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# The Regional Variations of Farmland Property Rights Transformation in China: An Institutional Comparison between Suzhou and Dongguan

DANIEL YOU-REN YANG AND HUNG-KAI WANG

*This article explores the divergent patterns of farmland property rights transformation in Suzhou and Dongguan, China, and investigates the relevant factors influencing this divergence from an institutionalist perspective. We point out that a local property rights regime based on the collective ownership system coupled with developmental dynamics at village level has made the transformation of farmland property rights in Dongguan different from that in Suzhou. We also discover some emerging local institutions that may have been factors in the variation of farmland property rights transformation between these two regions. Furthermore, we observe that such spatial-institutional variation influences the welfare*

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DANIEL YOU-REN YANG (楊友仁) is a post-doctorial researcher at the Graduate Institute of Building and Planning, National Taiwan University, as well as a visiting fellow at the School of Environment and Development, University of Manchester. His research interests include the geography of the ICT industry, land-use regulation in post-reform China, and the geography of innovation. He has recently published papers in *Environment and Planning A* and *Urban Studies*. Dr. Yang can be reached at <yyren@ms34.hinet.net>.

HUNG-KAI WANG (王鴻楷) has been a professor at the Graduate Institute of Building and Planning, National Taiwan University in Taipei since 1979. His research interests include urban planning in developing countries, local development in post-reform China, and the sustainable city. Writing in Chinese and English, he has published numerous papers on subjects such as urban land-use patterns in Taipei and Shanghai, local land property rights institutions in contemporary China, and sustainable tourism in Taiwan. Professor Wang can be reached at <hungkaiw@ntu.edu.tw>.

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*of local farmers to a significant degree. Finally, this study suggests that in addition to the "economic paradigm," scholars might pay more attention to political factors such as intra-Party promotion/evaluation systems, the tensions between the evaluative indicators systems maintained by the* tiao *(central/local sectoral command) and the* kuai *(territorial jurisdictions), and the regulation as well as political governance of government-village relations in order to further understand the dynamics and contradictions of China's local development.*

KEYWORDS: **farmland; land property rights regime; institution; local government; development zone fever.**

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Since the beginning of the economic reform in 1979, China has set up many economic development zones and opened up numerous cities for foreign investment. At the same time, in an effort to provide incentives to promote regional economic development, local governments in coastal areas have been granted a certain amount of administrative authority in land-use conversion. In these rapidly-industrializing regions of China, we observe that a "collective ownership" system of land property rights exists in the Dongguan (東莞) region of Guangdong Province (廣東省), with respect to industrial land-use and development mechanisms. This is different from the state-owned land property rights system in the Suzhou (蘇州) region of Jiangsu Province (江蘇省). Although there is no macro-aggregate information on the variation of industrial land property rights in Dongguan and Suzhou in the official statistics (including local statistical yearbooks and statistics issued by the Ministry of Land and Resources [國土資源部]), our intensive fieldwork (see the section on methodology below) leads us to believe that such variation is significant and that it is still extant.

The characteristic of the "collective ownership" system is that the village committee and villagers' groups dictate industrial land development. Whereas under the state-owned land property rights system in Suzhou, the local government can often convert large quantities of collectively-owned agricultural land into state-owned property and then lease it to industrial land users by issuing "state-owned land-use permits." Such

a variation between two different areas serves as the point of departure for this research undertaking.[1] Basically we echo Lin's argument that since land is a production factor, alongside capital, labor, and technology, the issue of land development should be "scaled up" in exploring local and regional development, especially in the context of China.[2] Therefore, we argue that the further investigation of land development-related mechanisms in China may contribute to understanding not only the trajectories of regional development, but also "regional variation"—the issue that human geographers always explore with enthusiasm. Furthermore, such a land-centered research perspective can complement the study of critical development geography.[3]

The two regions in question are the Pearl River Delta (珠江三角洲, Dongguan) in the 1980s and the Yangtze River Delta (長江三角洲, Suzhou) in the 1990s, both of which were intent on attracting foreign investment.[4] In the 1980s and early 1990s, a series of temporary measures

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[1]Some exceptions exist. For example, the Dongguan city government recently expropriated some rural land to build the Songshan Lake Science Park (松山湖科技產業園區). Such cases are few, however, and although there have been cases of rural land being used for construction in Suzhou, according to our fieldwork these have usually involved the re-use of former township and village enterprise (TVE) sites. This is not a change in land use nor is it a main source of industrial land supply. Thus, regarding the supply of industrial land, we believe that it is appropriate to recognize Dongguan and Suzhou as two different models.

[2]George C. S. Lin, "Scaling up Regional Development in the Pearl River Delta: Local Capital Accumulation, Land-Centered Politics, and Reproduction of Space" (Paper presented at the 2007 Annual Meeting of the Association of American Geographers, San Francisco).

[3]For an introduction to the field of critical development geography, see Victoria A. Lawson, *Making Development Geography* (New York: Hodder Arnold, 2007).

[4]For a more comprehensive understanding of the development models in Dongguan and Suzhou, see George C. S. Lin, "Peri-urbanism in Globalizing China: A Study of New Urbanism in Dongguan," *Eurasian Geography and Economics* 47, no. 1 (January-February 2006): 28-53; Liu Yia-ling, "Transformation from Without: Wujiang's Transition from Import Substitution to Export-Led Growth," *Taiwanese Journal of Sociology*, no. 30 (2003): 89-133; Yehua D. Wei, "Beyond the Sunan Model: Trajectory and Underlying Factors of Development in Kunshan, China," *Environment and Planning A* 34, no. 10 (2002): 1725-47; Jieh-min Wu, "State Policy and *Guanxi* Network Adaptation: A Case Study of Local Bureaucratic Rent-Seeking in China," *Issues & Studies* 37, no. 1 (January-February 2001): 20-48; Jieh-min Wu, "Strange Bedfellows: Dynamics of Government-Business Relations between Chinese Local Authorities and Taiwanese Investors," *Journal of Contemporary China* 6, no. 15 (July 1997): 319-46; Chun Yang, "Overseas Chinese Investments in Transition: The Case of Dongguan," *Eurasian Geography and Economics* 47, no. 5 (September-October 2006): 604-21; You-ren Yang and Chu-joe Hsia, "Local Clustering and Organiza-

were adopted with regard to foreign direct investment (FDI), such as "*sanlai yibu*" (三來一補, the processing of materials supplied from overseas to make goods that are then exported), to reduce uncertainty and risks in the Pearl River Delta. Since the end of the twentieth century the industrial zone in Suzhou has attracted tremendous amounts of large-scale FDI, and become the example that many cities in the Yangtze River Delta have attempted to imitate. Accompanying these two broadly different modes of development are the divergent property rights systems with respect to industrial land in the two regions. Although the collective land ownership system in Dongguan emerged earlier, it is still the "mainstream" in the Pearl River Delta. Thus, it is appropriate to compare it with Suzhou's system of state-owned/launched industrial zone development that has become the norm in the Yangtze River Delta.

