

Chongqing: Opportunities and Risks

Lijian Hong

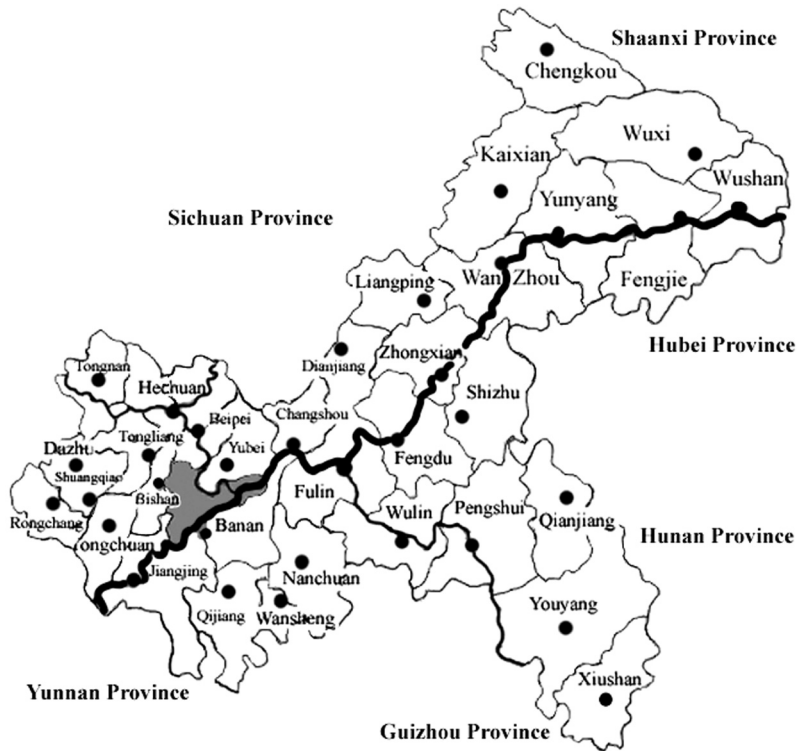
ABSTRACT The separation of Chongqing from Sichuan and its promotion to a municipality directly subordinated to central government, as well as its inclusion in the area for the campaign to Open Up the West, have helped Chongqing position itself well ahead of many other inland Chinese industrial cities. Increased central funding has helped Chongqing to survive the social, political and economic consequences of the large-scale relocation programme attached to the Three Gorges Reservoir area and the dramatic restructure of state-owned industries. The future of Chongqing, however, depends on how long the current proactive fiscal policy of the central government will last and how quickly Chongqing can establish sustained economic development under socialist market conditions.

Chongqing became a provincial-level municipality directly subordinated to the central government in 1997. It is the only such municipality in the newly-defined west, a status that usually indicates a higher administrative position in the Chinese bureaucratic hierarchy than its neighbouring provinces, as the experience of Shanghai, Beijing and Tianjin suggests. Although Chongqing is not necessarily the strongest provincial-level economy in the region, it is certainly the largest and most industrialized city of all city economies in west China.

Nevertheless, the establishment of Chongqing municipality in 1997 did not lead immediately to either economic or political success, despite its location as a major growth point on the upper reaches of the Chang [Yangtze] River and as a major concentration of state-owned enterprises (SOEs). The reasons are complex but include in large part the circumstances surrounding the establishment of provincial status. The campaign to Open Up the West has presented the leadership of Chongqing municipality with the opportunity significantly to improve Chongqing's performance and its profile. Central government has highlighted Chongqing's new role under the campaign to Open Up the West as a major growth point for the west in general and for the south-west in particular.

Although a municipality, Chongqing still shares some common characteristics with other provincial-level jurisdictions in China's west. It is one of the oldest cities in the PRC with over 2,000 years of history. Although it is an energy-rich region, modernization and industrialization started later than in cities along China's east coast. To some extent, local industrialization was a result of government action, during the Second World War and again in the 1960s to 1970s, rather than colonization or market forces. The poorly planned over-development in the last century under the planned economies of both the Nationalist and Communist governments has left Chongqing with heavy pollution wherever industrialization occurred, as well as social and political problems that could not

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Map 1: Chongqing Municipality

be easily solved in the reform era with the introduction of a market economy.¹

Like many other parts of the west, the territory of Chongqing municipality includes a large rural area, with a sizeable poverty-stricken rural population regarded as a heavy financial burden by local government. The low income of the local population means limited market demand. The rapid growth of provincial capitals and the relatively slow growth of the rural economy in many areas of west China have led to increasing social and economic disparities between urban and rural populations. Poor transportation networks have left these geographically remote regions even more disadvantaged when competing with coastal cities in the market economy. Geographic distance is also a disadvantage in terms of the ability to attract foreign investment.

