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Chongqing: Model for a new economic and social policy?

Analysis by Romain Lafarguette based on:

- Wang Yuguang, ⁽¹⁾ "Chongqing: Testing ground for new policies," *Caijing guojia zhoukan*, February 2011.
- Hu Shuli, ⁽²⁾ Lu Yangzheng, ⁽³⁾ Deng Hai, ⁽⁴⁾ "New economic policies in Chongqing," *Zhongguo gaige – China Reform*, November 2010.
- Chen Lili, ⁽⁵⁾ "Analysis of social housing model in Chongqing," *Hezuo jingji yu keji*, 2011, no. 12, June 2011.
- Zhou Min, ⁽⁶⁾ Xiang Pengcheng, ⁽⁷⁾ "Innovation and functioning of social housing model in Chongqing," *Hezuo jingji yu keji*, 2011, no. 13, June 2011.

Chongqing municipality, through its mayor Huang Qifan (黄奇帆) and Party Secretary Bo Xilai (薄熙来), has launched a novel and ambitious three-pronged policy: construction of social housing, land reforms, and massive distribution of new *hukou* (户口) ⁽⁸⁾ to rural residents. Apart from the magnitude of the reforms announced, the project's originality lies in the coherence of different policies and the state's attention to ensuring stable and responsible financing. However, many questions are raised by the absence of political and judicial reforms to supervise this economic and social development.

The first stage of reform is to build more than 40 million square metres of social housing in ten years (2010-2020), three-fourths of that in the first three years. This represents the total area of non-social housing sold in Chongqing over three years. Eventually, some 30 to 40 percent of the housing market is to consist of social housing (*gong zufang* 公租房), with 60 to 70 percent left to housing at market prices; at present, social housing in Chongqing accounts for a mere 5 percent of rental housing. Rents will be on average 40 percent lower than the market price for equivalent areas. To get this project going, the municipality set apart a buildable area of more than 2,000 hectares. The housing is earmarked for single people whose monthly income is less than 2,000 yuan or for couples with monthly income under 3,000 yuan. In order to avoid social segregation and to infuse dynamism in the localities, the government plans to build social housing in areas providing conventional accommodation. This would also help boost the value of new constructions.

This highly ambitious policy of building social housing completes a sweeping reform of land use rights that the Chongqing authorities began in 2010. The central government imposed minimum quotas of cultivable land in the total area controlled by local governments. With a view to developing Chongqing's periphery while abiding by this constraint, the local government introduced a credit system literally translated as "land transaction voucher" (*dipiao* 地票), an authorisation for farmers developing new land for agriculture to sell the right to use an equal area in the periphery of cities for urban development. Thus, an entrepreneur wanting to use ten hectares to build an industrial park outside Chongqing would have to

buy at market price a *dipiao* of ten hectares corresponding to the ten hectares of cultivable land newly developed by one or more farmers in the countryside. This is meant to ensure that urban development does not lead to loss of agricultural land and that farmers also benefit from the fruits of urban growth (80 percent of the value of *dipiao* goes to them and 20 percent to village authorities).

In order to secure new agricultural land in the countryside, farmers have to transform their residential areas (*zhai ji di* 宅基地). Local government policy is thus to expand the cultivable area (by transforming residential areas into agricultural land) while reducing the number of farmers. Economies of scale and productivity gains on these much larger areas should boost agricultural production, even if the quality of cultivable land obtained were mediocre, to say the least.

Finally, migration caused by the *dipiao* system implies a fundamental re-think of China's *hukou* or residence permit system. In an interview with *Caixin* magazine, Chongqing mayor Huang stressed that the main beneficiaries of the social housing policy are migrant workers and young graduates coming to work in Chongqing. They are also the first to receive the 3.38 million new *hukous* handed out in 2010-2011, the aim being to distribute ten million in the 2010-2020 period. Residents of other regions are also eligible for this programme. It is the largest *hukou* distribution ever in China and would raise the share of urbanised Chongqing to 60 percent (from the current 29 percent).

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8. The *hukou* is a residence permit. It specifies the residency status (distinguishing between rural and urban residents) and the corresponding rights entailed. For instance, without a Beijing *hukou*, it is not possible to buy an apartment in the capital or to work there legally.

Local leaders hope this policy would yield major positive externalities: increased agricultural production, development of Chongqing's periphery, a construction boom, lower property prices, public infrastructure, and so on. From the government's viewpoint, this would meet the "people's basic needs" (*min sheng* 民生). It is thus developing collectivist rhetoric (more than 50 percent of Chongqing's expenditure would be earmarked for such basic needs as housing, education, health, pensions, etc.). Meanwhile, apart from the purely quantitative aspect of the investment realised, Chongqing's great originality rests in the local government's involvement and the financing model proposed.

In 2002, Chongqing created eight public investment enterprises (*ba da tou* 八大投) at the initiative of Huang, who was then deputy mayor, in order to promote the public infrastructure policy. The development model the Chongqing government sought to promote was that of the "Third Hand" (alluding to Adam Smith's "invisible hand"): the government would take an active part in the market and generate profits that would then be redistributed to the people. Construction of social housing is part of this logic: a project realised from start to finish by the government and viable in the long run despite low rents. The local government wishes to maintain control over the allocation of social housing in order to ensure that houses are not resold or sublet for profit. It is thus possible for tenants to become owners in about five years, but they would not be able to resell their property except to the local government. In contrast to what has obtained in China thus far (sale of social housing with freedom to resell), the Chongqing system is thus a closed one. The mayor often cites Hong Kong or Singapore (where social housing is likewise entirely public), noting that in some of China's cities a mere 10 percent of land sold in recent years has gone towards public housing; therefore state intervention is needed.