The empirical question of this article is: Why did these two rapidly-industrializing regions of Dongguan and Suzhou, both with high demand for industrial land, evolve divergent systems of industrial land property rights? From an institutionalist perspective, this article will explore the divergent patterns of land property rights transformation from farmland to industrial use in Suzhou and Dongguan, China, and will investigate this divergence from the perspective of the interaction between institutional arrangements and *tiao* (條, central/local sectoral command)—*kuai* (塊, territorial jurisdictions) conflicts. We will propose some independent variables from the concrete modes of governing practices within the government mechanisms—including the financial, economic quota, and local cadres' promotion/evaluation systems—and examine how these variables are interrelated and contribute to the divergent evolutionary trajectories

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tional Governance of Trans-border Production Networks: A Case Study of Taiwanese IT Companies in the Greater Suzhou Area, China," *Environment and Planning A* 39, no. 7 (2007): 1346-63; You-ren Yang and Hung-kai Wang, "Dilemmas of Local Governance under the Development Zone Fever in China: A Case Study of the Suzhou Region," *Urban Studies* 45, no. 9 (September 2008, forthcoming); Godfrey Yeung, "Foreign Direct Investment and Investment Environment in Dongguan Municipality of Southern China," *Journal of Contemporary China* 10, no. 26 (February 2001): 125-54; and Godfrey Yeung, *Foreign Investment and Socio-Economic Development in China: The Case of Dongguan* (London: Palgrave Macmillan, 2001).

of the industrial land property systems in Suzhou and Dongguan. In other words, we will show how some regional patterns of political economy (especially the contingently overlapping promotion systems) in China result in different "incentive structures"[5] for local officials that dictate their behavior in seeking economic growth. Finally, we will compare the socioeconomic consequences of the different industrial land property systems, especially the welfare of local farmers.

## Analytical Framework

Issues surrounding the loss of agricultural land have attracted attention among academics.[6] Some scholars have noted that institutional factors as well as local governments are important propellers behind this phenomenon.[7] However, few of these studies have taken the dimension of "regional differentiation" into account. The "institutional turn" in geography postulates a methodology based on studying institutions to comprehend divergent economic activities in different regions. It proposes that institutions are the intermediaries in shaping the trajectories of economic development in different localities, thereby becoming important

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[5]Douglass C. North, *Institutions, Institutional Change, and Economic Performance* (New York: Cambridge University Press, 1990).

[6]Lester R. Brown, *Who Will Feed China: Wake up Call for a Small Planet* (New York: Norton, 1995); Carolyn Cartier, "'Zone Fever,' the Arable Land Debate, and Real Estate Speculation: China's Evolving Land Use Regime and Its Geographical Contradictions," *Journal of Contemporary China* 10, no. 28 (August 2001): 445-69; Mark W. Skinner, Richard G. Kuhn, and Alun E. Joseph, "Agricultural Land Protection in China: A Case Study of Local Governance in Zhejiang Province," *Land Use Policy* 18, no. 4 (October 2001): 329-40; Minghong Tan, Xiubin Li, Hui Xie, and Changhe Lu, "Urban Land Expansion and Arable Land Loss in China: A Case Study of Beijing-Tianjin-Hebei Region," ibid. 22, no. 3 (July 2005): 187-96; Wei Xu, "The Changing Dynamics of Land-Use Change in Rural China: A Case Study of Yuhang, Zhejiang Province," *Environment and Planning A* 36, no. 9 (2004):1595-1615; Hong Yong and Xiubin Li, "Cultivated Land and Food Supply in China," *Land Use Policy* 17, no. 2 (April 2000): 73-88; and Anthony Gar-on Yeh and Xia Li, "Economic Development and Agricultural Land Loss in the Pearl River Delta, China," *Habitat International* 23, no. 3 (September 1999): 373-90.

[7]Cartier, "'Zone Fever'"; Xu, "The Changing Dynamics of Land-Use Change in Rural China"; and Yeh and Li, "Economic Development and Agricultural Land Loss."

elements of further institutional transformation.[8] This perspective is appropriate for our purpose of investigating the institutional factors that influence local land property rights regimes.

Martin divides the concept of institution into institutional environments and institutional arrangements.[9] The former include systems of informal conventions, customs, norms, and socialized routines as well as formal rules and regulations, and function as frameworks for reconciling socioeconomic behaviors. The latter refer to specific organizational formations, such as markets, firms, unions, and the state. Therefore, the institutional approach in geography focuses on the "institutional regime" constituted by institutional environments and arrangements in particular localities and the interactions between them. It examines the evolution of different local institutional regimes and how they interact with local economic activities.

From such a perspective, we thus attempt to provide a preliminary conceptualization of the "local land property rights regime." Our primary concern is both the transfer of land-use rights (converting collectively-owned land into state-owned land by eminent domain, leasing state-owned

[8]Ash Amin, "An Institutionalist Perspective on Regional Economic Development," *International Journal of Urban and Regional Research* 23, no. 2 (1999): 365-78; Ash Amin, "Moving on: Institutionalism in Economic Geography," *Environment and Planning A* 33, no. 7 (2001): 1237-41; Ash Amin and Nigel Thrift, "Globalisation, Institutional Thickness, and the Local Economy," in *Managing Cities: The New Urban Context*, ed. Patsy Healy et al. (London: John Wiley & Sons, 1995), 91-108; Andrew Cumbers, Danny MacKinnon, and Robert McMaster, "Institutions, Power, and Space: Assessing the Limits to Institutionalism in Economic Geography," *European Urban and Regional Studies* 10, no. 4 (October 2003): 325-42; Roger Hayter, "Economic Geography as Dissenting Institutionalism: The Embeddedness, Evolution, and Differentiation of Regions," *Geografiska Annaler, Series B* 86, no. 2 (2004): 95-115; Bob Jessop, "Institutional Re(turns) and the Strategic-Relational Approach," *Environment and Planning A* 33, no. 7 (2001): 1213-35; Gordon MacLeod, "In What Sense a Region? Place Hybridity, Symbolic Shape, and Institutional Formation in (Post-)modern Scotland," *Political Geography* 17, no. 7 (September 1998): 833-63; Ron Martin, "Institutional Approaches in Economic Geography," in *A Companion to Economic Geography*, ed. Eric Sheppard and Trevor J. Barnes (Oxford: Blackwell, 2000), 77-94; Ron Martin and Peter Sunley, "Path Dependence and Regional Economic Evolution," *Journal of Economic Geography* 6, no. 4 (August 2006): 395-437; and Dani Rodrik, Arvind Subramanian, and Francesco Trebbi, "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development," *Journal of Economic Growth* 9, no. 2 (June 2004): 131-65.