At the same time, Chongqing is clearly unique in a number of ways.

1. For a more detailed discussion of Chongqing and its history, see Lijian Hong, "A tale of two cities: a comparative study of the political and economic development in Chengdu and Chongqing," in Jae Ho Chung (ed.), *Cities in China: Recipes for Economic Development in the Reform Era* (London: Routledge Studies on China in Transition, 1999), pp. 183–214; Lijian Hong, "New Chongqing: opportunities and challenges," in John Fitzgerald (ed.), *Rethinking China's Provinces* (London: Routledge, 2002), pp. 41–88; and Jianfu Chen and Lijian Hong, *China Focus – Centrally Administered Municipalities* (Singapore: CCH Asia PTE Limited, 2001), pp. 157–177.

Though a remote city in inland China, it has been a city of national significance, and not just because of its role as national capital during the Second World War. Since the introduction of reform Chongqing has always enjoyed a higher political status and freedom to act economically than many of the other provincial-level units in the west. The building of the world's largest dam at the Three Gorges (on the Chang) has ensured the development of close ties between Chongqing and the central government, and hence a better access to central political and financial resources than many other regions in the west, if not in China.

Three inter-related issues are likely to determine Chongqing municipality's ability and capacity to respond to the campaign to Open Up the West: leadership, finance and industrial policies. Chongqing's path of social and economic development in the post-Mao period up to its separate establishment at provincial-level was determined by its geographical location and history.² Since 1997 the most noticeable feature of local political life in Chongqing has been the change of leadership, not just in terms of personnel but more specifically in terms of the relationship to Beijing and central government, which brings restraints in addition to new room for manoeuvre. Foreign and domestic investment have clearly played a crucial role in pushing local economic growth in China since the introduction of reform. However, the provincial-level units of the west have clearly been disadvantaged by distance in their ability to attract foreign and domestic investment during the 1980s and 1990s. Any attempt by central government to attract funds to the west is likely to be as welcome as it is difficult to sustain. Chongqing's industry developed largely as a result of wartime and the war preparation economy of the Third Front in the 1960s and 1970s. There are then a large number of SOEs which represent a heavy financial burden and source of social unrest for the municipality. Although the restructuring of industry has been a key part of Chongqing's elevation to provincial status, this task clearly presents political problems for the municipality's leadership.

The Establishment of Chongqing Municipality

The decision to establish Chongqing municipality as a provincial-level entity in 1997 was the culmination of a long process that had started when the Nationalists moved their wartime capital there after the Japanese invasion of China. In the early years after 1949, Chongqing continued to be separately administered until it was downgraded to a sub-provincial city in 1954. Economically, however, it remained under central government management more often than it was under the provincial government of Sichuan. From 1949 until 1997 Chongqing was economically independent from the provincial government and was centrally managed for over 25 years between 1950–58, 1963–68 and 1984–97.³

2. Lijian Hong, "A tale of two cities," pp. 206–207.

3. Lijian Hong, "New Chongqing," p. 49.

Under the PRC Chongqing had an uneasy relationship with Chengdu to 1997, and certainly felt that its economic growth was sacrificed to support the development of the Sichuan provincial capital. When Chongqing and Chengdu were “liberated” by the communist armies, there was almost no modern industry in Chengdu. Three years later through the provincial government’s support Chengdu’s industrial output had increased to 165.3 million *yuan*, while Chongqing’s was 4.9 times that of Chengdu. By 1978 the industrial output of Chengdu was 66 per cent that of Chongqing. Yet by 1995 Chengdu’s industrial output value had come to exceed that of Chongqing by 18.2 billion *yuan*.⁴ Particularly given its location as a transport hub on the Chang River, the leaders of Chongqing came to feel that the municipality had been the victim of Sichuan’s internal colonialist policies after 1954; feelings that easily transformed themselves into a political motivation supporting moves to separate Chongqing from Sichuan almost at any price.

