

**To Seize the Initiative in Economic Growth:
The Transition of Chinese Local Governments from Managing Enterprises to
Managing Administrative Areas**

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Paper prepared for the conference, “US-China Business Cooperation in the 21st Century: Opportunities and Challenges for Entrepreneurs,” Indiana University, Indianapolis and Bloomington, Indiana, April 15-17, 2009.

To Seize the Initiative in Economic Growth: The Transition of Chinese Local Governments from Managing Enterprises to Managing Administrative Areas^①

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Abstract: From 1992 to 2000, China experienced a transition in the local government development strategies, that is, from running companies to running the region. From the perspective of local government's control right, the major change is from "seizing the right to run business" to "seizing the land development right." Under the existing theoretical literature, the cause for this transformation has not yet been revealed. In this paper, we introduce an empirical research and develop theoretical models which lead us to the conclusion that only when local governments take control of the supply and pricing of the land, namely the exploitation right, will they be able to reach their goals in economic growth, or, to achieve the growth target at the minimum risk. Therefore, in order to realize its political goal of optimal growth, the local governments need to seize the land ownership to run the region as an enterprise. Such a strategy is called by the local authorities as "seizing the initiative in economic development." This article also argues that this phenomenon is the basic characteristics of land system in China, that is, land ownership authorized by the government; Secondly, administrative system in China stems from basic characteristics, namely, "territorial management" and "contract at every administration level."

This article reveals the conclusions of an important feature in contemporary economic growth in China - that is, the performance of economic growth in China not only depend on local governments' "competition for the growth" strategy, but also depend on local governments' "administrating the major factors of production" strategy.

1. Introduction

In the recent three decades of economic growth in China, it is generally accepted that the growth of competition between local governments (the so-called "regional competition"), played the key role. The economists developed two theoretical interpretations. One is that since 1980, the central government has implemented fiscal decentralization and administrative decentralization, which led to the formation of the "economic federalism with Chinese characteristics" and resulted in regional competition and local governments' concern in developing the regional economy. This pattern not only inspired local governments to attract investment and promote economic growth in the region, but also strengthened the protection of property rights of the investors, bringing about prosperity and stability in the local market (Montinola et al., 1995; Qian and Weingast, 1997;

^① The first draft of this paper submitted to Beijing Tianze Economic Research Institute's "Academic Forum Fortnight" in June 2008 and held at the Sun Yat-sen University, "Organizational Sociology Workshop" in July. Professor Zhang Shuguang, Professor Han Chaohua, Professor Shenghong, Dr. Sun Yudong, Dr Nie Hui-hua, Professor Zhou Xueguang, Professor Liu Shiding, Professor Peng Yusheng made some constructive criticism to it. Archives in Xiaoshan provided the patience to help the author to access to local files. This research is funded by the Ministry of Education focus on the humanities and social sciences research base in 2005 of major projects (project approval No.: 05JJD790096), Zhejiang University and Heng-yi private economy Research Fund project grants

Qian and Roland, 1998; Jin et al., 2005) Another theory emphasizes the centralization in the political power and the direction of "taking economic construction as the center" caused local officials to focus on economic growth to compete in "promotion contest". In order to win in the promotion race, the local officials are competing to improve the regional investment environment, using all possible ways to attract the investors. Because these two theories have emphasized the role of region competition, Zhang Jun, Zhou Nathan (2008) summed it up as "compete for growth"^①.

Applying the above theory to explain the behavior of local governments in China, the following can be inferred: the local governments will implement privation and market orienting reform in the urban area, in order to enhance the region's competitive advantages and economic growth rate. Obviously, there are a lot of cases to support this inference. However, we point out that there is a major event which has inconsistencies as well as consistencies with the above-mentioned theories. The major event is, from 1992 to 2000, China experienced a transition in the local development strategies, which is from operating enterprises to operating the region (hereinafter referred to as "strategic transformation"). This "strategic transformation" means, before the year 1992, the Chinese local governments promote economic growth mainly by directly running enterprises; but after 2000, they gave up running enterprises in the competitive market in principle, and decided to run the region as a business^②. Simultaneously, "strategic transformation" go hand in hand with the changes in the local government's regional economic control: before 1992, the local government controlled the right to set up enterprises directly, while prohibiting privately owned business--we have referred to such control as "seizing the right to do business"; after 2000, local governments strongly encourage and tried to attract businessmen to do business. The local government changes the way it controls the economy to seizing factors of production^③ in the region, especially the land development right. Therefore, we said that the manifestations of "strategic transformation" is a local government shifting from the operator of the enterprises to the operator of the region as a business and its essence is about "giving up the ownership of business" and "seizing ownership of the land."

The key aspect in the "strategic transformation" is the privatization^④ of public enterprises

^① Zhang, Zhou Nathan: "To increase competitiveness - the political economy of growth in China," Shanghai: Knowledge Press, Shanghai People's Publishing House, 2008 edition

^② The so-called "operating the regional", or "run the region as a business" refers to the jurisdiction of local government behaviors as the "owner" in its land area and made planning, development, and create investment environment and attract businessmen in the entire area, and it have the incentive to optimize the industrial structure, support leading industries and key enterprises, to the extent possible, enhance the area's economic growth foundation and fiscal revenue. The meaning and content of "under the jurisdiction of the regional as a business to run", we go into further detail in Section II of this article.

^③ The so-called "regional production factors " refers to the factor which is indispensable for the production of private goods or public goods in the region, but cannot transfer out of the region, such as land, water and electricity supply facilities, industrial facilities, roads, investment environment. "Regional production factors " have regional and production of public goods characteristics in generally, some of which belong to regional productive infrastructure, but some as land, productive public services and other factors of production do not classify as infrastructure

^④ The privatization exercise was called "public enterprise restructuring (or restructuring)." The so-called "public enterprise restructuring" is that local governments' public enterprises (including the place of state-owned enterprises, urban collective enterprises, township enterprises, etc.) which is in the completion area implement the operating mechanism of the conversion, in fact, which is the transfer of ownership of public enterprises to the enterprise managers , enterprises and other investors. The campaigns first initiated by local governments in the south-east coastal have a typical example: From 1992 to 1994, Zhucheng privatize all of its 272 public enterprises in Shandong; before and after 1995, Guangdong Shunde municipal government privatizes more than thousands its owned enterprises. By 1998, the enterprise property rights reform has been an affirmation by the central government, public enterprise privatization wave sweeping across the country quickly, in just a few years, those competitive field enterprises owned by county (city) and township (town) of all local governments almost all

launched spontaneously by local governments around 1994. In this point of view, the spontaneous "strategic transformation" is formed through practice and imitation between regions. Clearly, the first half of the "strategic transformation", that is, the local government initiated the privatization of public enterprises is correspondent with the aforementioned inference. Because in the regional competition and the market economy environment, the implementation of the privatization of local government reform can help the region to build the competitive advantages, and enhance the region's economic growth and fiscal revenue. (Zhang Weiyang, 1998; Cao, Qian and Weingast, 1999; Guo et al., 2005; Han Chaohua, Dai Muzhen, 2008) However, the second half of the "strategic transformation", which is "seizing the land development rights" and running its region as a business is not the implementation of privatizing and market orienting reform, it can even be seen as an opposite action^① therefore it contradicts the previous inference.

