

Analysis of the Impact of Industrial Land Marketization on Industrial Upgrading

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Abstract: By combing and analyzing the existing literature, this article comprehensively examines positive benefits of industrial land marketization in fostering the optimization and modernization of industrial structure, and reveals its limitations in promoting regional innovation and alleviating land finance dependence. The article finally puts forward a series of targeted policy recommendations based on the research findings, seeking to offer a theoretical foundation and useful guide for the creation of pertinent policies.

Keywords: Industrial land, Industrial upgrading, Land policy, Land finance dependence.

1. Introduction

Driven by today's globalization and technological innovation, sustained economic development and industrial upgrading have become the core strategies for countries to enhance national competitiveness and achieve sustainable development. This process involves not only optimizing and adjusting the industrial structure, but also enhancing the added value and competitiveness of industries through technological and management innovation. The market-oriented reform of industrial land, which serves as the building block for industrial development, has a significant influence on industrial upgrading in this process.

A market-oriented reform of industrial land use is one in which the government's immediate impact over industrial land use decreases gradually, thereby offering the market mechanism more control over how land is allocated. Since the reform and opening up, the industrial land use system has undergone deeper reform because of the coordinated efforts of the State Council and the CPC Central Committee. The market has also played a more significant part in allocating industrial land assets, and levels of intensive use and land conservation have increased. However, issues like the wasteful use of industrial land, the mismatch between land resources, and the over-reliance on land finance persist. These issues are influenced by a number of variables, such as the local government's actions and the opacity of market information. Therefore, the 'Opinions on Building a More Perfect Institutional Mechanism for Market-based Allocation of Factors', enacted by the CPC Central Committee and the State Council in 2020, explicitly states that in order to increase the effectiveness of land resource distribution, the market-based allocation technique for industrial land must be strengthened. This includes highlighting the use of market methods to encourage the conversion of land elements from inefficient to efficient utilization. In 2021, the General Office of the CPC Central Committee and the General Office of the State Council issued the 'Action Program for Building a High-standard Market System' proposed to improve the market system for construction land, expand the reformation of the land management system, and carry out a pilot program for cross-regional trading of land indicators, among other recommendations. This further emphasizes the importance of

promoting market-oriented reform of land elements in promoting changes in the quality, efficiency and dynamics of economic development. The market-focused overhaul of land elements includes, among other things, the market-focused overhaul of industrial land as fundamental production land. In the context of the innovation-driven strategy, how to promote industrial upgrading through market-oriented reform of land for industry has become a reform topic that requires immediate investigation.

This paper seeks to explore the effects and limitations of industrial land marketization on the upgrading of industry through a thorough review and analysis of the literature. Additionally, it provides theoretical justification for comprehending the fundamental relationship between industrial land marketization and industrial upgrading, and to provide policy constructive suggestions for the development of pertinent policies with a view to promoting industrial upgrading and high-quality economic growth.

2. Industrial Land Marketization's Beneficial Effects on Industrial Upgrading

The market-oriented reform of industrial land grant, as an important part of deepening the alteration of the land structure, has demonstrated impressive outcomes in recent years in fostering the superior progress of China's economy. Firstly, this reform has significantly improved industrial total factor productivity (Deng Huihui, 2021). This is because the market-based granting mechanism optimizes the efficiency of land element distribution through the introduction of competition, enabling land resources to flow more precisely to enterprises with high productivity and strong innovation capacity, thus improving industrial transformation and upgrading. The study of Zhang Lin et al. (2018) directly shows the positive correlation between the level of industrial land marketization and the degree of industrial structure optimization. With the promotion in the level of marketization, land resources are more inclined to flow to highly efficient, environmentally friendly and innovative industrial fields, thus encourages the optimization and modernization of the structure of industry and the recognition of the shift from low-value, high-energy-consuming conventional sectors to high-value, low-energy-

consuming contemporary industries. This process not only enhances the overall competitiveness of industry, but also creates a strong basis for high-quality economic development.