The more immediate genesis of Chongqing’s elevation to provincial status lay in considerations of both its industrial development and the development of the Three Gorges Project. The concentration of SOEs, and particularly those associated with the defence industries in Chongqing, was an initial matter of some concern. The introduction of reform and the decline in investment from central government left local governments unable to sustain economic growth, and needing to feed and support a large number of SOEs and hundreds of thousands of employees. Chongqing became one of two old industrial cities (the other one was Shenyang) where frequent demonstrations alarmed central and local leaders. It seemed difficult for Sichuan province to deal with this increasing problem. Many of the SOEs were subordinated to central government departments and so out of provincial lines of control; and the scale of the problem in Chongqing seemed beyond the province’s limited resources, based overwhelmingly on agricultural production. Every time the central government drew attention to Chongqing’s difficulties with SOEs the Sichuan government pointed to similar problems in other industrial cities in the province. Eventually central government decided to adopt the strategy of concentrating its resources in SOE reform on Chongqing in the hope that it would lead to change in the surrounding region.⁵

The building of the world largest dam on the Chang River – the Three Gorges Project – has been a major central government project since the late 1980s. All the same local government is expected to handle the relocation of some 1.2 million people from the reservoir area, and the rebuilding of two cities, 11 county towns and 116 townships in one of China’s poorest regions.⁶ Chongqing’s establishment as a provincial-level

4. Lijian Hong, “A tale of two cities,” pp. 185–86.

5. For a more detailed discussion about the SOEs in Sichuan and Chongqing, see Lijian Hong, “Sichuan: disadvantage and mismanagement in the Heavenly Kingdom,” in David Goodman (ed.), *China’s Provinces in Reform: Class, Community and Political Culture* (London: Routledge, 1997), pp. 212–13, and Lijian Hong, “New Chongqing,” pp. 70–73.

6. Liu Kang, Dai Qun and Huang Huo, “Xikan sanxia qi pinghu” (“A delightful view of a lake in the Three Gorges”), *China Comment*, No. 11 (2003), p. 7.

municipality was justified at least partly in terms of the special requirements flowing from the Three Gorges Project, including in particular the work of population relocation. At the same time, its separation was justified in terms of easing the pressure on the Sichuan provincial government in managing its over-sized population and area.⁷

Although Chongqing as a territorial administrative unit includes most of the previous east Sichuan it was established in 1997 as a municipality rather than a province. A number of explanations may explain this move. The most obvious is a question of identity, since Chongqing had already become a well-known city, particularly outside China, a not inconsiderable advantage in attracting investment. To establish a new province would have entailed creating many more new layers of bureaucratic government than those required by a new city. Moreover, after 1980 Chongqing had already been granted a number of preferential policies, similar to those of the coastal cities which it did not want to surrender. As it happens, the central government had attempted during the late 1980s to establish a new province – Sanxia (Three Gorges) Province – incorporating Chongqing and the eastern part of Sichuan with the western part of Hubei. The idea was abandoned when the plan to build the Three Gorges Dam was suspended after strong opposition from both domestic scholars and international communities.

Chongqing and the Campaign to Open Up the West

Chongqing was not in good shape, politically or economically, when the central government launched the campaign to Open Up the West. It is less industrialized, considerably less attractive to foreign investment, and poorer in terms of GDP and local government revenue compared to Shanghai, Beijing and Tianjin, the other provincial-level municipalities. Indeed, Chongqing is more like a small province than a municipality. Its land area is larger than Hainan and Ningxia. Its population at 31 million is greater than many other provincial-level areas. While it has a greater service sector than most provinces it still does not match the performance of the other provincial-level municipalities. Substantial financial and other support from central government was and is required to transform the municipal economy into the equivalent of an advanced coastal city.

In the first few years after Chongqing became independent from Sichuan its economic performance was rather disappointing. Statistics show that local SOEs continued to deteriorate after several years of making a loss. In 1997, for example, 44.3 per cent of the largest SOEs and 55.5 per cent of the state-controlled shareholding enterprises suffered a total loss of 2.63 billion *yuan*. In 1999, the largest SOEs alone had an

7. "Chongqing expected to be the fourth centrally administered municipality," *China Daily Online*, 20 February 1997; "Chongqing to become another powerhouse," *ibid.* 7 March 1997, www.chinadaily.com.cn.

alarmingly high loss of 1.9 billion *yuan*.⁸ Meanwhile, the poor economic performance of the SOEs led to a rapidly growing number of laid-off workers. From 1997 to 1998 the number of people who received relief subsidies in urban areas jumped from 68,753 to 159,504. In the rural areas, due to a serious drought, relief fund receivers increased dramatically from 547,649 in 1997 to 1,198,821 in 1998.⁹ Urban residents became accustomed to frequent demonstrations by laid-off workers from SOEs. Despite initial expectations, utilized foreign investment decreased from US\$982 million in 1997 to only US\$327 million in 1999. Total foreign exchange earnings from international tourists dropped from US\$105.48 million in 1997 to US\$97.26 million in 1999. Exports to South-East Asia were affected by the Asian economic crisis and sharply decreased from US\$780 million to US\$490 million over the same period.¹⁰

At the start of the new century, Chongqing had to complete a number of urgent tasks assigned by the central government. All had tight deadlines: the relocation programme of the Three Gorges area had to be completed before the reservoir started to fill on 1 June 2003; hundreds of SOEs had to be restructured and turned to profit-earning by 2000, the deadline set by the then Premier Zhu Rongji; the living standard of millions of poor rural people had to be improved urgently; and degraded infrastructure had to be updated in order to create a better environment, not least for domestic and foreign investments.

