAL

Financial Risk of the Collective	LOW	HIGH	NORMAL
Possibility to Pass the "double 90" voting	HIGH	HIGH	LOW
Convenience for loan	NORMAL	NORMAL	HIGH
Convenience for Attracting investors	NORMAL	NORMAL	HIGH

Table 2: Pros and Cons of each mode.

According to the notes from scholars (Yang Lian, Yuan Qifeng, 2010)

There were pros and cons in each mode. Without the participation of the government like Mode1 and Mode3, it is less guaranteed in the Mode 2 as decisions made by villagers are relatively short-sighted and changeable. Compared with Mode 1 and 3, local government trends to choose the latter as there were some obvious defects in the former. In Mode 1, the land is rent by the government but still belonged to the collective as rural land, which means it is not easy for the government to get loan from banks without land mortgage. Moreover, real estate programs such as hotels and residencies are strictly forbidden on the rural land, which is hard to attract big investors and risk rises.

While in the Mode 3, everything seems much better. The collectives offer the land and the local government offers the finance support for construction, all the villagers and the government become stockholders in one land developing incorporated company. Meanwhile, as the land ownership transfers to the company from the collective, it is convenient for applying loan to boost cash flow. And if there is any need of converting some part of the land into state-owned in order to attract a big investor, the government can negotiate with all stockholders, the land fee through auction can flow back as investment for the company. The only need to implement the Mode 3 is pass the "double 90" voting through community engagement.

However, the Mode 3, though attractive, failed to pass the voting for two reasons. Firstly, as 70% of the land belongs to Lianjiao village, villagers in Lianjiao claims 51% of stock ownership, while villager from the other 4 villages opposed strongly against it for fear of losing voting power in the company. Two medium plans were addressed in the process of community engagement as follows: (1) Stripping the voting rights and bonus share rights from stock ownership, which allows Lianjiao village collective owns 64% of the bonus share but 49% of the voting power; (2) The government share more stockownership with more finance investment, until the stock ownership ratio of Lianjiao drop below 50%. Nevertheless, neither of the medium plans approved, villagers reached an impasse for majority ownership. Secondly, founding a company and mortgage the land for loan imply a risk of losing the land if the business runs badly to bankruptcy, which challenges the bottom line of villagers, especially villagers in Lianjiao.

The consensus was finally reached on model 1 though obvious defects can be concluded: the local government obtained the usufruct by rent the rural land, which is strictly forbidden for housing estate. Thus the government took all the risks with limited develop program. But villagers gained 4 million US dollars every year and increased by 10% every 3 years without any risk. What's more, the village collectives can get back all land and buildings above after 40 years without a cent, which seems unfair. It is not hard to come to a conclusion that the government had compromise much during the negotiation because the construction land quota is rare and the village collectives had taken the initiative. The villagers gain incomes without any efforts or risks, which would become a considerable social problem in the coming future.

Anyway, as the consensus was reached, the local development alliance was founded. The renewal project started as planned. When the first phase of the trade center was finished in 2012, the old perspective of Lianjiao district with heavy pollution and garbage everywhere was refreshed like the rebirth of phoenix.



Figure 7: The photos of implemented renewal planning in Lianjiao

4. Renewal Project of Hailongwei District , Guangzhou

4.1 The dispute of farm land quota

Hailongwei is a small island in the Pearl River, seated on the border between Guangzhou and Foshan. There are five villages on the island, with a total area of 20.5km². In a long time ,the traffic was inconvenient of Hailongwei so its development did not follow the typical rural industrialization process of the PRD Region. There were only few enterprises on rural land for manufacture. As there were many brooks on the island, it is suitable for flowers planting industry. Statistics shows that in 2010, the flower trade business in Hailongwei exceeded 2 billion yuan(300 million US dollars in 2010). Because of more incomes from planting industry than manufactures, villagers on the island were satisfied. The flower farmland and brooks were well maintained compared with nearby regions. For this reason. Guangzhou government distributed most of the farmland quota in Hailongwei Island as well, in order to exchange more constructed quota for industrial development in other places.

However, as the traffic barrier of the river was broken by tunnels and metro line, together with the sub-centers of Guangzhou and Foshan had been under construction across the river, land rent in Hailongwei rose sharply and many farmlands for flower planting were replaced by factories and housing estate. In 2012, 55% of the rural land was taken and the land quota almost ran out. There was no more farmland for rent, which means villagers' anticipation for increasing income was shattered by the quota. Of course, they were unsatisfied and even kept building illegal constructions and petitioning constantly. The government felt huge pressure from the protest against quota which can be anywhere but "NOT IN MY BACK YARD".