Thus, in regard to the "strategic transformation" by local government in China, the "competition for growth" theory explains only half of the transition. This raised two questions in theory:

The first problem is that during China's transition to market economy, why didn't local governments implement more thorough privatization and market orienting reform in their regions, but rather started to seize the ownership of the land, to operate the region as a business? Another related question is how did they put their action under the jurisdiction? To answer these two questions will not only help us develop the existing theory into a more in-depth explanation of the behavior of local governments in China, but will also help us to understand the characteristics of China's emerging market economy as well as China's economic growth mode.

The problem mentioned above has aroused the concern of other scholars. Zhou Nathan (2008, page 298-306) observed that the focus of the work of local government experienced a major transfer from enterprises to city management^② in the mid-1990s. He summed up this phenomenon and put forward a similar question: Why were local officials able to achieve the strategic transformation from the operation of enterprises to operation of the city? Why is it so difficult for governments to adjust their functions in the way we expected^③? Till now these questions remain unexplored. In this paper, we try to answer the above questions through empirical research and theoretical model. The models are based on the theory of "the invisible hand" in the political field established by Olson (M. Olson) and other scholars (Olson, 1993; McGuire and Olson, 1996), while introducing the central government and regional competition and other factors in it. Our points of view can be summed up to the following points:

First, on the condition of a unified tax system nationwide product market and capital market,

become owned by private operators regardless of losses or profits.

^① Among activities local government currently engages in, in addition to land planning, environmental protection, the soft environment for investment need to be supported by government-led, other activities matters and operate field should be open to civil, or operate under the market mechanism. Such as the market for land development and supply in primary land market, and a variety of industrial park construction and management can open to civil society in principle, in fact monopolize by local governments. Again, adjust industrial structure, the formation of leading industries and enterprises such as the survival of the fittest, to pass through the market mechanism from fat regulation, but local governments often use administrative power to direct the operation

^② "City management" called by Zhou Nathan and "operating the region" in this article are same to some extent, but there are still differences in meaning. "City management" is the local government "operating under the jurisdiction of the regional" an integral part of, so from the integrity of the development strategy, the current local government is under the jurisdiction of the region as a business to run

^③ Zhou Nathan gave a preliminary answer to these questions: In his view, local governments have been able to complete the operation from the operation of enterprises to the transformation of the city because of its control of key production factors in its region, especially the land. This answer enlightens this article. However, Zhou Nathan did not elaborate his views, in addition, he did not answer the previous question in theory - why should local governments to complete such a strategic transformation? Only the question "why should" the problem, then the question "why can" question, can make a complete understanding of the behavior of local governments

local governments have to control the right of utilizing the land to achieve optimal economic growth, or to minimize the risk in the regional competition. Correspondingly, the local government will need to run the region as a business. Hence, quoting the local officials, the "strategic transformation" was for the sake of "seizing the initiative in economic development".

Secondly, there're two factors which paved the way for the transition. First is the government's right to authorize land ownership, which is the basic characteristics of land system in China; and second is the "territoriality management "and" contract at every administration level.^①" which is China's administrative system stems from the basic characteristics of China's administrative system.

In the following sections of this article, we will illustrate our view through empirical study and theoretical models.

2. Chinese Local government's strategic transition: from operating the enterprises to operating the region

Before presenting the argumentation in detail, we need to confirm that such a "strategic transformation" really happened. The first half of the "strategic transformation" - that is, local governments who ran enterprises began to promote the privatization of public enterprises around 1994 - has been recognized as a historical fact which has been fully discussed by different scholars, so there is no need to go into details. The second half --- local governments turned to operate the region as an enterprise, is the present situation and fewer scholars have discussed it, therefore it is necessary to elaborate.

To simplify the exposition, the "local government" in following sections mainly refers to the government at county (city) level, excluding the rest of the local government levels. The reasons for this simplification is that in the county (city) level, the Government has full administrative and economic autonomy, and that the regional competition and "strategic transformation" mainly occur mainly at this level.

2. 1 The implications of “running the region as a enterprise”?

The so-called "operating the region", or "running the administrative area as a business" refers to such local government behaviors: planning, investing, and developing the investment environment to attract businessmen in the entire area as the "owner"; optimizing the industrial structure, supporting leading industries and key enterprises, and to the possible extent, enhancing the area's economic growth foundation and fiscal revenue. This argument is based on experience that the local governments are engaged in economic activities in its area in the way similar to a developer engaged in exploiting a vast land. This similarity has three aspects:

1. They both have objectives in development planning. The "development plan" of local governments includes local economic growth rate, land exploitation, public and private investment, the distribution of industries and local industrial structure, etc. and they use administrative power and financial resources to implement its development planning. If we replace the local government with developer targeting maximum profits, it will make similar development planning and carry them out in the same ways.

^① The basic characteristics of administrative system in China, "territorial management" and "contract at every administration level", see Zhou Nathan (2008).

2. In order to implement development planning, they all have to control productive factors directly and monopolies, including the development and management of land, construction and operation of various types of industrial park and its supporting infrastructure, the provision of investment services and favorable policies to major investors in the main industries.
3. They will auction the rights to invest and manage on the land to the investors, which is known as the act of "attracting foreign investment."

We can also compare it to the combination of a unified management and a decentralized management. In this kind of "shopping malls", the owner is the planner, investor and operator of the shopping center but is not running various counters. He creates the shopping environment and, makes advertisements and rents counters to different sellers. The sellers not only pay the rent, but also render a proportion of their revenue to the owner. Therefore, there is a two-tier structure in the shopping malls: a unity operation by shopping malls' owners and a diversified operation by various sellers which both constitute the business mode and competitive strength. Steven Cheung (2008) believes that the economy in contemporary rural China is similar to the double-decker structure of the "shopping mall":

"A county can be regarded as huge shopping malls, run by an enterprise (ie government) as the operator; the customers who rent counter in this mall can be seen as the counties investors. Tenants of mall pay a fixed rent (equivalent to investors premium), plus a share of the rent (equivalent to the annual collection of value-added tax). We know that because there are parts relate to the sale, the mall owners will exercise carefully in selecting tenants, provide many kind of services to tenants, as the county government has appeal for investment also provide a lot of concessions." (Steven Cheung, 2008).

2. 2 Description of the local officials

Let us quote the description of local officials to explain that the local government has indeed shifted to manage the administrative area as operating an enterprise.

In the expressions of the local officials firstly appeared "city management" which is similar to "managing the administrative area". The first mode of "city management" was Bo Xi-lai's management of Dalian City. As the mayor of Dalian, Bo Xi-lai ran the entire city resources as assets in the early 1990s. The "city management" mentioned by Bo Xi-lai includes the following aspects: Firstly, enhance the city image and reputation, name Dalian city as "the Northern Hong Kong" to build Dalian into the "five centers" of finance, trade, tourism, information, and shipping. Next, redistribute, develop and manage the overall resources of the city to create the best investment environment and the best living environment and finally, attract domestic and foreign investors with the city brand, the investment environment and living environment to stimulate economic growth.^① Since the successful operation of Dalian by Bo, the idea of "city management" spread like wildfire, and have been quickly digested by local officials.