Politically, inter-factional conflict within the leadership had grown alarmingly. The personal conflict between the municipal Party secretary, Zhang Delin, an “outsider” from Beijing, and the local-born mayor, Pu Haiqing, became increasingly open and seemed likely to cause problems for the local officials forced to take sides. A group of PhD graduates recruited by Zhang Delin from the Chinese Academy of Social Sciences and other research institutions in Beijing to fill the Party and government posts of Chongqing started to leave as many of them found it very difficult to work with locally promoted officials. Cadres from the earlier Chongqing city authority were trying to stop those from regions in the former east Sichuan parts of the new municipality (Wanxian, Qianjiang and Fulin) from coming to dominate senior appointments in the new Chongqing.

There was a real fear that Chongqing might follow the example of Hainan. The island had been separated from Guangdong province and established as a separate province in 1988. Since then, much of its local dynamism and economic momentum have been lost. Hainan remains one

8. “Xin Chongqing chengshi xingxiang shi zenyang shuzhao de” (“How Chongqing’s image as a new city was made”), Xinhua News Agency Network, 22 April 2002, www.xinhua023.com/data/3/2002-4-22/20024221627020619.html.

9. *Chongqing Statistics Yearbook 2002* (Beijing: China Statistics Press, 2002), CD version.

10. *Chongqing Statistics Yearbook 2001* (Beijing: China Statistics Press, 2001), CD version.

of the poorest provincial-level units in China despite its close proximity to China's richest province. In 1983 when eight agriculture-based counties of Sichuan were merged into Chongqing, the per capita GDP of Chongqing dropped dramatically from 38 per cent above national average to 7 per cent below. Chongqing managed to accommodate the change and after 13 years its per capita GDP exceeded the national average by 1 per cent. However, after Chongqing became a provincial-level municipality in 1997, 22 counties in former east Sichuan, including 20 state designated poverty-stricken counties were merged with Chongqing and pushed its per capita GDP down once again, to 30.7 per cent below the national average.¹¹

In his government work report to the annual session of the First Municipal People's Congress, held in January 2000, the then mayor, Bao Xuding, told the deputies that the decision by the Central Party Committee to Open Up the West provided Chongqing with an opportunity rarely seen in history. He urged the people of the municipality to grasp this great opportunity to realize the development of Chongqing.¹² To this end he highlighted a number of Chongqing's apparent advantages.

Central investment since the 1950s has assisted the development of a relatively strong modern industrial base in the city. Despite the post-Mao reform era's impact on social and economic disparities as between the coastal areas and the west, Chongqing remains one of the PRC's strongest city economies. Its industrial output value ranked 11th among the 35 biggest city economies in China in 2000, though it ranked behind the top ten most industrialized coastal cities, all of which had attracted much greater foreign investment during the reform era.¹³ The campaign to Open Up the West provides Chongqing with the opportunity to act as the growth pole for a number of less industrialized provincial-level units in north-west and south-west China. In addition its role in the west will create a policy difference with cities in central and east China that it may exploit to obtain central investment and even possibly to attract foreign investment.

Certainly Chongqing is the pre-eminent city in the west. Not only is it a provincial-level municipality, but it is the largest industrial concentration in the upper reaches of the Chang River and a major transport hub for south-west China. In 2000, it ranked number one among all cities in the west for all major economic indicators except total investment in fixed assets. More importantly, its economic strength was clearly far ahead of the rest. In terms of the gross value of industrial output and local revenue, the second-ranked city in the west, Chengdu, was only able to

11. Wang Xiaoxiong and Wang Qing, "Chongqing, xibu fazhan moshi de xin tansuo" ("Chongqing: an exploration into a new model for western development"), *Economic Daily*, re-published on 21 June 2002 at www.drcnet.com.cn/html_document/guoyan/Area/2002-06-21/23638drcnetechtechdfgdghdaA023d.asp.

12. Bao Xuding, "Government Work Report to the Fourth Session of the First People's Congress of Chongqing Municipality," 20 January 2000, from the official website of Chongqing Municipal Government, www.cq.gov.cn/simplechinese/chqzhengwu/zhengwu_content.asp?NewId=405&NewIds=0201, as of 14 January 2003.