[9]Martin, "Institutional Approaches in Economic Geography."

land to private enterprises, transferring collectively-owned land to private enterprises, etc.) and the conversion of land use (such as turning farmland into land for development) in China. Thus we define a "local land property rights regime" as *a set of dynamic systems that comprises varied formal institutional environments as well as arrangements, and informal rules concerning land property rights transfer and land-use conversion in a particular geographic region.*

Furthermore, from the perspective of "path dependence," special attention should be paid to the structural influences of post-socialist reform on institutional transformation, especially with regard to the fiscal system, decentralization, and the "quota system" between different levels of government. For example, Weingast, Qian, and Montinola emphasize that the fiscal system reform and devolution have had great consequences for China's economic development.[10] They propose the concept of "market-preserving federalism" as an important political foundation of China's economic reform, and assert that devolution and competition among localities have ensured the success of this reform. Jean Oi also recognizes that reforms in China's fiscal system have established strong advantageous factors that entice local officials to strive for local economic development.[11] She introduces the notion of "local state corporatism," and argues that the governments at higher levels assign economic "quotas" to be fulfilled by lower-level governments, and establish connections between rewards for local officials and the economic development they help to advance. However, Whiting maintains that the motivation/supervision system of the local governments is very complicated in practice, including as it does performance evaluation, a promotion system, and an objective responsibil-

[10]Barry R. Weingast, Yingyi Qian, and Gabriella Montinola, "Federalism, Chinese Style: The Political Basis for Economic Success in China," *World Politics* 48, no. 1 (October 1995): 50-81.

[11]Jean C. Oi, "Fiscal Reform and the Economic Foundations of Local State Corporatism in China," *World Politics* 45, no. 1 (October 1992): 99-126; and Jean C. Oi, "The Role of the Local State in China's Transitional Economy," *The China Quarterly*, no. 144 (December 1995): 1132-49.

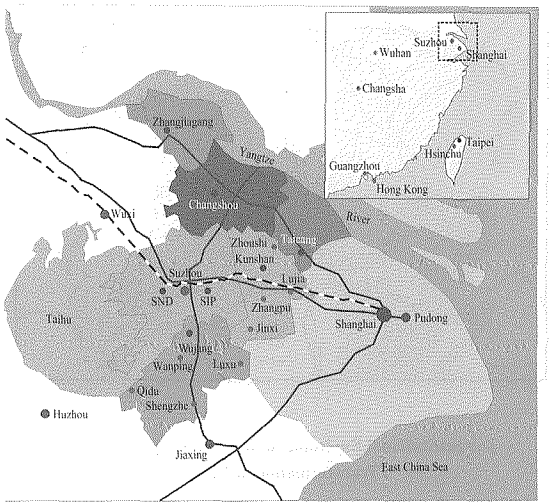
ity system.[12] Thus, in addition to the economic incentives created by the new fiscal system, the political factors of the promotion mechanisms of Party organizations should be taken into account, too. This kind of socialist legacy introduces variables that we have to explore while investigating local land property rights regimes, especially regarding the role of local governments.

In the following sections, we elaborate on this framework while systematically analyzing the formation and transformation of the land property rights regimes in Suzhou and Dongguan. Our analysis will focus on four more inclusive dimensions of local land property regimes. First, we analyze the formal regulations governing China's land-use management system and the way they interact with the Ministry of Construction (建設部) as well as related local regulative mechanisms. Second, we scrutinize the allocation arrangements for land-related income between different levels of governments and analyze some specific modes of land development derived from such arrangements. Furthermore, we will investigate how some political-economic factors work in driving the local cadres in these two regions to react to the central government's regulations on land conversion in different ways. In the third part, we compare the local financial structures in Suzhou and Dongguan that might influence the different practices of farmland property rights transformation. Fourth, we try to understand the different ways in which quotas are assigned between different levels of government and how this influences the local land property rights regime. Finally, we further examine the distribution issues derived from farmland acquisition in Suzhou and Dongguan that are relevant for local farmers.

The empirical data for this paper were gathered by face-to-face interviews with local officials in Suzhou, Kunshan (昆山), Wujiang (吳江), and Dongguan (see maps 1 and 2), as well as participatory observation of some land development projects, accompanied by secondary data consist-

[12]Susan H. Whiting, *Power and Wealth in Rural China: The Political Economy of Institutional Change* (New York: Cambridge University Press, 2001).

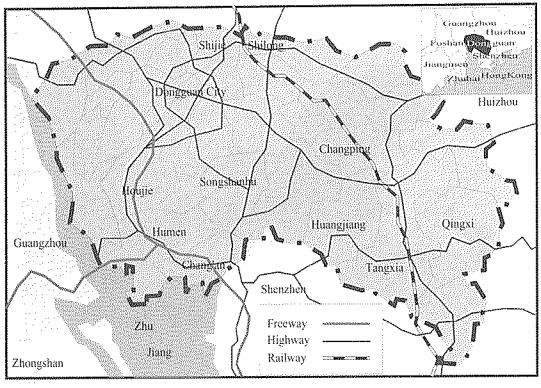
**Map 1**
**The Location of the Studied Cases in Suzhou**




ing of related regulations and reports in China. Fieldwork began in May 2003 and ended in April 2004. The interviews were carried out with people from different agencies of the local government (including planning, land management, finance, taxation, foreign trade, and customs departments), as well as village committees, leaders of villagers' groups, and land developers, in a total of ninety-two meetings.[13]

[13]These samples were carefully and systematically selected, since the first author of this article is a planning consultant for the local governments concerned as well as a consultant for Taiwanese trade associations. The interviews were conducted through planning and policy consulting in a way that was meant to build a sense of partnership with the interviewees.