However, most areas in China, especially administrative areas at county (city) level, do not have Dalian's geographical position and the natural resources. It is impossible to boost the entire region's economic development mainly relying on city image. Therefore, for most local governments, city management is only one way to use the resources of the city --- mainly through

^① Zhou li'an: "Transformation of local government", Truth & Wisdom Press, SHANGHAI RENMIN CHUBANSHE, 2008, P298-299

renting land, public facilities, franchises and naming right^①. This also determines that the "city management" is only a part of China's strategic transformation after 1992. Local officials concern not only about the development of natural resources of cities, but also about the planning and development of whole area, as well as economic growth. The following descriptions given by three county (city) level local officials will help to illustrate this point.

1. Hu wei , former Secretary of CPC of Anji County Committee, Zhejiang Province, in his Doctor Dissertation gives descriptions for the new role of county government in business as follows:

“The county government no longer puts a business investment project as their own business to finance and invest, but operates the whole county as an enterprise, which are embodied in the development zone. ... On one hand, it shifted from supporting a business to steering the overall guidance of business development and invested on dominant industries and industrial parks. On the other hand, it focuses on the infrastructure investment, from supporting (formerly) an enterprise to constructing development zone and investing on the public infrastructure and ancillary facilities for all enterprises.”^②

Correspondingly, the relationship between local government and businesses under its jurisdiction have also changed, the local government is similar to "Enterprise Service Corporation", which provides investment services for all kinds of enterprises, as well as special services for key enterprises. Hu believes that in this regard, the largest innovation made by local government is setting up development zones and industrial parks:

“The relationship between development zones and enterprises, is in fact, the relationship between government and enterprises ... What Development Zone does are things outside the walls, which is to maintain a good investment and production environment. The development zone is like a large business services company, enterprises’ demands that are outside their walls can be obtained inside the Development Zone. ”^③

However, because county government still controls land, telecommunication, electric power and other elements, its relation with enterprises is not simply taxpayers and service provider. Therefore, the county government in regional economic development also undertakes the role of promoters, but is no longer facing only several enterprises, but all of them under its administration.^④

2.Wang Huaiyue, former mayor and party secretary in Jimo city, Shandong province. He believes that from the view of external competition, local government is the general representative for businesses under its administration, who helps its business to compete with outside companies. Wang Huaiyue’s summary is:

“County government who wants to maximize their own financial interests must ensure that its enterprises to maximize the benefits, so that the county government and enterprises form a community of interests. Driven by that, the county government should try to improve the market

^① So, some scholars have pointed out that Chinese local governments operating the city belongs to "funds to obtain point-type" of urban management, as distinct from "service-oriented efficiency" of urban management. See Lin Jia-bin: "The perspective and consider to Urban management hot," contained "Urban management - Chinese mayor (county head) Forum", the Central Literature Publishing House, 2005.

^② Hu wei, "Institutional Change in the government's actions at the county level", China Social Sciences Press, 2007, p124

^③ Hu wei, "Institutional Change in the government's actions at the county level", China Social Sciences Press, 2007, p124

^④ Hu wei, "Institutional Change in the government's actions at the county level", China Social Sciences Press, 2007, p124

share of its enterprises and as far as possible to absorb the inflow of outside resources. Therefore, when its enterprises take part in market competition, the county government also takes part in competition as the general representatives of its business.”^①

3. Zhu Zejun served successively as the mayor and party secretary of Zengcheng, Guangdong province in the 2000 to 2009. In his doctoral thesis, Zhu Zejun(2006) summed up the development model of the city during his term. "Zengcheng development model" outlined by ZHU can be seen from two perspectives: First, development strategy and planning; Second, the implementation of the strategy”.

Concerning the development strategies and plans of Zengcheng, ZHU summarizes as "the five locations " and "four drives." "Five locations" refers to the overall goals of creating new urban in the eastern part of Guangzhou, and turns Zengcheng into a new manufacturing base, leisure tourism resort, the service industry center, urban agriculture base and the base for vocational and technical education in eastern Guangzhou." "four drives " are: first, the southern drive, to exert the advantages of the south proximity to the Guangzhou, it devotes major efforts to develop the southern industry, in order to protect the ecological environment of the northern part, driving tourism and resort in northern and eco-agriculture development; Second, outward drive, to develop export-oriented economy and private economy; Third, central cities drive, sufficiently bring along the driven function of Xintang, Licheng, Shitan, form industrial cluster, and bring the city's economic development; Fourth, base-driven, vigorously promote the industrialized operation of agriculture, support leading agricultural enterprises and develop urban agriculture.^②

Regarding the implementation of the strategy, ZHU's generalization is:

(1)Seize the infrastructure construction; especially strengthen the construction of transport aortic, open up a situation of large-scale development through well-developed transportation network, and by road construction drive great regional development. (2)Mainly develop industrial groups, through the guidance and support to form the motor vehicles and spare parts, motorcycles, denim casual wear---the three big pillar industry. (3) Carefully plan the environmental investment, introduce a number of high scientific and technological content, input intensity, high levels of output, strong impetus of the mainstay projects. (4) Do a good job in planning and promotion of Zengcheng, advertise Zengcheng of its natural resources, investment environment and the main products.^③

In Zhu Zejun's summary of development mode of Zengcheng, he didn't explicitly say that the city government put Zengcheng as a business to run, but in fact we can see that Zengcheng city government did so.

(III) The method of local governments operating the administrative area

From the above description of local officials, we can generalize that local government regards the administrative area as a business to operate, its mode of operation generally have four levels. Firstly, local government need to make the whole area development planning, including the goal of economic growth, land development, industrial development, investment, infrastructure and other public goods and so on; secondly, they need to invest in public goods (Mainly including the construction of various industrial parks and supporting infrastructure) and attract investment;

^① Wang huai-yue, "Statement of Country Economy in China", RENMIN CHUBANSHE, 2001, P87

^② Zhu ze-jun, "Metropolitan area with the satellite – the empirical studies of urban development model ,Zengcheng, Guangdong Province", South China Agricultural University doctoral dissertation, 2006, p69-71

^③ Zhu ze-jun, "Metropolitan area with the satellite – the empirical studies of urban development model ,Zengcheng, Guangdong Province", South China Agricultural University doctoral dissertation, 2006, p69-71

thirdly, they adjust and upgrade the existing industrial layout and industrial structure in order to improve the efficiency of allocating resources and technique; fourth, they also support the development of key industries and key enterprises in order to bring industrial development of the whole area. Certainly, this summary is the general case, or the general pattern of local governments operating. Because of the differences in resource endowments, industrial base, geographical location, habits, etc. each region has its own features. Local government in the operation pattern will also be in line with local conditions to maximize the region's strengths and characteristics.

3. Basis of local management: Land Development Right

To treat the administrative area as a business to operate, local governments must have "macro-control capacity" on the regional economy, including land planning, the control of development and transfer, financial control, the qualify control of businessmen and so on. Among them, the key factors of "macro-control capacity" are land planning and the control of development and transfer; this control requires local governments to seize the "right to land development.

(I) Grasping land development right is the necessary conditions for local governments to manage the administrative area.