Land finance provides important financial support and policy guarantee for the marketization of land resources. In his study, Liu Zhibiao (2010) points out that land finance promotes urbanization and thus industrial upgrading. Tao Changqi et al. (2017) also affirmed in their study that financial assistance encourages the concentration of the service sector and subsidizes the growth of the manufacturing sector, which advances the upgrading of the industrial structure. The financial income obtained by the government through land concessions is partly used to subsidize the financial support for manufacturing enterprises, especially those with technological innovation and high growth potential, and these subsidies effectively reduce the operating costs of enterprises, stimulate the innovation vitality of enterprises, promote the manufacturing industry to reach the top of the value chain, while at the same time promote the industrial agglomeration, thus realizing the upgrading and optimization of the structure of the industry.

In addition, the rise in land factor prices, as an inevitable consequence of market-oriented reform, has also promoted industrial upgrading to a certain extent. Although the high cost of land may form a "barrier" effect and constitute an entry barrier for foreign enterprises, it has objectively promoted inter-regional industrial transfer and industrial upgrading (Zangbo et al., 2015). The rise in industrial land costs in the coastal region has forced low-end manufacturing to move to the central and western areas, thus promoting the development of the industrial structure in the eastern area in the direction of high-end and service-oriented. However, for the central and western regions, the direct effect of growing industrial land costs on the upgrading of industrial structure may not be significant, which is closely related to its stage-specific characteristics of undertaking industrial transfers (JinSheng Huang et al., 2017). It is worth noting that the role of rising industrial land prices in promoting industrial upgrading also varies within cities. Urban core areas are more likely to be driven by rising land prices to realize industrial upgrading due to the concentration of resources and well-developed infrastructures, while peripheral areas of the city may face challenges due to the dispersal of resources and lagging infrastructures (XI Qiangmin et al., 2019).

From the analysis of heterogeneity, Rao Yingxue's (2024) study of industrial land marketization has a crucial role in facilitating regional innovation level, especially in the central and western areas, this effect is more prominent. The central and western regions, as late-developed regions, have relatively weak innovation systems, but the promotion of industrial land marketization effectively stimulates the innovation vitality of these regions. By reducing the cost of land for enterprises and enhancing the transparency and flexibility of the market, the market-oriented land grant mechanism provides a fairer and more efficient innovation environment for enterprises in central and western regions, accelerating the introduction and application of new technologies and modes, which in turn promotes the rapid enhancement of regional innovation capacity. In contrast, in the financially prosperous regions in the east, since the level of marketization of industrial land is already relatively high, and these regions originally have a more complete innovation system and stronger innovation capacity, the direct stimulus effect of industrial land marketization on innovation may be

relatively less obvious. However, this does not mean that market-oriented reform has no value in these regions; on the contrary, it may indirectly enhance the overall innovation strength of the region through more refined land management and policy guidance, promote the upgrading of industrial structure to a higher level, and form more concentrated and efficient industrial clusters.

3. Deficiencies in the Development of Industrial Land Marketization

The marketization process of industrial land, while promoting economic development, is accompanied by a series of negative effects that cannot be ignored.

First, from the perspective of enterprises, the market-oriented reform of industrial land, especially the introduction of the competitive pricing mechanism, while reflecting market fairness and efficiency to a certain extent, has also significantly increased the price of industrial land for businesses. This is profoundly revealed by Zhang Liao's (2015) study, which points out that high land costs have become a major burden for manufacturing companies, particularly small and medium-sized firms (SMEs) and start-ups. These enterprises are often relatively cash-strapped and can hardly afford the sharp increase in land prices, which in turn affects their willingness to invest and their ability to expand. The study by Fan Zi-Ying et al. (2022) further reveals the crowding-out effect of excess land cost on enterprise innovation by utilizing an improved cluster analysis. High land cost not only increases the operating cost of enterprises, but also limits their investment in R&D and innovation. With limited resources, firms often need to make a difficult choice between production expansion and R&D investment. Rising land costs have undoubtedly exacerbated this conflict, forcing many enterprises to forego or cut back on capital and resources that would otherwise have been used for innovation, thus inhibiting their innovative capacity and long-term competitiveness.