13. *China Statistics Yearbook 2001*, CD version.

summon 65.74 per cent and 56.27 per cent respectively of the amounts generated in Chongqing.¹⁴

When Chongqing was part of Sichuan, its social and economic development was largely affected by the provincial leaders in Chengdu, though Chongqing as a separate planning city enjoyed economic management power equal to that of a province. It would be easy to assume that once Chongqing became separated from Sichuan its decision-makers would achieve greater autonomy in determining its future. However, it also clear that Beijing was determined to ensure that Chongqing shaped its future development in strict accordance with national strategy. To this end the national leadership of the CCP moved fairly quickly to restructure the municipal leadership. Without any warning, both the Party secretary and the mayor of Chongqing were humiliatingly removed from their posts after less than two years in office. They were replaced by a new Party secretary from Fujian province, and a new mayor from a ministry under the State Council.

Unlike the appointments they replaced, both the new Party secretary and the new mayor were not native-grown politicians.¹⁵ Their appointment may benefit Chongqing in a number of ways, as well as ensuring the central government's control and surveillance of the municipality. The Party secretary, He Guoqiang, is a Hunan native. As a graduate from a chemical engineering university in Beijing, he had been working in the chemical industry in Shandong for nearly 20 years before being appointed mayor of Jinan, capital of Shandong and a designated coastal open city. He was deputy minister of chemical industry between 1991 and 1996, and governor of Fujian thereafter. He took over the Party leadership of Chongqing in June 1999. His experience in coastal regions and his connection with the central government should be an advantage for Chongqing. And indeed, the fact that the local chemical industry was approved by the central government as one of the three pillar industries for Chongqing suggests that He's old connection may have played a role.

The new mayor, Bao Xuding, is a native of Jiangsu and was a former technocrat in the Sichuan provincial government. Bao graduated from the School of the Engineering Industry of Shenyang and started his political career in Sichuan. Thirty of his more than 40 years of work experience had been spent in Sichuan. He worked as a secretary to a former provincial Party secretary of Sichuan before being appointed director of the Provincial Bureau of Engineering Industry. In 1996, Bao became Minister of Engineering Industry. From 1998, he worked as a deputy director of the State Development and Planning Commission, the most powerful economic decision-making institution of the State Council. Obviously, his long working experience in Sichuan and his powerful background in the central government should give him some advantage both to control local government bureaucrats in Chongqing and to

14. *Ibid.*

15. Information about the two leaders can be found from the websites of *People's Daily Online* and Xinhua Net.

channel central funds to the city. In particular, for a city whose car and motorbike production and sales account for a substantial proportion of the national total, Bao was regarded as a strong man commissioned to push the restructuring of local SOEs.

Funding Chongqing's Development

For Chongqing the campaign to Open Up the West has resulted in increased central funding. In 1997 when it separated from Sichuan, its local government revenue was only a little more than 21 per cent that of Shanghai. By 2000 this had decreased to less than 20 per cent. With such a small government revenue, but a much larger land area and a greater local population, more obsolete industry and much poorer infrastructure, it is not hard to understand that Chongqing desperately needs investment if it is to not fall behind, let alone attempt to close the development gap with Shanghai and other provincial-level municipalities.

If it is unrealistic to wait for convinced foreign investors to spend money in an inland city more than a thousand kilometres away from the coastline, it may be more realistic to seek funds from the central government. This is what Chongqing expected would happen when it became a provincial-level municipality anyway. Indeed, when Beijing restructured the Chongqing leadership, the two new leaders came with a big cheque from the central government. In his government work report of 2000, Bao Xuding disclosed that in 1999 the central government provided Chongqing with 3.68 billion *yuan* from state treasury bonds, or 40.9 per cent of Chongqing's budgetary revenue that year, to support government-sponsored projects. In 2000, central payment transfer through state treasury bonds increased to 6.5 billion *yuan*, or 61.9 per cent of the municipal budgetary revenue in that year.¹⁶

According to the municipal Party secretary, He Guoqiang, between 1999 and 2002 central government provided Chongqing with a total of 16 billion *yuan* from its state treasury Bonds.¹⁷ Bao Xuding claimed that with these central funds invested in key projects, an additional 100 billion *yuan* or more was attracted into infrastructure, construction, and ecological protection projects.¹⁸ In addition, Beijing has invested sizeable government funds in the relocation programme for the Three Gorges area. It was believed that by 2002, a total of 31.55 billion *yuan* had been

16. "Chongqing guding zichan touzi zengfu ju zhixiashi zhi shou" ("Chongqing's growth rate of investment in fixed assets puts it in the forefront of centrally administered municipalities"), *People's Daily Online*, 21 June 2002, www.unn.com.cn/GB/channel204/292/3017/3019/200206//21/189944.html. Local budgetary revenue figure is from *Chongqing Statistics Yearbook 2002*, CD version.