The main means of local governments managing the administrative area is to plan the overall area, then make individual plans on different industrial departments, and finally carry them out through construction of various types of industrial park to attract investment and promote upgrading of the industrial structure, etc. It is true that local governments imagine themselves to be representative of public interest in formulating land utilization plans and industrial development planning, or just imagine themselves as "owners" of the resources in the area. However, implementing its plans, namely constructing industrial park, attracting investment, supporting major industries enterprises is more than just imagining itself as the "owner", it needs real power to control land development. For example, the land planned for industrial park and its supporting infrastructure is actually rural arable land owned collectively by the peasants. If they can develop their own land, or sell it to investors, the local government will have to purchase the rights from farmers according to the market price, which will greatly limit the overall planning of the administrative area. Therefore, local governments have to take over the development rights of rural collective land; and they're enabled by the rights of compulsory land acquisition and monopoly in supplying industrial and commercial land.

On the other hand, the key link is attracting foreign investment. In addition to the construction of various types of industrial park and its supporting infrastructure to attract investors, the more direct means is to provide investors with competitive preferential policies. However, the preferential policies promised by local governments cannot be separated from its ability to control land.

We can give an example. The project of Zhongyu Group and Daimler - Chrysler co-operated Mercedes-Benz Series is one of the major projects in Xiaoshan District, Hangzhou City. However, the Zhongyu Group proposes harsh terms to the government of Xiaoshan District: (1) in terms of land planning, set aside 3,500 mu of land for the company, including an area of 800-1000 put into use in 2005; Government should pay in advance or purchase the same amount of stock shares for

the cost of land requisition, moving and tearing, certificates, etc. (2) the company is free (or reimburse after tax collection) from all local tax (including income tax, contract tax, stamp duty, the education surtax, building tax, etc.) including the urban construction tax, VAT which is part of to local government income will be returned; (3) According to Mercedes-Benz business saloon cars, Mercedes-Benz heavy truck and engine project technical requirements, standardized factories should be built in 2005; Government should pay in advance or purchase the same amount of stock shares for the construction and other costs.^①Of course, the Zhongyu Group also described a tempting future prospect: in the next decade, the company will invest in Xiaoshan and produce Benz business saloon cars, heavy trucks, engines, luxury bus, MPV passenger cars and other products, and eventually form a Automotive Industry Park with an annual output of 100 billion yuan; in 2008, it will form a 25,000 capacity of various types of vehicles, 200 billion yuan of sale volume, and two billion yuan profits and taxes.

In order to settle Zhongyu Group in Xiaoshan on November 22, 2005, the acting district head Zheng Shengrong convened thematic coordination meetings to study the issue.^② At the meeting, the Government of Xiaoshan District had basically accepted the conditions proposed by Zhongyu Group and arrived at the following resolutions:

(1)To provide 3350 mu for the car project of Zhongyu Group. Among them, the production base of 3,000 mu, arranged in Linjiang's Industrial Park, 300 mu of R & D Center, arranged in Qiaonan's Block of Xiaoshan Economic and Technological Development Zone; corporate headquarters to 50 mu, arranged in Qianjiang Century City. (2)For the land transfer fund of 150 mu of starting block in production base (the differential rent)^③, it is not paid for the moment to the Government of Xiaoshan District. (3)Factory building by Zhongyu Group self-built, the government gives financial subsidies, subsidized standard 250 per / sq m, the total area of subsidies granted does not exceed 100,000 square meter. (4) To give the Zhongyu Group a decade in tax preference, the first five years tax paid by the company belongs to the Government of Xiaoshan District, it all returns. The later five years returns 50%.

In order to implement the terms of these commitments, District heads asked the relevant government functional departments to plan and adjust in order to ensure the Zhongyu Group's land required.

In the Xiaoshan district government promised preferential policies, it is not difficult to provide

^① From Zhejiang Zhongyu (Holdings) Group: "With regard to refer to policy support for the Zhongyu Motor", Zhong yu qing zhi (2005) No. 7, July 20, 2005. We need to add that the request put up by Zhongyu Group are not entirely exorbitant prices, it consults that the preferential policies that the government of Wuhu city provide for the Chery Automobile Co., therefore, it is similar to a competitive market quotation.

^② The chief leaders to attend a meeting were: First Deputy (District) Chief Tan qingfen, Deputy District Head Xu yuerong, as well as principals of concerned departments, such as Development and Reform Bureau, Finance Bureau, Land and Resources Bureau, Bureau of Investment Promotion, etc.

^③ The money that the government gets from land transfer has different name according to the different way of transfer. If through the market auction (generally land of commercial and real estate), the land prices were known as "land transfer fund"; if through negotiation by government and particular investor (generally industrial land), the land price generally consults the preset standard-called "differential rent" to decide. Therefore, in accordance with agreement to transfer the land-use rights, the price is generally known as "differential rent." Although referred to as "rent", it does not the price of land use every year, but rather a one-time charge of land-use price (used normally for 50 years). In 2005, the "differential rent" is 89,450 yuan / mu, which the Government of Xiaoshan District set up for the land of Linjiang industrial park. The prices are composed by the following components: land compensation fees 10,000yuan / mu, labor resettlement fees 15,000 yuan / person (based on 3.57 person / mu), the compensation paid to village collective 12,900 yuan / mu, paid to the town government 3,000 yuan / mu, and plus ground irrigation facilities and precious nursery stock compensation 10,000 yuan / mu. A quote from the Xiaoshan district government office: "About Linjiang Industrial Zone of the land price report,"XIAOZHENG(2005) No. 59, December 7, 2005.

tax preference. Because it will come true until the project completed and put into production and pay tax; furthermore it only returns a certain percentage of the incremental revenue created by the project, which does not affect local government revenue stock. It is most critical and difficult for the government to provide the land. This is not only because in Xiaoshan land resource is very scarce, but also because the land which can be taken out for industrial development is basically farmland, which need to land requisition and relocation and compensation, but necessary to apply to adjust land use planning for the provincial government. If local governments do not have the land development rights, but need to provide land to investors in favorable terms, this can only be empty talk.

(2) Ways to control land development right: Land Acquisition and Reserve System

As stated above, to manage its administrative area, local government need to control land develop right in its administrative area, in particular, it must monopoly two links: transferring agricultural land into commercial land and supplying land to industry and commerce investors. But, before 1997, within the administrative area of local government at county (city) level, land development right is not completely concentrated into the hand of the county (city) government, land market is actually a multi-supplier market. Then, except the county (city) government, governments at town and village level also mastered some extent of land development right, they could build factories for enterprises in their own administrative area, they could even set up development zone to attract investors; and when state-owned enterprises and collectively-owned enterprises need to liquidize land occupied by them, they can develop it by themselves, or transfer it to investors. Such multi-supplier situation in the land market is obviously a disadvantage for local government to manage its administrative area as manage an enterprise. So, when local government start to carry on strategic transformation, Land Acquisition and Reserve System, an institutional innovation initiated by local government and means to monopoly land supply, popularized around the nation quickly^①.

The Land Acquisition and Reserve System refers to Local government's centralized control on three key links(Land purchasing and expropriation, Land reserve and prophase development and arrangement, supply land to investors) in primary land market in its administrative area. The purpose to set up this system is for local government to monopoly land acquisition and supply in primary land market, its essence is to control the land development right in its whole administrative area.