**Map 2**
**The Location of the Studies Cases in Dongguan**




## The Institutional Environment of Land Property Rights Transformation in China

Since the beginning of economic reform in 1979, local governments in China have been granted certain administrative powers in land-use conversion in order to attract foreign investment. However, the vast majority of local governments have appropriated large amounts of farmland in the name of industrialization and caused a wide variety of problems, including the omnipresent "development zone fever" and a serious waste of prime agricultural land. Thus, the central government decided to establish a unified land management system in urban areas, passing the Land Management Act (土地管理法) in 1986. Furthermore, the state created a new central-level Land Management Bureau to take charge of national land-related affairs, and established local branches of this bureau at each level of local government. However, the problem of the loss of cultivated land

continued to be severe after 1986.[14]

The central government's concern about land resource management was expressed in a new Land Management Act in 1998. The 1998 Act requires governments at each level to adopt a land-use master plan that should take into account the all-important five-year plan, geological features, environmental resources, conservation considerations, land provision ability, and the land requirements of construction projects. The land-use schemes of lower-level governments should follow the schemes of higher-level governments.[15] A land-use scheme devised by any local government must not allow for a total amount of construction land that is more, nor an amount of agricultural land that is less, than the respective control indicators set in the scheme of the level of government above it.[16] The central government also introduced compensation for farmers displaced from their land (the "agriculture land-use balance" or *zhanbu pingheng* 佔補平衡), designed to preserve the total amount of agricultural land (especially land of high quality) by controlling the up-to-then disorderly process of land-use conversion.[17]

Changes in the regulations related to land-use approval show that there has been a tendency to re-centralize land management authority. However, such attempts have faced constraints from other institutions to different degrees. This is our next focus of concern.

Under the two systems of land ownership, there are two ways of changing farmland from agricultural use. The first is through acquisition by eminent domain on the part of the government, which transfers ownership of the land to the state (and then to the final land-user). The second way is to transfer the land-use right from the collective ownership body, which is usually the village, to the end land-users, such as investors in the manufacturing sector. In the Suzhou area, the first approach is most common. Such transfers of land property rights involve several regulatory

[14]Cartier, "'Zone Fever'."
[15]Article 17, Land Management Act.
[16]Article 18, Land Management Act.
[17]Article 31, Land Management Act.

mechanisms, including the "agriculture land-use balance" policy and the "construction land quota" (建設用地指標, *jianshe yongdi zhibiao*) system.

When appropriating collectively-owned farmland (say, for the purpose of establishing an economic development zone), local governments must follow a specified approval process, and must satisfy the principle of the compensation-for-displacement balance, which is mainly achieved at the provincial level. Local governments below the provincial level should also maintain the balance at their own level. The way it works is thus: when a piece of prime farmland is converted to a non-agricultural use, a piece of non-agricultural land of equal productivity must be switched into the farmland category. However, this results in the "trans-jurisdiction quota exchange" phenomenon. That is, some rapidly-developing areas have to "buy" a quota from areas that are developing more slowly. For example, when there is a shortage of 10,000 acres of farmland in Suzhou, the city government may pay the Jiangsu provincial government to convert or reclaim an amount of land of equivalent agricultural productivity somewhere in, say, northern Jiangsu where development is going at a much slower pace. According to our interviews, farmland compensation is set at about 6,000 *yuan* per hectare.

Higher-level governments allocate a quota of construction land to lower-level governments each year. For example, Jiangsu Province sets an annual total construction land allowance, and distributes quotas to each city, county, and township. The actual land use must correspond with the relevant urban planning and land-use master plan. Such planning and control systems are basically the legacy of a bygone age of the planned economy. However, planning can seldom keep up with the mounting requirements of rapid economic development. This is especially true in areas such as Suzhou where policies are designed to attract foreign investment. We note that agencies involved in economic development at all levels of local government often break the rules stipulated by their land management counterparts, trying to acquire as high a quota of construction land as possible. We also observe that many industrial parks in townships in the Suzhou region do not exactly follow the urban planning and land-use master plan as required. What is obvious is that local governments at all

levels (but especially the townships) consider the quota allocations from upper-level governments as restrictions, rather than instructions to be followed. Their desire to attract foreign investors is so strong that many of the local officials we interviewed indicated that all investment projects could certainly get the land they needed, even when the current quota had been used up.

Furthermore, the history of the land property rights regime in Dongguan serves as an example of the institutionalization of the conversion of farmland to construction use. The new Land Management Act adopted in 1998 can be seen as a watershed in institutional development. There are two ways of changing the use of farmland through formal national institutions. One is to create new construction land by allowing farmland to be converted to construction use according to allocated construction quotas. The other is by using "inventory land"—i.e., unused land which was assigned for construction purposes before the implementation of the 1998 Land Management Act. According to the Act, collective construction land includes land occupied by township and village enterprises (TVEs) and public facilities at the village level, as well as land used for villagers' housing. The stipulations of the previous Act (enacted in 1986) were loose regarding the conversion of collectively-owned land from agricultural use to construction use. Collective organizations could ask for a change of land use in the name of establishing TVEs. Many such TVEs are "*sanlai yibu*" enterprises. As many "*sanlai yibu*" enterprises with capital from Hong Kong, Macau, or Taiwan are attracted to the Pearl River Delta, collective organizations frequently seek this type of land-use change.

Before 1998, the approval process for converting farmland to construction use was indeed flexible. Moreover, there was no limitation on the amount of land involved. Our surveys also indicate that construction land quotas did not exist before 1998. In Dongguan city, construction land obtained by collective organizations before 1998 was still permitted to be used for development. Although this is not permitted under the new 1998 Land Management Act, approval can be granted as long as certain conditions are complied with, such as paying some local fees. A lot of collective construction land has maintained its current status through these measures.

A large quantity of it is still waiting to be developed, while some of it is already occupied by factories built to attract foreign investors.

The 1998 Land Management Act also has some implications for the agriculture land-use balance policy and the system of construction land quotas. Up to 2010, Dongguan city has to maintain 600,000 *mu* (畝, 1 *mu* = 666.7m$^2$) of farmland, of which 520,000 *mu* must fall into the more critical "essential farmland" category. When an imbalance arises, additional farmland has to be acquired, usually in a jurisdiction where there is an ample supply of non-construction land. The "balance fee" (i.e., the cost involved in providing that new agricultural land) is about 5,000 *yuan* per *mu*. The local governments that receive the balance fees are those in Guangdong Province where urbanization and industrialization are not progressing as rapidly. The amount of essential farmland cannot be changed without permission from the State Council (國務院). Thus the regulations of the new law tend to increase the costs and limit the locations of development.