17. He Guoqiang, "Chongqing zhixia wu nian fazhan zui kuai" ("Chongqing's fastest development is the five years since it became a centrally administered municipality"), 23 April 2002, Xinhua News Agency, published by the Economic Research Centre of the State Council at www.drcnet.com.cn/html_document/guoyan/Area/2002-04-23/BAE3F727C6C9D4A048256BA3002F6051.asp, as of 11 February 2003. This is a membership website, registration is necessary in order to access the information.

18. Bao Xuding, "Government Work Report to the Fourth Meeting of the First People's Congress."

Table 1: Chongqing's Budgetary Balance 1996–2001

	1996	1997	1998	1999	2000	2001
Total budgetary financial revenue (billion <i>yuan</i>)	9.43	11.81	13.39	14.03	16.32	19.62
Local budgetary expenditures (billion <i>yuan</i>)	7.94	11.52	13.60	16.24	20.25	25.56
Balance (billion <i>yuan</i>)	14.85	0.29	− 0.21	− 2.21	− 3.92	− 5.94

Source:

Chongqing Statistics Yearbook 2002 (Beijing: China Statistics Press, 2002), CD version.

provided to Chongqing for the relocation programme.¹⁹ Table 1 indicates an accelerating increase to the government budgetary deficit every year since 1998. This tendency continued strongly in 2002. One government document admitted that in the first nine months of 2002, total government revenue was 11.14 billion *yuan* but expenditure was 20.52 billion *yuan*, a huge deficit of 9.38 billion *yuan*.²⁰ It is clear that without the campaign to Open Up the West and the special financial aid from central government, the municipal government alone would not be able to cope with such a huge deficit, over 30 per cent of government revenue in 2001. This might help explain why despite the growing government budgetary hole, the new Party secretary was able to claim that the five years after Chongqing became a provincial-level municipality could be described as the best period in city's history.²¹

All the same this published balance sheet may not accurately reflect the actual financial benefit Chongqing has received since the start of the campaign to Open Up the West. In a recent government work report, the municipal government announced that in the Tenth Five-year Plan period (2000–2005) Chongqing will invest a total of 700 billion *yuan* in fixed assets, or 3.46 times that of total investment in fixed assets during the Ninth Five-year Plan period.²² The average annual growth rate of local revenue in the five years of the Ninth Five-year Plan was 18.1 per cent. Even if the average annual growth rate is pushed to 20 per cent during the Tenth Five-year Plan,²³ which is unlikely, the municipal government is

19. He Guoqiang, "Chongqing's fastest development."

20. Chongqing Development and Planning Committee, "2002 nian Chongqing shi jingji xingshi fengxi he 2003 nian fazhan huanjing panduan" ("An analysis of the economic situation in Chongqing in 2002 and an assessment of its development environment in 2003"), www.developwest.gov.cn/content.asp?filename = txt/20021218012.htm.

21. He Guoqiang, "Chongqing's fastest development."

22. Wang Hongju, "Zai Chongqing shi di er jie renmin daibiao dahui di yi ci huiyi shang suo zuo de zhengfu gongzuo baogao" ("Government Work Report to the First Session of the Second People's Congress of Chongqing Municipality), 8 January 2003, full text (Chinese) is available at www.cq.gov.cn/simplechinese/chqzhengwu/zhengwu_content.asp?NewId = 746&NewIds = 0201, as of 1 February 2003.

23. In his government work report, Wang Hongju claimed that the annual growth rate of local revenue was 26.7% in 2002. This is not compatible with officially published statistics.

expected only to have a total revenue of 121.63 billion *yuan* during the period. Clearly, there will be a 578.37 billion *yuan* shortfall for Chongqing's ambitious plan, which apparently needs central funding to fill the hole.²⁴ According to an article published in the *China Industry and Commerce Times*, by July 2001, total bank deposits in Chongqing were close to 208 billion *yuan*, while bank loans reached 170 billion *yuan*, or 1:0.82, higher than the standard 1:0.75 ratio established by the Bank of China and much higher than the 1:0.5 ratio in Shanghai and other coastal regions.²⁵