We will take the Land Acquisition and Reserve System established by XiaoShan City^② in ZheJiang Province as an example to show the specific methods local government used to monopoly land acquisition and supply.

^① In August 1997, HangZhou Started to implement Land Acquisition and Reserve System, which was the first attempt of local government to establish Land Acquisition and Reserve System in china. In 1999, on a national conference on the effective use of land, Hangzhou's land management bureau introduced Hangzhou's experience on the building up of Land Acquisition and Reserve System, which was admired by local governments and land management departments in other regions, and they started to follow Hangzhou's example. On April 30th 2001, State council release <Notice on the strengthening of the management of national land asset>, in which, it mentioned: "To reinforce government's regularity ability on the land market, if conditions is meet, local government can try to build Land Acquisition and Reserve System" which symbolize that the central government formally recognized local governments' monopoly on land acquisition and supply. From then on, Land Acquisition and Reserve System popularized around the nation quickly.

^② After 2001, Xiaoshan City became a part of Hangzhou city, and it is renamed Xiaoshan District of Hangzhou City.

The setting up of Land Acquisition and Reserve System in XiaoShan city started in 1998. On December 16th 1998, XiaoShan government office sends out <Notice on the Establishment of Land Acquisition and Reserve System in XiaoShan city> to its subordinate township governments and functional departments. In this notice, it is said: “To establish new land supply mechanism,.....City government decides to establish Land Acquisition and Reserve System”, the purpose is “ to strengthen the unified management on land, to containment the illegal and implicit transaction of land, and to reinforce government’s effective regulation on land resource”. In the end, the Notice emphasized: “ Agreements negotiated by Present land users (mainly referring to organization who control land supply, including township government, village and enterprises and so on) and investors on the transfer of land use right will not be recognized.” This shows that the purpose of XiaoShan city to establish Land Acquisition and Reserve System is to concentrate land supply, which was dispersed in the primary land market, to the hand of city government, so that city government can achieve monopoly operation on the primary land market.

The new “Land Acquisition and Reserve System” is composed by three links: The first is acquisition; the city government collects all land that is prepared to transfer to investors, by means of expropriation, purchasing, repossession and replacement, etc. The second is reservation; all land collected by various manners will enter the land reserve inventory of the city government, and prophase development and arrangement will be done, including house removal, land leveling, and necessary infrastructure; The third is transfer, based on the annual land supply plan made by the city government, land in the land reserve inventory will be transferred to investors at the right time.

To implement the “Land Acquisition and Reserve System”, XiaoShan government set up “XiaoShan City Land Acquisition and Reserve committee” and “Xiaoshan City Land Reserve Center”^①. The former’s main function is to make plan of land acquisition, reserve and transfer annually, and to solve serious problem in the process of land acquisition and transfer; the latter is authorized by the city government to deal with specific affairs about land acquisition, reserve and transfer^②. Accordingly, the function of governments on the township and village level also changed, in the past, they were one of the various land suppliers in the land market, presently they assist higher authority in land development, and gradually become working institution in charge of the practical work of land expropriation, house removal and compensation negotiation. For example, in July 2005, Xiaoshan government office sent down <Notice on further Consummation of the Land Acquisition and Reserve System in Xiaoshan City>, according to which, township governments’ responsibility on the Land Acquisition and Reserve System is increased. The notice made it clear that: Township government is in charge of house removal, land expropriation in the process of land acquisition and reserve in its administrative area; and on every patch of reservation, township government should sign agreement of land expropriation and house removal compensation and agreement of prophase development and arrangement with the land reserve center. Of course, township governments are not interest irrelevant, it is also mentioned in this notice that township government can get a certain share of the land transfer income of every patch of land, including differential rent, matching fee, land increment benefit and so on.

^① “Xiaoshan Land Reserve Center” is a subordinate insitution of Xiaoshan National Land Bureau, and it is also supervised by XiaoShan City Land Acquisiton and Reserve committee.

^② This introduction is based on <Notic on the Establishment of Land Acquisition and Reserve System in Xiaoshan City>(12 16th 1998), which is sent out by Xiaoshan City government office.

It is necessary to indicate that to monopolize land factor market through the establishment of Land Acquisition and Reserve System is not only special policy of Xiaoshan City or Zhejiang Province, it is also adopted by other provinces early or late. For example, Fujian Province indicated its subordinate local government clearly in the <Notice on the Implementation of Land Acquisition and Reserve System> that: “ All cities and counties should, according to the spirit of this notice and base on local reality, make practical policies on land unified reserve, land benefit distributing, land transfer, monopolization of primary market and so on, form land reserve and transfer mechanism, firmly seize land acquisition right and supply right, reinforce governments’ ability to regulate land market.”

4. Why local government manage its administrative area as manage an enterprise: theoretical hypothesis and empirical evidence.

Now let’s answer the key question of this paper: Why local government turns to seize land development right and manage its administrative area as manage an enterprise, while they gradually lose their control on local enterprises?

In this sector, we will give our opinion on this question, and demonstrate some empirical evidences; in the next section, a formal model will be established to support our argument.

4.1 Theoretical hypothesis

On this issue, our argument is that, as central government set unified tax rate and preserve unified national commodity and capital market, in the face of inter-jurisdictional competition, local government, to make sure that the political optimum economic growth rate can be attained, or, to minimize the risk of failing to achieve desirable growth rate, need to master the supply right and the price-setting right of land, in other words, local government need to seize land development right.

Why local government can minimize the risk of failing to achieve its desirable economic growth rate, once it can master the supply right and the price-setting right of land factor? To analyze and explain our argument, We can borrow the theoretical framework established by Olson and other scholar(Olson, 1993; McGuir and Olson, 1996) . They point out, if the government own stable “encompassing interest” in its administrative area, then even if this government have autocratic right on its subjects, for example, if the government can tax its subjects at any rate, and it has the right to use tax collected freely, The “encompassing interest” still can constrain the government’s behavior, because the government can benefit from the productive activity of its subjects, which will enlarge the government’s tax base. Specifically speaking, to maximize its tax income, the government will make two decisions: First, Limit the tax rate at the proper level (a tax rate that can maximize tax income), which is the optimum tax rate for the government; Second, Invest a part of tax income into the production of productive public goods, which can increase the production ability of its subjects, and increase the tax income in the future, thus a optimum public goods investment can be set by the government. We can analyze local government’s behavior in this framework. Since 1980, when political decentralization and financial decentralization are implemented, local government own extensive “encompassing interest” in its administrative area,

and acquired relatively independent political and economic power. So, according to theory by Olson, to maximize its tax income, Chinese local government also hopes to set the tax rate at the optimum level, and will supply optimum public goods investment.

Now, we introduce central government and inter-jurisdictional competition into this theoretical framework. The introduction of central government impose two constrains on the behavior of local government. First, the nominal tax rate is decided by the central government, so local government can only decrease the actual tax rate beard by investors by supplying preferential policy. Second, as commodity and capital market are unified, local government can't split commodity and capital market. The introduction of inter-jurisdictional competition imposes two more constrains to the behavior of local government: the constraint of the desirable economic growth rate and the constraint of capital liquidity. The constraint of desirable economic growth rate means the desirable economic growth rate is not independent decision of the local government; otherwise, it is affected by other regions' desirable economic growth rate and the expectation of the central government. So the desirable economic growth rate set by the local government must meet the political need, or, it must be political competitive, this economic growth rate is "political optimum economic growth rate". The constraint of capital liquidity is that local government face competition from other regions in attracting private investment, as private can mobile across diffident regions.