4.2 The renewal plan for problem solving

In order to solve the problem between land quota and explore a better way of development than rural industrialization as well, renewal plan for Hailongwei Island was proposed by local government. According to the scheme of the plan, all the farmland on the island were arranged together in space without virtually exchange of quota between farmland and construction land. The farmland quota were gathered and arranged as a whole on the southwest of the island, covered an area of 3.2 km². This farmland was planned to be the site of the World Horticultural Exposition of Guangzhou and the biggest flower trade market in Asia after the exposition. Besides, the plan further explained the whole picture of the community renewal for the island. The five villages and industry land would be renovated as a "flower island" with new functions planted in, which include flower exhibition& trade& research, ecological conservation, business office, low carbon industry and waterfront residential program.



Figure 7: The renewal planning for Hailongwei island



Figure 8: Farm land at present(L),in territorial planning(M)and readjustment by renewal planning(R)

According to the renewal plan of Hailongwei, farmland on the island were better conserved and its new role of big events brought better scenery with promising economic feedbacks. Both local government and villagers were glad to see the implementation of the plan and started to negotiate.

4.3 The negotiation for implementation and engagement of the renewal

As Hailongwei is quite near to the sub-centers of Guangzhou and Foshan, the land value is much higher than it is in Lianjiao. Based on statistics, the housing price of Hailongwei area was as high as 250 thousand yuan(4000 US dollars) per square meter in 2012. The social investors was glad to buy constructed rural land and buildings above in this are in order to exchange tremendous profit from redevelopment. Moreover, according to the “Three-old” policy , all constructions including land and buildings constructed before June 30th, 2007, are accepted as a fait accompli and villagers can get compensation through renewal projects. Some village dwellings were more than a thousand square meters and the owners can get millions of US dollars as compensation, or replaced with several new apartment as big as 100-150 m²,which can be rented for long term incomes. Under such circumstance, rational villagers would sell their rural constructed land to local government, as the land became state-owned land it can be developed into real estate. The negotiations for renewal plan on the constructed rural land were mainly between villagers and investors; the government only played as supervisor to guarantee the public interest.

The farmland on Hailongwei Island, which can only constructed as flower& exhibition & trade & research park, on the other hand, attracted no interest of social investors, the negotiation for implementation of 3.2 km² flower land is mainly between the local government and the villagers. Just like the agreements of Lianjiao Project, there were 3 models for renewal implementation: (1) government control, (2) village collective control, (3) government-village collective cooperation. Based on the factors of renewal intention, common profits, joint risks, finance convenience, the model 3 was undoubted the ideal choice. However, even though the villagers were eager to get higher profit from the project, they were reluctant to share risks and afraid of losing their ownership of the land through bad management of land mortgage.

Just like the renewal project of Lianjiao, the consensus was reached on model 1, the local government rent all the farmland for 20 years with a payment as much as the manufacture rent. The villagers get the incomes and take no risks at all. After the rent expired in 20 years, all the farmland and facilities above will be return to the villagers. As we concluded in former project, there was no good for the villagers to gain without any risks or efforts, however, the government had no choice but compromised to the villagers who had control of the remaining land and veto to the renewal project.

5. Summary

Extraordinary phenomenon often occurs in Chinese urban development, which western planning theories can hardly explain, such as a small fishing village named Shenzhen had developed into a metropolis with tens of millions of people just in one decade. It is rather difficult to explain the huge power of community renewals in the PRD Region when the present land law was slightly released by the "Three-old" policy. On one hand, if the value of the rural land is fully liberalized, local government in China, who rely on the revenue of state-owned land will be bankrupted. On the other hand, local government feel forced to release some of the rural land value to deal with the shortage of construction land quota. The "Three-old" policy is a compromised and progressive reform to the dilemma. Its implementation in the PRD Region as a successful experiment implies a further implementation for the whole nation in the coming future. The central government has realized defects of the land law are the reason for massive illegal constructions and no one could benefit from the deadlock, therefore the policy implies an amendment of the law in the future.

According to the renewal projects, the construction land quota is one of the rarest resource for regional development in China, so land owners such as villagers have the initiative in renewal negotiations. In order to guarantee the implementation of the renewal policy, a tripartite local development alliance including local government, social inventors and landowners should be found. The alliance reflects the three parties are peers in renewal projects rather than the government monopoly. To sum up, community renewals guided by the "Three-old" policy in the PRD Region is widely considered as the origin of community engagement in China for the power of the government is weakened and the power of village collectives is enhanced. Renewal plan should not only propose a technical solution but also respond to all the parties of the vested interest, which represents the future direction of urban planning development in China.

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