Chongqing sought funds for its development by attempting to implement its own internal unbalanced growth strategy. This permitted and indeed encouraged the former Chongqing city area to develop first while at the same time trying to restrain the passion for development in other parts of the new municipality, at least for a certain length of time, in order to concentrate the limited available resources in the more developed areas. In his first government work report, Mayor Bao divided new Chongqing into three economic development zones, each with a different development strategy. In his second government work report, Bao presented a detailed plan for these three economic zones. The first would be the Advanced Metropolitan Economic Zone in the old Chongqing area which would function as the economic, trade and financial centre for the new municipality and would hasten development in the areas of scientific and technologic research, education and cultural life. The second was to be the West Chongqing Economic Corridor Zone which would link Chongqing with a number of economically advanced cities in Sichuan along the Chengdu–Chongqing railway. The third was the Three Gorges Ecological Economic Zone, where Chongqing would use central investment to build up a new environmentally friendly economy within the Three Gorges Reservoir area.²⁶ Of these three zones, the municipal government would pay particular attention to the building of the New North District within Chongqing's CBD, within which five industrial parks were to be built in the next ten years, including an automobile industrial park, an environmental protection industrial park, an export processing park, an electronic industry park, and a software industry park. According to the director of the new district, the total cost for building Chongqing's own Shenzhen or Pudong equivalent in a SOE-concentrated area would be about 100 billion *yuan*.²⁷ With the additional costs for the

24. Revenue calculation is based on data from *Chongqing Statistics Yearbook 2002*, CD version.

25. Qi Tenglong, "Rushi yu zhongxiao qiye de mingyun" ("WTO and the fate of small and middle-sized enterprises"), originally published in the *China Industry and Commerce Times*, re-published by the municipal government of Chongqing at its website www.drcnet.com.cn/html_document/guoyan/Area/2001-09-14/EDD826ED751F13CD48256AC7000FFEB6.asp, as of 14 September 2001.

26. Bao Xuding, "Government Work Report to the Fourth Session of the First People's Congress."

27. Wang Xiaodong, "Yiqianyi juzi dazhao Chongqing Pudong" ("100 billion *yuan* is to be invested to build Chongqing's Pudong"), www.drcnet.com.cn/html_document/guoyan/Area/2001-04-29/DFCD88D6021826FC48256A3C00064F51.asp.

other two economic zones, Chongqing will have to invest a total of more than 294 billion *yuan* during the Tenth Five-year Plan period.²⁸ In 2002 estimated investment needed to be about 5 billion *yuan*, though the municipal government was able to invest only 58 million *yuan*.

Whether Chongqing is able to persuade central government to fund this ambitious plan is an interesting question for the future. Perhaps more interesting, though, is the way Chongqing sought funds for its development zones. The new mayor claimed at a local conference that he hoped – and he probably was able to do so through the operation of his personal network in Beijing – that the central government would be able to provide at least about 1 billion *yuan*, through payment transfers from state treasury bonds (300 million *yuan*), and by permitting Chongqing to issue more industrial bonds (500 million *yuan*) and borrowing more in bank loans (300 million *yuan*). He also hoped that functional departments of the central government would provide a certain amount (20 million *yuan* had already been paid by the Ministry of Foreign Trade and Economics in 2001). In addition, Chongqing could use the land in its new districts to obtain another 2 billion *yuan* through mortgages from Chinese banks. In his speech the new mayor nowhere mentioned any policy to encourage private investment in these government-controlled projects.²⁹

Another similarly ambitious plan is a project that will upgrade Chongqing's traffic network and ensure anywhere within the CBD (or the former Chongqing city area) can be reached within half an hour, and that anywhere within the new Chongqing municipality can be reached within eight hours. This plan includes the construction of dozens of bridges across the Chang and Jialing Rivers in the CBD area, several expressways and city rings within the old Chongqing city area, and three railways linking the CBD with the reservoir areas, one international airport and one domestic airport. It is estimated that by the time the project is completed in the next Five-year Plan period, about 70 billion *yuan* will have to be invested.³⁰

Restructuring the SOEs

Despite its pioneering role in urban industrial reform during the 1980s, Chongqing, like many old industrial bases in north-east and west China, has been struggling with its Maoist political, social and economic burden

28. Zhang Tao, "Chongqing 20 nian jiancheng changjiang shangyou jingji zhongxin" ("Chongqing will be built into an economic centre on the upper reaches of the Chang River"), New China News Agency Network, 6 March 2002, www.xinhua023.com/data/3/2002-3-6/2002361449018606.html.

29. Bao Xuding, "Zai yanjiu beibu xinqu jianshe zhuanli huiyi shang de jianghua" ("Speech at the special meeting held for the study of the construction of the New Northern District"), 8 May 2002, *Government Gazette*, No. 11 (2002), www.cq.gov.cn/simplechinese/chqzhengwu/zhengfugongbao_content.asp?NewId=235&NewsId=0202031102.

30. Bao Xuding, "Government Work Report to the Fourth Session of the First People's Congress"; Wang Hongju "Government Work Report to the First Session of the Second People's Congress."

– a large number of SOEs.³¹ With the new leadership in place, the municipal government started a number of radical reforms aimed at restructuring old industries and establishing new ones that will be sustainable under the new economic order.