With these modification on Olson's theoretical framework, we can depict the behavior of local government as follows: First, local government need to set the political optimum economic growth rate (noted as e^e)^①; Second, according to the desirable economic growth rate, local government makes plan on the attraction of private investment, to achieve the political optimum economic growth rate; the necessary amount of private investment is calculated (noted as A^e); Third, based on the quantity of private investment planned to attract, Local government decide the amount of matching public goods investment (noted as G^e); Then, based on the targeted quantity of private investment, the condition of the supply of local productive goods (also called investment hard environment), and the preferential policy in other regions, local government will set its own preferential policy (noted as δ) to attract private investment. The combination of these decisional variables for local government, including the desirable economic growth rate and the implement plan of the local government, is local government's "development Plan", noted as (e^e, A^e, G^e, δ) .

To implement such "development plan", key problems need to be solved by the local governments are: First, to control the investment cost of productive public goods, make sure its cost is endurable to the local government; Second, to increase local government's credibility to offer preferential policy, make sure local government have the ability to offer attractive preferential policy to investors. If local government can ensure these requirements, it can ensure the feasibility of its "development plan", and minimize the risk of failing to achieve the desirable economic growth rate.

On these two key problems in the face of local government, we claim a theoretical hypothesis as follows:

^① For example, the desirable economic growth rate set by the Xiaoshan district Hangzhou City government in 2003 is: Gdp increse 16%, achieve 33.8 billion yuan; the industrial product value increas 22%, achieve 122.8 biliion yuan; local fiscal income increase 18.66%, achieve 1.73 bililion yuan.

Theoretical Hypothesis: under the condition that central government set uniform tax rate and preserve the unified national commodity and capital market, and in the environment of inter-jurisdictional competition, if local government want to make sure that the investment cost of productive public goods is endurable and that it has the ability to offer attractive preferential policy to investors, it have to master the supply right and the price-setting right of land factor.

The reasoning of the theoretical hypothesis is omitted here considering the length of this article. We only point out that, if this hypothesis is valid, then the argument of this paper is also valid. This is because, according to this hypothesis, local government's control of land development right is an endogenous result from inter-jurisdictional competition, under the condition that the central government set the uniform tax rate and preserve unified national commodity and capital market: To achieve the political optimum economic growth rate, local government needs to attract enough private capital; To attract private capital, local government need to match productive public goods and offer attractive preferential policy; To lower the investment cost of productive public goods to the endurable level, and to have the ability to offer attractive preferential policy to investors, local government need to control the price and supply of land factor, and need to control land development right.

4.2 “To Seize the Initiative of Economic Growth”: the Voice from Local Officials.

Our argument is based on empirical evidences.

After 1992, Local governments spontaneously promoted the privatization of public enterprises and turn to new development strategy, which is local government's reaction to the change of its business environment. There are three major changes to local government's business environment after 1992: First, on the commodity market, the central government gradually cancelled its planning management and price control of most commodities, the unified national commodity market had formed, and competition in this market is more and more fierce^①; Second, on the taxation system, in 1994 we saw the establishment of tax-sharing system, State taxation bureau and local taxation bureau were set up to collect state tax and local tax respectively, and local government lost its actual power of tax reduction which it once defect owned, thus local government's power to interfere tax collection and management is weakened; Third, in the capital market, central government start to implement financial institution reform in 1994, which cut off local government's channel to directly control financial institutions and directly interfere loan provision, unified national capital market stated to form^②. The synthetic compact of the three major changes is that the business environment in china for various kinds of enterprises and business entities (including local governments) gradually tends to be market-oriented; business

^① The intensification of the competition on the commodity market is the synthetic result of the rising of private enterprises, the entrance of foreign-funded enterprises and the property right reform of state-owned enterprises and township enterprises.

^② In 1994, Zhu Rongji was in charge of the financial department, he implemented three important reform: First, cancel the dual-leadership institution on the branches of People's bank, the branches of People's bank only follow the leadership of the headquarters of People's Bank, not local governments; Second draw back the power of branches of People's Bank to grant loan to commercial bank, centralize this power to the headquarters of People's Bank; Third, Start the commercialization of Four major national banks, they started to manage their asset and risk according to international standard, and at the same time, the headquarters of these banks started to strengthen internal control, draw back the approval right of granting loans. These reforms effectively limit local governments' ability of affecting monetary supply and interfering loan granting.

entities gradually have more and more freedom on market entrance and the acquisition of production factors. The changing of business environment strengthened local government's budget constraint, increased its difficulties and financial risks of manage enterprises directly; this is the direct reason that leads local government to turn to new development strategy.

But, in the eyes of local officials, local government's promoting the privatization of public enterprises and turns to new development strategy doesn't mean they are going to give up their leadership and control on local economy, and leave private entrepreneurs and the market to dominate local economic growth. This is because if local government gives up their leadership and control on local economy, then local officials' interests, political achievements and political career will be under the threat of market risk which can't be controlled by these officials themselves, which is unacceptable to them. So, even in a market-oriented environment, local governments still want to seize the leadership of local economic growth and control the market risk in front of them. In the words of local officials, this is to "seize the initiative of economic growth". From this viewpoint, either the privatization of public enterprises or the control of supply right and the price-setting right of land factor are both local governments' instruments to "seize the initiative of economic growth".

The terminology "seize the initiative of economic growth" is common in the speeches and reports of local officials. For example, in 1996, when the transition of public enterprises in Xiaoshan City was in the key stage, vice mayor of Xiaoshan City, Sun Xiaoming addressed a mobilization report, in which he ask all departments of the city government and all townships to "try their best to promote the transition of enterprises, win the initiative of economic growth in time as soon as possible."^① This sentence implies "the promotion of the transition of enterprises is to win the initiative of economic growth", and at the same time, it also implies "the transition of enterprises in Xiaoshan city is backward; we need to catch up as soon as possible". Similar words can be found in one report made by Xiaoshan City government and municipal party committee, in the report "Do a Good Job in the Transition of Enterprise, Develop the Economy of Xiaoshan City", the city government and municipal party committee said: "the earlier we carry through enterprises transition, the more initiative we are, To master the initiative of economic work, we must do a good job on the transition, which is a great event to the deepness of reform, to the promotion of development and to the stable of the society".^②

We need to go one step further: What do local officials mean when they say "to seize the initiative of economic growth"?

The terminology "seize the initiative of economic growth" is just a metaphorical phrase applied by the local authorities; we should understand its meaning on two levels. The first is its direct meaning, which is what official officials mean in their speeches and reports. On this level, when a local official say "seize the initiative of economic growth", it means: To promote the regional economic growth, local governments need effective instruments. These instruments are called "development strategy" or "Exerting Point" by local officials. If local government can grasp such instruments, the officials believe they have "seized the initiative of economic growth". From

^① Sun Xiaoming:< Concentrate some time, organize main power, comprehensively promote the transition of enterprises, Pomote the health development of Xiaoshan's economy>, 10 11th, 1996.

