



Introductory speech

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« Land and real estate dynamics: multidisciplinary perspectives on China and India's urbanization »

International workshop organized by the FINURBASIE network,
French Institute of Pondicherry, July 17-18, 2015.

Introductory speech by Natacha Aveline

Welcome to this workshop organized by the FINURBASIE project, a 4 years project funded by the French National Research Agency.

As the principal investigator of FINURBASIE, I would like to convey my gratitude to Aurélie Varrel who has efficiently undertaken the organization of this workshop. Aurelie has spared no effort to prepare our stays in Pondicherry, taking personally care of each guest. I feel very grateful for her strong involvement and her patience during the preparation of this event. I would also like to thank the director of IFP for hosting the workshop and providing us logistic resources. And I thank all of you, on behalf of the FINURBASIE team, for showing your interest for our project through your participation to this workshop.

During the two coming days, we will be discussing on the development of urban and peri-urban areas of India and China through the lens of land and real estate dynamics.

There should be no strong distinction between land and real estate in our understanding of urbanization, as land is a major component of real estate, and real estate is in turn a main target of land development in urban and peri-urban areas. Yet the academic literature clearly puts boundaries between *land studies* and *real estate studies*.

Land studies have a very old history, dating back to the 18^e century. At that time, agriculture was the main source of wealth, and the formation of land value was a major subject of discussion within the scientific and political community. This discussion went so far as to cause the emergence of economics as a distinctive scientific discipline.

However, now that agricultural land has turned urban in major places, getting land involved in speculative mechanisms of large magnitude (in that context, the potential of wealth creation is far higher than in former agricultural economies) , economists have deserted the field (apart a few number of neo-Marxian or other heterodox authors, of which we had the chance to gather some interesting specimens here).

Rather, land studies are mostly being developed by geographers and sociologists, and to a lesser extent by political scientists and anthropologists. The obvious reason is that land is not a full commodity that is freely tradable on the markets. Land values are shaped by *property rights* and *land-use regulations* pertaining to *spatially fixed objects* (as defined by David Harvey). Therefore, there is generally no such thing as a unique land market, but rather highly fragmented and opaque sub-markets, that often do not

behave according to the 'market forces'. It is interesting to note that land studies are more developed in countries where land is the most institutionally embedded — where the understanding of the tenure systems, mechanisms and actors, is the most challenging—, such as in Africa, but also in India and China. In France, they are slightly re-emerging after a break of about 20 years. However, land studies generally do not deal with real estate, and do not explore deeply the economic dimensions of land.

On the other hand, we have real estate studies, whose picture is quite different. Contrary to land, real estate has been transformed into a full commodity. To overcome the spatial fixity of the land component, financialized instruments (such as private equity or Real estate investment trusts) have been developed to channel capital through global circuits of finance. These instruments have been sized by institutional investors, which have grown at a rapid pace over the past two decades. Financialization has also considerably increased transparency in real estate markets, along with the development of information technologies. This has encouraged mainstream economists to apply their models and valuation techniques to new sets of data. As a result, so-called 'real estate economics' have developed, but this strand of literature does not consider real estate in a situated context. It totally ignores the processes and actors that shape the materiality of real estate and bears no interest in the urban and social outcomes of real estate investment.

Real estate economists focus on the performance of the various real estate investment tools, and assess the added value of real estate in the portfolios of institutional investors. Although they contribute to the understanding of the real estate market dynamics, they serve primarily the interests of institutional investors, with no regard for the interests of urban stakeholders. With their sophisticated models and risk assessment techniques, we would expect them to predict or at least to explain systemic crises originating from real estate. Take the example of the Great Financial Crisis (subprime mortgage crisis). Their models could give valuable insight into the mechanisms that disseminated the crisis within the global financial markets (because these models were precisely the ones that contributed to disseminate the 'bubble' and its subsequent bust). However, they would not engage in such a project, and remain unable to explain the major cause of the speculative mechanism: the simple fact that mortgages were massively granted to poor households without proper assessment of the risk. Why? Because the main drivers of the bubble were the *dissemination of the risks operated by an increasing number of investment channels and the misleading expectations regarding the future of the real estate markets in the US*. Both drivers are incompatible with the basic assumptions of mainstream economics.

In a similar vein, mainstream economists have been constantly insisting that China should open up its financial and real estate markets to foreign investment. This is what several South East Asian countries did in the early 1990s, under the pressure of Wall Street. In 1997, Thailand's economy was severely hit by the bust of a real estate crisis, which became systemic and impacted the whole region. We are very fortunate that China has taken the lessons of the Japanese land bubble bust and the Asian crisis, and has been reluctant to develop transnational financial channels to boost its real estate industry (China has securitized its markets but only on a domestic basis). Given the recent turndown of the property markets in China, a more financialized real estate economy would be surely causing a severe trouble to other countries.

In a context of increasing transnational circulation of capital for real estate investment, it is necessary to become aware of the changes occurring in the whole chain of production governing the built environment. Therefore, the current boundaries between land and real estate studies should be transcended to allow a more comprehensive understanding of (re) development processes (from the development of building land to the materiality of constructed urban objects); The growing importance of transnational and financialized channels fuelling capital into real estate have a significant incidence on power relations between various social groups, and on local governance structures; this in turn affects the transformation of standardized real estate investment vehicles into locally-embedded instruments.

The FINURBASIE project aims to document these transformations by mobilizing multidisciplinary approaches. We have decided to limit our geographic scope to India and China, two demographic giants that are experiencing a dramatic growth of property markets, with tremendous potential wealth creation, but also with all the associated risks in terms of social, political, and economic potential effects. During the first two years of the project, we have conducted separate research in India and China, as we needed first to get a broad picture of the property development processes, actors, and financial channels in each country. But we are now moving towards a comparative perspective. This workshop is a very an important milestone in this regard.

Natacha Aveline, July 17, 2015