Chongqing authorities present this highly ambitious programme's financing as responsible and integrated. More than 75 billion yuan is needed for building the first 30 million square metres of social housing in three years (out of the 40 million to be built by 2020). Out of this, 25 million square metres will be financed by the local and central governments, with the rest funded by financial institutions through loans. The major contribution will come from banks (20 billion yuan at 6 percent interest) and insurance firms (20 billion yuan at 4 percent interest); the latter are also committed in terms of principal and interest. Social security funds, financial service providers, and bond issues will help cover the remaining 10 billion. Finally, the government hopes to cover the entirety of interest payments (about 2.5 billion yuan) through rents from the social housing. In addition to the construction cost of social housing there is the cost of issuing 3.38 million *hukou* (2010-2011); the total cost is estimated at more than 207.9 billion yuan. Of this, 130 billion yuan will go towards social security linked to the possession of urban *hukou* (mainly health and pensions) and 77 billion yuan for the purchase of land from farmers (which will then be resold via the *dipiao* market). The government remains optimistic as regards social security expenditure: it has noted that the younger population, the first beneficiaries of *hukou* reform, would also be less demanding in terms of social coverage. Again, social security spending is claimed to be secure: the government is expected to participate to the extent of 30 billion yuan (the Chongqing government's resources top 160 billion yuan). More than 90 billion yuan will be assumed by enterprises, notably through fiscal means (social charges on a worker with *hukou* being greater than in case of a migrant worker), the rest coming from income obtained as rent for social housing.

Nevertheless, in this period of debt crisis for local governments, questions arise as to the relevance of such an ambitious and costly policy for social projects, which are by their very nature none too viable. The Chongqing mayor has given assurances that his funding project is solid and credible. It may be noted, however, that the low interest rates obtained from public sector banks do not necessarily reflect the project's hoped-for viability. Moreover, 70 percent of financing comes from loans, which entails very high leveraging and raises doubts as to the project's eventual financial maturity; besides, rapid returns on investment can hardly be expected. Only the income obtained from the *dipiao* policy, the ability to collect rent, and economic development of new areas would ensure the project's financial viability. Meanwhile, unlike other in Chinese cities, Chongqing's government seems to enjoy a very high credibility capital with banks. Further, although the clearly stated ambition of Huang Qifan and Bo Xilai should work in favour of greater social justice, it is not the same on the tax front. The Chongqing government certainly imposes a tax on luxury housing, which helps collect more than 150 million yuan annually, but this remains symbolic (0.5 percent to 1 percent of apartment value). Finally, the hoped-for economic fruits depend on the local economy's ability to integrate all new arrivals. Otherwise, the city could well face major economic and social problems: unemployment, maladjusted public infrastructures, dropping salaries, etc.

Zhou Min and Xiang Pengcheng also point out that the absence of a judicial system to govern social housing makes it difficult to guarantee the interests and rights of the poorest. Thus, although the project is particularly ambitious on the economic front, it remains highly evasive and lacking in judicial and political aspects (especially as regards the tax system and conditions for resale of social housing). It would seem that the Chongqing leadership's enthusiasm is restricted to realising large-scale investment without going in for much-needed institutional reforms. Thus the *hukou* reform announced by the Chongqing government is not quite what it is made out to be: it is all about giving the Chongqing *hukou* to a much larger number of rural folk. But the system remains unchanged and the dichotomy between those possessing urban and rural *hukous* persists. Some observers, including Hu Shuli, question the utility of retaining the *hukou* system if such a larger number are to be bestowed with urban *hukous*. It would be simpler to be rid of it. Mayor Huang responds that retaining the rural *hukou* in fact helps farmers, especially when it comes to land purchase and use. Actually, this argument further highlights judicial lacunae with respect to land use rights in rural areas rather than the usefulness of the *hukou*, which does not seem to be the most appropriate tool for defending people's rights.

The reform of land use rights raises several issues. It is quite probable that youngsters and older people would be inclined to move to the city and benefit from the urban *hukou* (the former to find work and the latter to obtain healthcare); the issue is with regard to those aged 40 to 60. As Wang Yuguang has stressed, after having accumulated assets in rural areas (housing, agricultural material, and land) and facing difficulty finding work in cities at their age, it is quite probable that they would refuse to leave, all the more so as compensation offered for land ceded in the countryside might well be insufficient to afford an urban lifestyle. Further, the *dipiao* system is rather complex for farmers to grasp, and it is possible that they would have difficulty accepting or claiming their rights. Thus, in a somewhat related but minor instance in Shenzhen, several farmers interpreted the *hukou* change as land theft. Aware of this situation, the Chongqing govern-

ment has introduced a transition period of three to five years during which farmers would not only be able to live in the city but also retain the land use rights acquired in their villages (including subsidies for crops) as well as social rights (to have more than one child in some rural areas, for instance).

As Hu Shuli has noted, while this ambitious policy as a whole seems concerned with securing farmers' rights and appears humane, Chongqing's rapid urbanisation plans are nevertheless being carried out through administrative diktat, which raises the question of possible drifts. Moreover, the model offered in Chongqing relies on a special political organisation, and it would be difficult to repeat it elsewhere: in fact, Chongqing is an autonomous munic-

ipality (*zhi xia shi* 直辖市, like Beijing, Shanghai, and Tianjin) and is thus not dependent on any province. Chongqing's government has a direct line to the central authorities, which gives it considerable leeway in adopting innovative policies and greater freedom in raising and disbursing funds.

Chongqing therefore appears to be a testing ground for a new type of so-called "Third Hand" policy, at once interesting and novel. Given the city's constraints and particularities, however, it would be risky to see it as a model for the rest of China.

■ Translated by N. Jayaram