Since the introduction of the new law, new construction land cannot be obtained without the assignment of quotas from the land management bureaus. In rapidly-developing areas such as Dongguan, there is a certain degree of imbalance in the supply and demand of construction land. For example, in 2002, there began to be signs of a shortage of construction land in Dongguan. After some negotiation, the Guangdong provincial government allowed its quotas for 2010 to be appropriated by 2005. The Dongguan city government then allocated the quotas among townships within its jurisdiction according to demand and their speed of development. However, there are no specific rules concerning the allocation and the city government has not reserved any quota allowance to cover any possible unforeseen additional demand from the townships. As a result, there is under-the-table dealing in quotas among the townships.

## The Development Mechanisms for Industrial Land

County and township governments in the Suzhou region tend to discourage the long-established practice among villages of promoting in-

vestment by transferring collective construction land for development. In this region, these local governments usually establish large development zones by converting farmland into state-owned land through compulsory acquisition, and this is what distinguishes the mode of development in the Suzhou region from that in the Dongguan region. We also found cases where villages tried to attract investment with collectively-owned construction land, but the upper-level governments discouraged such undertakings by cancelling the villages' construction land quotas.

Local governments in the Suzhou region did not invest a great deal in industrial land development, and not much in the way of extra-budgetary funds were involved in this either. For example, in Kunshan city, the total extra-budgetary fund (excluding the land transfer fee) was 0.4 billion *yuan* in 2002, and it was distributed among a large number of agencies. With such a financial structure, income from the land transfer fee and bank loans becomes an important means of funding construction and development for the local governments.

The land transfer fee is not enough to cover the costs of infrastructure and the relocation of farmers in a development zone. The income from land transfer fees (including industrial, commercial, and residential categories) received by Kunshan in 2002 was about 2 billion *yuan*, more than the 1.6 billion *yuan* of budgetary revenues retained by Kunshan city. This seems like a large amount of income, but it has to be shared with the Suzhou city and township governments. According to our investigations, the fees paid to the upper-level government exceeded 700-800 million *yuan* in 2002, and more than 80 percent of the rest was returned to the townships. Therefore, the city of Kunshan had only 100-200 million *yuan* from land transfer fees available to it in 2002.

Furthermore, we also understand that township governments often reduce the actual land transfer cost in order to attract investment. Although Jiangsu Province established a minimum land price of 200 *yuan* per square meter (or about 133,000 *yuan* per *mu*), the minimum price tends to drop at lower levels of government. For example, Kunshan city adopted a minimum of 105,000 *yuan* per *mu* (including the related charges paid to each of the upper-level governments) in 2002. After the basic price was

established, Kunshan city required that, when transferring land, township governments had to pay 105,000 *yuan* per *mu* to the land management bureau, which would then return a specified proportion of the revenue to the townships after deducting the payments to upper-lever governments. However, a strategy of low-price transfer was commonly adopted in areas where there was keen competition for investment.

According to the regulations of the fiscal agency in the central government, income from land transfer fees can only be used for two purposes. The first is for land compensation and relocation expenses, and the second is for the development of the land involved. We found that the land transfer fees were insufficient to pay for the provision of infrastructure, making it necessary for some local governments to arrange budgetary financing or loans from financial institutions. For this reason, land-secured bank loans have become an essential means of funding local development. Before lending to a development zone, the banks need to consider the development prospects of the area, and it is basically a business undertaking. Therefore, the land-use type designated by the planning system is a crucial factor. Utilizing the usually high transfer fees for commercial and residential districts to compensate for the generally low industrial land transfer fees has gradually become common practice in land development in many townships. For example, we observe that Huguan township (滸關鎮) in Suzhou New District adopted this development model. The township authorities started a development zone of 10 square kilometers, and invested 2 billion *yuan* over two years (2003-04). Funding was kept in balance in three ways. The first was through sales of commercial and residential properties, the second was through the rental of standard plants, and the third was through the collection of revenue from local enterprises. This mode of development could be described as borrowing on the one hand, and selling property on the other. The 10 square kilometers of land enclosed by the government could be said to be the key to the future success of the development zone.

Collective ownership is one of the distinctive features of Dongguan. The collective entities can be the village committee or the villagers' groups (sub-units under villages). The distinction between the two used to be

vague and was not clarified until the start of the process of converting farmland to construction land. Clarification occurs through the application for and issuance of a land permit, also known as a "collectively-owned land permit." Both village committees and groups can apply for permit rights but whichever gets the permit has to sign a contract accepting responsibility for the welfare of the villagers involved.

Village committees have two ways of handling their collectively-owned land. They can lease it out directly to manufacturers or developers (including private companies) and let the lessees develop the land, or they can build standard factory buildings and then lease them to manufacturers. Either way, the committee needs to apply for the permit before carrying out the development. Once the necessary land is amassed, the committee can start the development process. In the earlier days, when village committees lacked financial resources, they usually leased the land to the final users. The user was then liable for the permit fee and the "land payment" made to the committee. In addition, the land-user had to pay a monthly rent to the committee. Schemes such as this still exist in some under-developed areas of Dongguan. The income from land payments and rent thus becomes the village's means for financing future land developments.

Once village committees had accumulated sufficient capital, direct investment in building factories for lease became a more common means of land development. Some of the capital came from the committees' stock-sharing cooperatives (SSCs), while some came from bank loans. For example, the committee in Shigu (石鼓) village invested 50 million *yuan* in building 100,000 square meters of standard factory space. The price was 500 *yuan* per square meter, and the monthly rent was 9 *yuan*. With the influx of foreign investment since the 1980s (especially from Hong Kong and Taiwan), the huge demand for factories has created considerable profit margins for these village committees. Such economic incentives encourage the committees to invest directly in the development and leasing of factory spaces. Villagers' groups with resources also participate actively in the process of land development by adopting similar strategies, with the precondition that they maintain a good relationship with the village committee.

Village committees have to obtain the agreement of villagers' groups before carrying out collectivized land development schemes. However, unlike the government land expropriations often seen in the Suzhou region, land in Dongguan is obtained through negotiation, or more directly, through concrete land/welfare interests exchange agreements. All the villagers' groups have representatives on the committee who express their group's opinions about the handling of their land. Apart from negotiations, a villagers' group must obtain permission from the committee before leasing out the group's land for development. However, if villagers' groups have sufficient capital and decide to build factories on their own and lease them out for development, the committee would not object. This enables groups with resources to use the collectively-owned land they control in ways they see fit.