^② Xiaoshan government and party committee: < Do a Good job on the transition of enterprises, Develop Xiaoshan's economy>, April 22nd, 1997.

this direct meaning, “To seize the initiative of economic growth”, the first step is to promote the transition of enterprises; then after the “transition” work is done, the job is to promote the buildup of development zone, to attract investors and to promote the adjustment of industrial structure. The meaning on the second level is what we can infer from this logic. According to the direct meaning, local government want to implement its development strategy, like build development zone, attract investors and adjust industrial structure, it need to control some key resources. It is to say, if some key resources are not in the hand of local government, then the development strategy and desirable economic growth rate set up by the local government can be unpractical, because of too much risk or too big cost. So, how to control the risk of failing to achieve the desirable economic growth rate, and to lower the implementation cost of development strategy is the most serious problem in front of local officials. Infer from this direction, the meaning of “seizing the initiative of economic growth” can extend to “seize control right on some key resources”. The “key resources” mainly refer to land. So, if we judge from the practice of local government, the essence of “seizing the initiative of economic growth” is to seize the land development right; and on the development strategy of local government, it means turning from managing enterprises to managing its administrative area.

5. Why the precincts can be managed as a company?

After answering the question of why China’s local governments manage their precincts as a company, a close-knitted question is that why China’s local governments can realize this strategic transformation.

We believe that the answer to the question mentioned above can be traced back to the two characters of China’s land system and administrative system. The first character is that land rights are subject to administrative rights in the land system; while the second one is that in the administrative system, the central government adopts the methods of “Territoriality administration” and “Administrative contract award by stages” to govern all the administrative areas.(Zhou Li-an, 2008). These two characters determined that local governments possessed the actual power over the right to utilized the land which enabled them to operate the whole region as an enterprise.

5.1 The character of China’s land system – land rights come from government authorization

To clarify the reason why local governments are able to manage the whole area as a company, we need to start from the relationship of administrative rights and land rights.

Two kinds of rights exist in the governing area of local governments --- land rights and administrative rights. The so-called "land rights" refers to the exclusive rights of engaging in economic activities on land. The economic activities on land can be broadly divided into three categories: agricultural productions, industrial and commercial business and land development activities. Correspondingly, “land rights” have three levels:

The first level is the exclusive rights of engaging in farming and business activities, named “Agricultural managerial rights” for short. The second level is the exclusive rights to engage in industrial and commercial investment and business activities, named “Industrial and commercial managerial rights” for short^①. The third level is the exclusive rights that decide which area of land

^① Of course, if a piece of land is in the use of industrial and commercial management, then it cannot be used in agricultural management.

is used for, how to explore it to apply to specific uses, and to whom the land is transferred for development and using, named “Land development rights” for short. To be brief, “land rights” can be disassembled into three-level managerial rights--- Agricultural managerial rights, Industrial and commercial managerial rights and Land development rights, which can be separated and belong to different individuals or organizations, of course, also can be collected in the hands of one person or an organization.

Above the land rights is the governments’ administrative jurisdiction, named “Administrative rights” for short, which includes the right to plan and restrict land use as well as the right to restrict and permit the personal or organizational economic activities carried on land.

The basic character of China’s land system is not the division of administrative rights and land rights, but is the domination of administrative power over the land rights, which can also be seen as the dependent relationship from land rights to administrative rights. The so-called “dominant relationship from administrative rights to land rights” refers to the fact that, individual or organizational land rights --- some managerial rights on land, are eventually derived from the governments’ authorization instead of laws or customs in China and have to rely on the governments’ protection. Ultimately, personal or organizational land rights are not formed on account of legislation or customs. It is the government who determines the land rights^①. Certainly, governments would promulgate a series of laws and policies related to land rights that are made by the government for more efficiently exerting administrative rights and can be revised or reformed according to the governmental needs at any time. As a result, the laws themselves are subject to administrative rights and cannot form the ultimate source of all kinds of managerial rights on land.

Facing the fact that land rights come from governments’ authorization, we only have to recognize the difference between state-owned land and rural collective land. In contemporary China, land is classified into two types: “state-owned land” and “rural collective land”. However, if we understand the difference between these two types of land based on the general meaning of ownership, the thought that peasants (or peasant collectivity) hold the exclusive ownership on the collective land is inconsistent with the fact. Actually, the difference between “state-owned land” and “rural collective land” is derived from the different content of governments’ authorization, which has formed two types of land with various uses as a result. The so-called “state-owned land”, in principle, refers to the land on which governments authorize investors (including the governments themselves) for industrial or commercial business and urban construction. On the other hand, “rural collective land” mainly refers to the land on which governments authorize peasants for agricultural business activities and living. In the aspect of state-owned land, it is obvious that land rights are from the governments’ authorization. The way of authorization is that governments empower individuals or organizations with the state-owned land rights that can be used to engage in some business activities, through administrative transfer or paid transfer. Consequently, when the government thinks it is necessary to change an area of rural collective land into industrial and commercial or urban construction land, they will mandatorily nationalize the land, or to recover the granted agricultural managerial rights from peasants, which is usually

^① Zhou Qiren has used “the state-made ownership” to express the ownership resource of peasants on land. He also has pointed out that the root problem of China’s property reform is the definition of the power limits in property definition and to change the pattern of some property rights being confirmed by the state. His point of view is in accordance of the fact “administrative rights dominate property rights” we state here. It can be found in Zhou Qiren : “Zhong Guo Nong Cun Gai Ge: Guo Jia Yu Tu Di Suo You Quan Guan Xi De Bian Hua” (“China’s rural reform: the change in the relationship between the state and land ownership”),<Zhong Guo She Hui Ke Xue Ji Kan>,1995,vol.6

called “expropriation”.

All kinds of managerial rights ultimately come from governments’ authorization, which means governments can decide whether to authorize some managerial rights to private individuals or private organizations or not. In principle, governments may completely exclude the private parties from authorization, that is to say they can monopoly the three-level managerial rights on land, as long as the governments consider doing so is consistent with their own interests. This sort of extreme cases is close to the real situation in the planned economy times before 1980. Before 1980, the three-level managerial rights on land are in control of governments. Not only private individuals had no industrial and commercial managerial rights, peasants also hadn’t agricultural managerial rights, because that all important policies about agricultural management, such as selection of crop varieties, agricultural managerial organizations, product sales and prices were in control of governments at all levels from the central government to the People’s Communes instead of peasants themselves. Of course, in general situation, monopoly of all managerial rights on land is not in line with the governments’ benefits. Thus, governments will authorize some managerial rights on some piece of land to specific individuals or private organizations according to the real situation. For example, after 1980, governments put household contract management into practice on the rural collective land, that is to say agricultural managerial rights on land has been authorized to peasants. The rights of transferring land for industrial and commercial use and urban construction, however, are still in the governments’ monopoly.

