

# The Contractual Nature of City

## 民营城市

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- Urbanization is the process of the concentration and rearrangement of property rights.
- This process involves huge amount of transaction cost with a large number of formal/informal contracts.
- How is transaction cost reduced to achieve efficient urbanization in the real world?

- Villages with similar locations, might
  - Remain rural
  - Urbanized by Government
  - Urbanized by Business Firm
  - Urbanized by Farmers
  
- Facing large transaction cost, why are there different types of urbanization?

- In China, most urbanization is dominated by government
  - Taking over farmers' land
  - Land and city planning
  - Investing in infrastructure
  - Selling land use rights
  - Attracting Business
- Advantages
  - Fast, Large Scale
- Disadvantages
  - Farmers' appeal
  - Less efficient use of land

- 民营城市：蛟龙工业港
- Jiaolong Industrial Park
  - Jiaolong Co.came to Shuangliu in 2004
  - Planning area 4.3 sq km, 0.12 million people
  - Yearly value of output 20 billion Yuan, 0.4 billion tax; 1000 firms
  - Invest in infrastructure by themselves
    - asphalt road, sewage treatment plant, water plant, transformer station, underground pipelines, apartments, office building, shopping mall, cinema, and aquarium.













- XiHangGang Economic Zone, run by gov't
  - Planning area 80 sq km
  - 80,000 jobs
  - 1000 jobs per sq km
  - 1.4 billion tax
  - 23 million taxation per sq km
  - 1000 jobs
  - No business,apartments, just industry

- Jiaolong Industrial Park
  - Similar locations with XiHangGang
  - Planning area 4.3 sq km
  - 0.12 million jobs
  - 30,000 jobs per sq km
  - 0.4 billion tax
  - 0.1 billion tax per sq km
  - Urbanized with large business and apartments

- Compared to rural villages nearby, Jiaolong achieved urbanization
- Compared to government-running city, Jiaolong has higher population density, more business, and larger taxation per sq km.
- Why could Jiaolong reduce large transaction cost in the process of urbanization? And why it could replace some government functions in transaction cost reduction?

- Hypothesis

- Jiaolong Co. is a central contractor in the process of urbanization.
- It signs contracts with government, farmers, business firms, apartment tenants (buyers), and schools
- As a central contractor, Jiaolong greatly reduce transaction cost in urbanization
- Yujiao Huang, as the entrepreneur, is the central contractor of Jiaolong. His vision with market plays a central role

- Contracts with government

- Defining Planning rights

- “General Planning of Jiaolong Industrial Park must be consistent with the General Planning of Shuangliu County. Jiaolong Industrial Park makes planning and building itself, and recording (备案) in government.”

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- Tax Sharing

- Shuangliu Gov. rewards Jiaolong “for 100 Yuan tax per sq-km promised by Jiaolong, (Gov.) rewards Jiaolong 25% of local taxation (指扣除乙方区内企业已享受优惠奖励扶持政策后的地方实得部分) ; for 80 Yuan, it is 20%.”

- Tax sharing
  - Solves the externality in the infrastructure investment of urbanization
- Planning rights recording
  - Most rural villages do not have ability or money to make planning
  - Gov't planning is limited by government officials' and experts' vision, lacking cost measurement and efficiency.
  - Planning rights releases Yujiao Huang's vision as an entrepreneur.
  - Maximize land value and taxation.
- Tax sharing + Planning Rights solves the externality of infrastructure investment.

- Land rental contracts with farmers
  - Rent rather than conscripting village land
    - In the end of 2003, 8 villiages (九江镇、东升镇的万年村、大渡村、石桅村、泉水八队) returns land contracts to the collective, and then the collective signed rental contracts with Jiaolong
    - Market price of 600 kg rice per year (5% increase every 3 years, bottom price 2.6 Yuan/kg) , rental land use rights by 55 years.
  - Resettlement contracts
    - Build apartments for farmers, 0.42 million yuan in 2014.



- Factories, office building, and apartment rental contracts
  - Tax sharing 50%
    - 与工厂的合约：“企业每年两税总计应达到15万元/1000平方米建筑面积标准，若未达到以上收税标准，则乙方自愿同意甲方在原工厂使用费的基础上，按每月每平方米3元增收乙方一年的使用费”。
    - 与写字楼企业的合约：“每100m<sup>2</sup>建筑面积单年完税超过10万元人民币的，即可享受税收奖励政策，即甲方对乙方单年完税超过10万元人民币/100m<sup>2</sup>建筑面积的税收部分，按照县级留存部分的50%给予乙方奖励”。

- Another way of tax sharing
- For firms' taxation passing some line, Jiaolong pays tuition for their kids. ( primary and middle school, 2000-3000 yuan per semester ) :
- - “一、入驻蛟龙港的企业，凡在园区年上交税收达到50万元以上的，每50万元解决1名企业在职职工的子女入学，享受蛟龙管委会的入学优惠政策，依次类推。
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  - 三、在蛟龙港从事第三产业的个体工商户，在港年上交税收在5万元以上的，每5万元解决1名个体工商户的子女入学，享受蛟龙管委会的入学优惠政策，依次类推。”
  - 《关于蛟龙港租金教育事业发展的文件》（成蛟字【2010】第074号），成都蛟龙工业港管理委员会，2010年7月31日。

- County Gov't, Jiaolong, and business firms formed multiple sharing contracts
  - Cheung (2009) : tax sharing is essential to understand county competition.
  - Sharing contracts encourages each party to make investment, and increase efficiency.
  - It encourages government to protect property rights.
  - It encourages both gov't and Jiaolong to reduce transaction cost in business registration and other services.
  - Jiaolong promotes industry-upgrading by increasing business rent itself.
  - With planning rights and sharing contracts, Jiaolong could maximize the land rent.

- Given Chinese institutional and social structure, Jiaolong cannot replace all government functions.
  - Discovered and attracted Huang to Shuangliu
  - Gov't provides police service
  - Gov't invest in major roads near Jiaolong
  - Gov't went to village to talk to farmers for renting land to Huang
  - Gov't protected Huang when the Land Administration went to inspect Huang
  - Gov't transferred part of land from rural-owned to state-owned.
  
- Whether these phenomenon appears because of special Chinese institutions, or more fundamental, even in the U.S.?

- **Contractual Nature of City**

- Urbanization is the process of concentration and rearrangement of property rights, involving a large number of contracts.
- With non-zero transaction cost, how can a rural area urbanized by reducing transaction cost?

- Government provides a lot of functions in the process of reducing transaction cost in urbanization.
- Business firms could also provide the same functions replacing government in the process of urbanization.
- Under which conditions, business firms could replace most government functions in reducing transaction cost and urbanization?

- Jiaolong reduces transaction cost by being the central contractor.
- The essential contract is the land rental contract with farmers, and the tax sharing and planning recording contract with gov't.
- This institutional arrangement encourages government to define and protect Jiaolong's property rights.
- It also provides Jiaolong, and esp. Yujiao Huang to use their vision and market signals to urbanize fast.



- Urbanization is the process of reducing transaction cost caused by a large number of contracts, which define and rearrange property rights.
- Whether more or less government functions is more efficient, depends on which could be more effective in reducing transaction cost. Neither gov't nor business is definite for urbanization.
- The contractual structure is the essential to understand the comparative transaction cost of different urbanization paths.