## A Comparison of Local Financial Structures in Suzhou and Dongguan

In this section, we investigate, from a financial perspective, the mechanisms that influence the different ways local governments in Suzhou and Dongguan handle farmland property rights transformation.

Although Suzhou and Dongguan are both locations that attract a great deal of foreign investment, the property rights arrangements of investors are very different. In the Suzhou region, most of the foreign companies are sole-owners, and the tax these companies pay is mainly value-added tax (VAT), which is shared between the central and local governments. From our interviews with staff members in fiscal departments, in the city of Kunshan, the tax paid by foreign investors amounts to 60 percent of total tax income. The total tax revenue in 2002 was about 4.1 billion *yuan*, but only 1.6 billion *yuan* was retained in Kunshan, less than 40 percent of which was contributed by foreign companies. In other words, foreign investment in Kunshan has made a great contribution to national tax revenues, but has had less of an impact on the financial status of Kunshan itself. The reason for this is closely related to China's local

revenue-sharing system.

According to the tax revenue-sharing system as defined by the central government, in the period 1993-2001, 75 percent of VAT income was allocated to the central government, 12.5 percent to the province, 4 percent to Suzhou city, and 8.5 percent to Kunshan city (including the townships). After 2001 the share of Kunshan and its townships increased to 12.5 percent, the shares of the central and provincial governments remained intact, and the city of Suzhou was almost totally squeezed out of the picture. Suzhou city received 0.6 percent of a reduced total tax intake of the county-level cities under its jurisdiction. As to the way tax revenue is shared between Kunshan city and its townships, we find that the basic principle is a 40/60 split, with 40 percent of tax revenue going to the city and 60 percent to the townships.

At township level, the current revenue-sharing system often results in financial deficits and a shortage of construction funds for townships that depend on land development to draw investment. For example, the total financial revenue of Lujia township (陆家镇) is 0.38 billion *yuan*, but the amount kept in the township is only 74 million *yuan*. We find that the budgets in the investigated areas only cover "meals finance" or basic personnel expenses.

The property rights of foreign investment in Dongguan are very different from those in the Suzhou area. A great number of manufacturers in Dongguan operate as "contracted materials processors." Contracted materials processing factories do not have to pay VAT imposed by the central government; they only pay so-called "processing fees." The most common formula is to levy a fixed percentage of the processing budget stipulated in the contract. The current rate is about 100/80; i.e., the local contracted processor receives 80 *yuan* for every 100 Hong Kong dollars that the foreign company transmits to him/her. Calculated at an exchange rate of 1.06 *yuan* to the Hong Kong dollar, the processing cost would be 26 *yuan*, which is treated as "off-budget revenue" and does not have to be shared with the central and provincial governments. It is allocated among the relevant municipal- and township-level governments (each receives roughly 4 *yuan*), plus the handling charges levied by some banks.

The remaining 17 *yuan* is paid to units under the village committee. If the village committee is the "landlord," it receives all of the remaining 17 *yuan*. If the villagers' group or a private company is the landlord, the committee and the landlord share the 17 *yuan*.

Basically, sole-owner companies only pay VAT. As there is no county-level authority between Dongguan city and the townships, revenues from VAT are shared by these two levels of governments, with each receiving 12.5 percent of the total, which is about double the 5-6 percent levied by townships in Suzhou. This is of course financially more beneficial to the townships.

After comparing the financial structures in Suzhou and Dongguan, we observe that under different patterns of foreign investment and institutional arrangements for revenue-sharing, the financial situation of townships in Suzhou is much worse than that of their Dongguan counterparts. Furthermore, the local governments in Suzhou have to invest considerable amounts to develop the infrastructure of their industrial zones. However, the strategy of cut-price land-use rights is commonly adopted by county and township governments in Suzhou in their fierce competition for investment. Under the current tax-sharing system, land transfer operations do not contribute to the financial capacity of local governments in Suzhou. Additionally, the economic development-related agencies in Suzhou, due to pressure from the quota of registered capital, usually try to lure investors by lowering the land price, without understanding that the land transfer fees are insufficient to pay for the land acquisition and infrastructure construction. Thus we find that in Suzhou, local government tends to use the large-scale acquisition of farmland plus bank loans to finance the infrastructure necessary to achieve economic development. From an economic perspective, this seems to be a contradictory phenomenon. Therefore, we would like to explore further some of the factors that induce the "development zone fever" in Suzhou.

## A Comparison of Economic Indicators and the CCP Cadres' Promotion/Evaluation Systems in Suzhou and Dongguan

China's economic indicator system is a legacy of a bygone era of the planned economy. In those days, there were strict quotas for almost every governmental function at each administrative echelon, and some elements of this governing mechanism have been retained up to the present. In contrast to the system of supervision through the ballot that operates in Western democracies, the efficiency of local governments in China is managed through a system of "*zhibiao*" (指標, indicators or quotas) which cover various administrative functions. Although some areas pay special attention to development-related indices, such as GDP growth and quantities of incoming foreign capital, the indices vary in different regions, and the central government does not have a strict, overarching index control system. Also, totals may not be thoroughly distributed among lower-level governments by the upper levels. The lower-echelon governments still have a certain leeway, and define their own annual objectives after satisfying the demands of the upper level.

The responsibility for quota assignment belongs to the planning commission, which in the planned-economy era would define a five-year development plan and conduct certain annual reviews and adjustments. In those days, the economic quotas that were assigned were "solid." However, the indices defined by the planning commission in recent years have tended to become "estimates." Generally, they are only predictions, and their fulfillment is not the sole reference for a Party member's promotion/evaluation.

According to our investigation, Jiangsu Province has stopped assigning quotas to lower-level governments, so the highest level of government that assigns quotas is the city, like Suzhou. Although the pressure from the quotas given out by the city government seems much lighter, the pressure from the lower-level governments has increased. We observe a contradictory phenomenon that city-level governments have noticed: "solid" quotas do not accord with the market economy, and it is too difficult to predict investment growth that depends on international capital move-

ments. However, it is possible that the areas below city level set targets higher than the predictions set by the upper level, and some even link the promotion and evaluation of lower-level government leaders to the rate of quota fulfillment.