The character of land system stated above is not formed in the contemporary, but has a long history. In traditional China, land belonging to monarchs is the dominant thought all the time, as an old saying goes, “under the heaven all lands are royal lands, on the lands all people are servants to the emperor”.^① Nevertheless, royal lands had to rely on subjects to be administrated and farmed and this is how the multi-level-right structure has formed. Zhao Xiaolei has summarized this as: “There existed multi-level-right relationship about land in China’s ancient society, including first-level ownership (state-owned), second-level ownership (packet and sale), and the right to use.... ‘Peasants have their own lands’ means they have the rights to use but not the ownership on a larger extent. Almost all the thoughts about land system proposed by successive thinkers are used to restrict the second-level ownership and distribute the rights to use.”^② While Wang Fang summarized China’s traditional society’s land property structure as: “Monarchs own the highest land ownership, or can be called as ultimate dominance. On the other hand, aristocratic landowners and ordinary landowners possess economic ownership and peasants have part of the use rights and usufruct.” (Wang Fang, P39-40) Marx thought that this kind of circumstance in which monarchs or countries control the highest ownership of land is the basic character of the difference between ancient east countries and west Europe, thus named it as “Asian Mode of Production”.^③

^① Cited from <Shi Jing. Xiao Ya>. The original meaning is that subjects who are busy with regnal events sigh how spacious the king’s land is and how many the subjects are. They complain about the busy life result from officials’ unfair treatment. When future generations cite the sentence, the meaning has been different from the origin and it is used to express monarchs have the ultimate dominance toward the national land.

^② Zhao Xiaolei :“Preliminary remarks”, contained in Wang Fang:< Zhong Guo Gu Dai Nong Cun Tu Di Suo You Quan Yu Shi Yong Quan Guan Xi: Zhi Du Si Xiang Yan Jin De Li Shi Kao Cha>(<the Relationship between Ownership and Use Rights of China’s Ancient Rural Land: the Historical Survey of the Evolution in System Thoughts>), Fudan University Press, 2005 Edition.

^③ Marx said :“If not be the owner of private land, but like the way in Asia, the state both as land owners and sovereignty, and is opposed to the direct producers, then land rents and taxes will be combined. Or it can be said that there will not be any tax different from this kind of land rent. In this situation, the political and economic dependency does not need fiercer way except the vassal relationship that all subjects in this country have. At here,

5.2 Local governments possess the real ownership of land

From the analysis presented above, we have not distinguished yet that which level of government, the central government or local governments does the so-called “land rights are derived from governments’ authorization” come from. In principle, central government is the ultimate owner of all kinds of land rights and as the central government’s agency in different regions, local governments hold the administrative rights that given by the central government. As a result, the so-called “Land rights are derived from governments’ authorization”, ultimately means the central government’s authorization. Nonetheless, in general situation, especially after the reform of administrative decentralization and fiscal Decentralization happened in 1980, the central government would not administrate local events directly but authorize local governments to handle those business and then the so-called “Territoriality administration” and “Administrative contract award by stages” administrative system(Zhou Li-an, 2008). Accordingly, local governments gradually get the real dominant rights toward the land in their administrative area since 1980.

The dominant rights toward land of local governments are mainly in the hands of city and county governments. This fact has been admitted by the central government and confirmed in a series of laws. For example in May 1990, the State Council released < the Provisional Regulations of Transfer of State-owned Land Use Right>, in which it was clear that transfer of state-owned land right should be transacted by city (county) government and be permitted according to regulation. Released at the same time with the law was < the Temporary Management Approach of Developing and Managing Foreign Investment in Areas of Land>. This <Management Approach> allows foreign enterprises to engage in land development and management and requires foreign investors to attain agreement from the city (county) government where the development areas locate before starting the land development, ensure the scope, use, limitation, transfer finance and other conditions and sign the state-owned land use right transfer contract by both. <the Administrative Law on City Real Estate of People’s Republic of China> released in July 1994 allows individuals and private enterprises to engage in real estate development business and regulates that city and county governments should be responsible for planning real estate land, transferring rights to use the state-owned land and tackling related application and permission procedures. In December 1998, the State Council released <Regulations for the Implementation of Land Management Law in People’s Republic of China>. It regulates that requisition of rural collective land must be organized by city and county governments. Development organizations (or construction organizations) have to apply for construction land to the city and county governments who will issue permissions. Besides, the land administration departments of city and county governments have to sign the contract of the compensation of the use of state-owned land with land users.

Because local governments have the real dominant rights over land, they can distribute the land according to their needs. Therefore, before 1992 when the competition in industrial and commercial sector was not serious, local governments have monopolized industrial and commercial managerial rights on land, which is “to seize the rights to manage enterprises”.

the country is the highest land owner. At here, sovereignty is the land ownership in nationwide concentration. Therefore, however, there will not be the ownership of private land, though the private and public possession and use rights will still be there.”< Das Kapital> Volume 3, contained in "The Complete Works of Marx and Engels", Vol.25, 891.

However, after 1992, with the booming competition in industrial and commercial sectors, local governments has started to authorize the industrial and commercial managerial rights on land to businessmen on larger scales and governments themselves have turned to manage the whole administrative area as an enterprise, which demands for the monopoly of land development rights.

6. Conclusion

An important circumstance presented in this paper is that in the procedure of China's transition to market economy, local governments have experienced a strategic transformation from managing enterprises to managing administrative areas. In the aspect of local governments' control power, the core of this strategic transformation is the transformation from "seizing the rights to manage enterprises" to "seizing the land development rights". According to the local officials, the purpose of this strategic transformation conducted by local governments is to "seize the initiative of economic growth".

Through empirical research and theoretical model, we can draw a conclusion: the reason why local governments transform to a new development strategy is that in the market-oriented and regional competitive environment, only when they control the supply rights and price rights, that is to say control the land development rights, can local governments ensure the maximum economic growth rate or, minimize the failure risk of growth targets. Therefore, in order to realize their political optimal growth targets, local governments need to seize land development rights, and correspondingly, to transform the managerial method to managing the administrative area as an enterprise. This article further discusses the reason why local governments can seize land development rights: firstly, it is derived from the basic character of China's land system that land rights are from governments' authorization; secondly, it is derived from the basic character of China's administration system---"Territoriality administration" and "Administrative contract award by stages".

This conclusion suggests an important character of contemporary China's economic growth, that China's economic growth does not only perform as local governments "competing for growth", but also performs as local governments "seizing the control right of factors for growth". The latter character states that in the procedure of China's transition to a market economy, the evolution of the direction of local governments is not to be pure public service governments, but to control and manage local economy with the control rights toward regional production elements as a whole. From this perspective, China's economy is forming a special kind of "double-level managerial structure". The so-called "double-level managerial structure" refers to that in various regions of China, there exists two managerial levels and two managerial subjects: one is the local governments as the subject to manage and their managerial level, at which local governments plan, develop and manage the administrative area as a whole so as to improve the economic growth speed and expand local financial income; the other one is the private enterprises(including foreign enterprises) as the subjects of management and their level at which all enterprises use the land provided by local governments, infrastructure, investment environment and other managerial conditions to carry out business activities and pay the land rent, taxes and fees to the governments. Generally speaking, it is the local economy with "double-level managerial structure" that forms the specific market economy, which is called "China's socialist market economy".

The details of the characters and operation system of the "double-level managerial structure" mentioned above and the analyses of the influences it exerts on Chinese economic growth pattern and China's economic system have gone beyond the scope of this article and will not be discussed

here.

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