Second, for the government, the system of "bidding and auctioning" of industrial land has brought in fiscal revenues while also creating hidden dangers. Zheng Siqi's (2011) study shows that this system has driven up land prices, making local governments increasingly dependent on land finance to maintain daily expenditures and promote urban development. This over-reliance has not only weakened the fiscal resilience of local governments, but also exacerbated the vulnerability of local finances. When the land market fluctuates or goes downward, local governments' fiscal revenues will be seriously affected, which in turn may trigger a series of chain reactions, including the rise in financial risks and the amount of debt accumulated by municipal governments (Zhou Feizhou, 2006). In addition, in order to reduce the budget deficit, some local governments may adopt short-sighted behaviors, such as overdeveloping property and ignoring ecological and environmental preservation. These actions further jeopardize the long-term viability of the economy and society.

The marketization of industrial land may also have a dampening effect on industrial structure upgrading through land finance. Zhou Bin (2018) points out that when local governments rely excessively on land finance, they often tend to use their limited land resources on projects that can quickly bring in fiscal revenue, such as real estate development. This type of resource allocation will undoubtedly crowd out the

development space for industries that require a longer period of accumulation and investment to produce benefits, such as high-end manufacturing and technical services. In the long run, this will lead to a low-end lock-in of the industrial structure and difficulties in transformation and upgrading.

4. Policy Recommendations

4.1. Optimizing the Structure of Land Finance Use

In order to further enhance the effectiveness of land finance utilization of resources and optimize its allocation structure, we need to make detailed adjustments and optimizations to the orientation of land finance support. Specifically, land financial resources should be invested more in manufacturing enterprises with significant technological innovation and high growth potential, especially focusing on small and medium-sized firms and start-ups, which often show great potential for development. The aim is to effectively reduce the cost of land for enterprises, thereby stimulating their innovation and market competitiveness. At the same time, it actively guides the transformation and upgrading of the manufacturing industry to the top end of the value chain. This can not only promote industrial agglomeration effect, accelerate the process of industrial upgrading, but also form a more centralized and efficient operation of industrial clusters. In addition, in the process of utilizing land finance, we should take care to safeguard the ecological environment, avoid excessive development of land and damage to the ecosystem to ensure the long-term stability of the economy and society.

4.2. Strengthening Government Regulation and Guidance

In order to guarantee the robust and orderly growth of the industrial land market, it is necessary to establish a sound mechanism for the release of market information. The purpose of this mechanism is to improve the transparency of market information, ensure that all market participants have access to current and precise information, and thus lessen the issue of information asymmetry. At the same time, in order to effectively prevent a high degree of dependence on land finance, it is necessary to build a perfect regulatory system to ensure that local governments can follow the principles of long-term planning and sustainable development in land use decisions, and curb the occurrence of short-term profit-seeking and speculative behavior. In addition, the design of policy guidance and incentive mechanisms is also key to promoting industrial upgrading and technological innovation. Businesses might be incentivized to invest more in R&D and strengthen their capacity for independent innovation by creating pertinent policies. In addition to aiding in the growth of the businesses themselves, this is a crucial way to encourage the transformation of the entire industrial structure into one that is more upscale and service-oriented.

5. Concluding Remarks

Focused on the current literature, this paper deeply explores the impact of industrial land marketization on industrial upgrading. The primary findings are as follows: the marketization of industrial land is a key step in deepening the reform of the land system, and has a major influence on fostering the high-quality development of China's economy. By introducing competitive mechanisms and optimizing the

distribution of land resources, the marketization of industrial land significantly improves industrial total factor productivity and promotes the rapid development of efficient, environmentally friendly and innovative enterprises, thus supporting the optimization and upgrading of industrial structure. At the same time, the rational use of land finance for industrial upgrading provides important financial support and policy protection, which helps stimulate the innovation vitality of enterprises and promotes the manufacturing industry to climb to the high-end of the value chain. However, the process of industrial land marketization is also accompanied by some challenges, such as the rising cost of land for enterprises and the government's over-dependence on land finance, which to a certain extent inhibit the further advancement of industrial upgrading. Therefore, future policymaking ought to concentrate on optimizing the structure of land finance use, strengthening government supervision and guidance, and ensuring the orderly and healthy growth of the industrial land market. so as to fully realize the beneficial role that markets play in the distribution of land resources and to support industrial upgrading and superior economic development.

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