Is there any connection between the fulfillment rate of assigned quotas and the promotion/evaluation of the local leadership? It is the personnel and organization department that primarily manages the Party cadres' evaluation and promotion, and the quota fulfillment rate is just one of many references it uses. In theory, quota fulfillment has no connection with cadre evaluation, but it seems otherwise in practice. We further notice the practice of "stressing quotas" (壓指標, *ya zhibiao*, emphasizing or commanding the achievement of further economic indices), which is most noticeable below the county level. The quotas become very "solid" once they have been distributed through the echelons, especially when they reach the townships, and are more commonly linked to the evaluation of Party members at those levels. In Suzhou, we found that township officials seldom had the chance to be promoted to county level, and county-level cadres were usually dispatched from the relevant department in the Suzhou city government. Their term of office is usually not very long. Therefore, when they serve as county officials, their achievements (especially in economic development) usually become the main point of reference for future promotion. Thus, these county officials are the driving forces behind the practice of "stressing quotas."

The mechanism of "stressing quotas" at the county level provides an important driver for attracting investment through large-scale farmland conversion in the Suzhou region. In other words, even when the land administration department establishes land-use regulations, the Party cadres' evaluation system at county level drives the local government leadership to breach these regulations. Thus we argue that the economic quota system and the Party cadres' promotion/evaluation system have become the predominant driving forces behind land property rights transformation in the Suzhou region.

The main reason why Suzhou's intra-governmental quota system results in localities rapidly renting out land to attract foreign investors is

that economic and financial achievements are linked to officials' promotion assessments. We still need to examine two issues: (1) Do higher-level governments in Dongguan issue quotas to lower-level governments, and are these "solid" quotas? (2) Is the fulfillment of these quotas linked to officials' promotion assessments?

Our field research shows that Dongguan had at one time assigned economy-related quotas to township governments but "softened" them (i.e., made them toothless) after the 1990s. Recently, Dongguan has scrapped economic and financial quotas for township governments altogether and replaced them with predictive quotas, which are only for reference purposes, allowing township governments to set their own annual development goals. At the level of Dongguan city, this trend of "softening the quotas" is similar to the trend in Suzhou. However, as discussed above, Suzhou's quotas "harden" as we descend the administrative hierarchy, while this hardening is absent in Dongguan, probably for three reasons.

One is that the level of government above Dongguan, the Guangdong provincial government, no longer issues economy-related quotas to Dongguan and all the figures are now set by Dongguan itself based on its own conditions. In addition, there are no county-level cities below Dongguan, so unlike Suzhou, there are no prefecture-level department heads "going rural" to work as heads of county-level cities. These leaders are some of the most important drivers of "stressing the quotas" in Suzhou. Such a difference in administrative structure makes the phenomenon of "stressing quotas" less frequent in Dongguan. Thirdly, our field research shows that township governments in Dongguan do not allocate economy-related quotas to village committees, as the latter are fundamentally not government organizations. Thus, in the same way, the economic motivation of village committee leaders is less driven by "stressing quotas."

If "stressing quotas" is not a frequent phenomenon in Dongguan, the question then is whether the promotion of officials in Dongguan is linked to economy-related quota performance. We discover that there are some assessments related to the economic performance of lower-level governments, but these assessments were not linked to the promotion of lower-level leaders. In other words, economic and finance-related quotas are

not linked to officials' promotion assessments in Dongguan, and these quotas themselves are being downplayed. Thus, compared with Suzhou, we believe Dongguan's tax-sharing system and the land-use fee appropriation arrangement are already enough to encourage local leaders to attract business through land development, and the distribution of local revenues facilitates the re-production of local social-political relations.

## The Distribution of the Land Rent

Although the central government established compensation standards for farmland nationalization, our fieldwork indicates that local institutions vary in this regard. For example, Kunshan city does not pay compensation in one lump sum, but has adopted a "3-6-9 system" under which payments of 300, 600, and 900 *yuan* per *mu*/year are made to the affected peasants according to the land category: responsibility field (責任田, *zerentian*), family land (自留地, *ziliudi*), and staple field (口糧田, *kouliangtian*), respectively. This significantly reduces the financial burden on the local government.

How does the 3-6-9 system affect farmers in a village where the upper-level government has taken away all the land? One such village is located in Huaqiao township (花橋鎮), Kunshan, with a total area of 2,800 *mu* and a population of about 1,800. Our calculations show that if the government appropriates all the agricultural land in the village, each farmer would only receive a compensation payment of 817 *yuan* per year, an amount lower than the average income from cultivation. In other words, this 3-6-9 mechanism is disadvantageous to the village and farmers to a considerable degree.

Furthermore, we observe that county and township governments in Suzhou tend to prevent villages from attracting investment by transferring collective development land. The impact of the economic-related quota system reaches right to the lowest level of local government—the township government. What really happens is that, on the one hand, county and township governments in the Suzhou region adopt a negative attitude to-

ward attempts by village organizations to establish development zones on collectively-owned land, while on the other hand, they tend to establish big development zones by compulsorily purchasing farmland, and this is what distinguishes the mode of development in the Suzhou region from that in the Pearl River Delta. We find many cases where villages have tried to attract investment with collectively-owned development land, but the upper-level governments have discouraged such attempts by cancelling the villages' development land quotas. It is precisely due to power inequalities that the local government is simply able to override the wishes of the village committees in Suzhou.

How to make up for such differences in benefit for villagers has become an important issue in the Suzhou region. Kunshan city has proposed an experimental system involving an "enrich-the-people cooperative" (EPC; 富民合作社, *fumin hezuoshe*) at village level, in which the villagers are shareholders. Three to five percent of the expropriated land is reserved for the EPC to build standard factories for rent or housing for workers. For example, the development zone of Zhangpu township (張浦鎮) in Kunshan set aside 2,000 *mu* for EPCs to build standard factories, allowing them to collect the rental payments. The development rights of collectively-owned development land in nearby villages were then transferred to the development zone. So we can see that in order to develop the village economy, local governments are trying to make good use of the opportunities provided by the policies of upper-level governments that are designed to attract investment.

The EPCs piloted in Kunshan are very different from the village-level stock-sharing cooperatives (SSCs) of the past. The SSCs managed the public assets accumulated in the village, and villagers were allocated shares automatically by virtue of their household registration in the village, and these share rights could not be sold or reassigned. Villagers can join or withdraw from an EPC freely, and the shares are transferable; in other words, it operates according to a free cooperative spirit.

Basically, the EPC system may be seen as a remedy designed to ameliorate the effects of the large-scale acquisition of farmland by eminent domain in Suzhou. The local governments hope that farmers who have

lost their land will use their compensation payments to join the EPCs and secure their livelihoods through the rental of standard factory buildings and worker housing. However, according to our investigations, successful EPCs are few in number, and the villages that set up EPCs tend to be economically better off. For example, although Zhangpu township had set aside land for an EPC to build standard factory buildings, no EPC was established in any of the villages in the township. The key to the success of such a strategy lies in the villagers' trust in the collective organizations that would manage the collective property. Villagers in some areas had no confidence in the propositions put forward by the collective leadership, owing to past experience of irregularities in TVEs.

Compared to the Suzhou system, local farmers enjoy a better standard of welfare under the system of collectively-owned land property rights. For example, it is common practice in Dongguan for villagers' groups to accumulate sufficient capital to build standard factory buildings for lease. Unlike the old SSCs, the shares of which could not be traded, some villagers' groups can run SSCs for specific development projects, with the free exchange and trading of shares permitted. Whenever there is a new investment project and the need for more factory spaces is anticipated, the villagers' group will set up a new shareholding cooperative to raise the required funds. Take one group in Humen township (虎門鎮), for example. The group consisted of about two thousand villagers, collectively holding about 40,000 square meters of development land—the land-use quotas being carry-overs from past applications. The villagers estimated that they would need nearly 20 million *yuan* to fully develop the land, so they established a shareholding cooperative. As the expected return on investment was over 10 percent, the villagers were willing to buy shares.

In Dongguan, the user of the collectively-owned land has to pay the "land fee," which is mainly used to pay for the welfare of the villagers and the basic infrastructure involved. Dongguan city and township governments do not get any part of the payment, nor do they regulate its magnitude and use, which is entirely up to the land-user and the "landlord" (i.e., the village committee or villagers' group). The "land fee" is one of the most important sources of revenues for the village. In addition to paying the

permit fee to the land management bureau and the "land fee," the land-user also has to pay land rent to the "landlord" if the former builds his/her own facilities. Our surveys show that wealthy village committees in Dongguan could receive nearly 10 million *yuan* per year from the above-mentioned sources of revenue. Some villagers' groups could even receive up to 30 million *yuan* annually.

How are these rents allocated within the collective organizations? The collective bodies pay a certain amount of their income to all the people whose households are officially registered as residing in the village. The reason for this is that every collective body has its own shareholding co-operative. These cooperatives are charged with the management and allocation of all collectively-owned assets. The per capita amount paid to villagers by the cooperative varies according to the financial resources of each organization. Some wealthier villages pay up to 600 or 700 *yuan* per person per month, but immigrant workers who are not considered official residents of the village cannot enjoy these benefits.

Through the above discussions, we indicate that farmers in Dongguan have fared much better than their counterparts in Suzhou. In other words, we argue that the collectively-owned land property rights regime protects local farmers' interests to a significantly higher degree.

## Conclusion

Geographers have argued that "aspatial" theories, such as the neo-classic thesis of perfect competition, have their limits.[18] From an institutional geography perspective, we try to highlight the place-dependent political economic process that sustains the divergent local land property rights regimes in Suzhou and Dongguan. Although these two industrializing regions are regulated by the same Land Management Act, their systems

[18]David Harvey, "On the History and Present Condition of Geography: An Historical Materialist Manifesto," in *Human Geography: An Essential Anthology*, ed. John Agnew, David N. Livingstone, and Alisdair Rogers (Oxford: Blackwell, 1996), 95-107.

of land property rights transformation (from farmland to industrial land) are very different.

Two "exogenous" factors can be shown to influence the place-dependent interplay of political-economic variables such as the financial system, the economic quota system, and the local cadres' promotion/evaluation system, and to contribute to these divergent patterns. The first is the administrative hierarchy. Dongguan has a two-tier administrative setting of prefecture/townships, while Suzhou has a three-tier setting of prefecture/counties, county-level cities, and townships. This factor influences the local financial structure and the incentive structure for county (county-level city) leaders that are embedded in the promotion/evaluation systems for Party cadres. The second factor is the pattern of foreign investment, i.e., the "property rights pattern" of FDI. A great number of manufacturers in Dongguan operate as "contracted materials processors," while sole-ownership operations prevail in Suzhou. This factor also influences the local financial structure and the incentive structure of village committees. Based on this comparative study, we argue that it is the place-dependent interplay of these relevant variables (financial system, economic quota system, and local cadres' promotion/evaluation system) embedded in China's broader institutional environment that results in the "exchange structure," which further shapes the place-specific "incentive structure" of the local officials.[19] For example, the phenomenon of "stressing quotas" in Suzhou illustrates such place-specific governmental practice.

In addition, the emergence of local institutions could be regarded as a supporting factor for the difference in farmland property rights transformation between these two regions. These institutions include shareholding cooperatives, the 3-6-9 payment system, and others. As this study shows, these local institutions play a considerable role in supporting the local land property rights regime. With China's political-economic systems in a state of transition, we suggest that such locally developed institutions deserve

[19]For discussion of the exchange structure, incentive structure, and institutional transformation, see note 5 above.

more academic attention, especially the way in which they influence divergences in local development patterns.

Which model is more successful? The answer to this question requires much more investigation from different perspectives. However, it is quite obvious that in the process of industrialization, the collectively-owned land property system in Dongguan is much more desirable than nationalization in terms of the welfare of farmers. Furthermore, we argue that there exists a "dilemma of governance" that reinforces the "development zone fever" in Suzhou, especially the interplay among economic quota assignment, the promotion/evaluation system for Party cadres, and the revenue-sharing system. We suggest that land property regimes that rely on attracting foreign investment by low land prices, made possible by land-ownership conversion, are not really beneficial to short-term (or even medium-term) local fiscal operations, and there are consequential "governance deficits," such as the need to resettle peasants whose land has been expropriated and the abuse/waste of land resources.

Finally, on a theoretical level, we propose a "political turn" in the study of China's local development. Apart from the economic paradigm that focuses on fiscal reforms and decentralization, scholars might pay more attention to political-institutional factors, such as intra-Party promotion systems, tensions between the two evaluative indicator systems maintained by the *tiao* and *kuai*, and the regulation as well as the political governance of government-village relations. As this study shows, these factors contribute to variations in regional development patterns in China. A more integrated perspective that incorporates the issue of "political governance" could be valuable to a further understanding of the dynamics and contradictions of China's local development.

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