By 2002, with strong central funding, Chongqing had moved over 560,000 people from its poorest rural areas in the east of the municipality, mainly in the Three Gorges area. Of these over 100,000 were moved to coastal regions of China, though not without some strong resistance.³² It is planned that in the five years from 2003, another 478,000 people will be relocated from the reservoir area.³³ The relocation programme also includes moving a dozen cities and several dozen townships from the Three Gorge Reservoir area to higher places.

This is not just a programme of relocating people and rebuilding cities. With central funding, Chongqing has been able to use this opportunity to upgrade out-dated infrastructure, restructure local industry and urbanize rural areas in its eastern part. It is reported that by 2003, of 1,397 SOEs in the reservoir area, over 1,000 had been shut down, and only 389 of them survived. Meanwhile, encouraged by former Premier Li Peng personally, a number of well-known Chinese enterprises, like the famous children's food company Wahaha, have set up their businesses in the Three Gorges area. Relocating poverty-stricken people from overpopulated poor areas and rebuilding local industries has substantially changed the economic structure and local industry in the poorest parts of Chongqing. The impact can be seen in the changed proportion of primary economic activity in the local economic structure which was reduced from 24.2 per cent in 1996 to 16.0 per cent in 2002. In his 2003 government work report the mayor announced that by 2002 all 21 previously designated poverty-stricken counties, with 3.2 million people, had been relieved.

In the urban areas, immediately after his appointment, the new mayor launched a radical restructuring programme for all SOEs: those which made losses would be shut down, sold, merged, privatized or have their workforce reduced. The SOEs with potential to develop but struggling with heavy debts would be allowed to convert their debts into shares. Profitable SOEs would receive government funds for further development.³⁴ It is reported that at the first SOE ownership trade fair held in November 2002, the municipal government listed a large number of state

31. "How was Chongqing's image as a new city made." SOEs in north-east China are famous for their outdated technology, exceedingly large numbers of employees and heavy bank debts; while in west China, the SOEs are known for poor equipment and facilities, unskilful employees and ignorance of the latest information. These are known as the "north-east phenomenon" and the "western phenomenon" in Chinese industry.

32. Local government officials said during interviews that although migrants were reasonably paid many of them were not willing to leave their long established native places. Sometimes armed police were used to force people to leave their villages.

33. Information in this paragraph is from Wang Hongju, "Government Work Report to the First Session of the Second People's Congress."

34. Bao Xuding, "Government Work Report to the Fourth Session of the First People's Congress."

assets, worth a total of 14 billion *yuan*, to be sold.³⁵ On balance, these policies seem to have been rather effective. Within one year, Chongqing registered a positive growth in its total gross value of industrial output for the first time after four consecutive years of serious loss. The large and medium-sized SOEs produced a record net profit of 600 million *yuan* by the end of 2000. The total industry of Chongqing had a net profit of 1.4 billion *yuan*.³⁶ By 2002 the largest industrial SOEs registered a 3.6 billion *yuan* profit.³⁷

While the government was celebrating its success in industrial reform, Chongqing was also experiencing a continuous reduction in the number of employed workers and a continuous rise in the number of registered urban unemployed. According to the *China Daily* the unemployment rate in urban areas nationally was 3.6 per cent in 2002.³⁸ In Chongqing the registered unemployment rate was 3.9 per cent in 2001. By September 2002, the municipal government predicted that the yearly unemployment rate could be around 4.5 per cent.³⁹ This figure did not include a much larger number of “laid-off” workers as they were still considered part of the workforce. At the first session of the second municipal people’s congress, the government admitted that there were 350,000 laid-off workers and over 700,000 urban people living as low-income earners.⁴⁰ Between 2000 and 2001, although the total number of urban enterprises remained almost the same (2,040 and 2,054) the number of SOEs was severely reduced from 931 to 726 (a 22 per cent reduction).⁴¹ Even for those SOEs that survived, many have dramatically reduced the size of their workforce. Table 2 suggests that although total urban employment steadily increased in the six years from 1996, the size of the workforce employed by SOEs continued to decline. The sharp reduction in the number of SOEs resulted in an increase in urban registered unemployment (35.2 per cent).

The programme of restructuring SOEs was carried out under considerable political pressure from the central government. The then Premier Zhu Rongji vowed at the National People’s Congress that he would turn the SOEs from profit-losing to profit-earning in three years after 1998. It is believed that before Bao came to Chongqing in 1999, Zhu talked to him and set up a deadline for completing the restructuring of local SOEs

35. “Chongqing baiyi guoyou zichan daijia” (“10 billion *yuan* state assets in Chongqing are to be sold”), *Beijing Youth Daily*, 27 November 2002, published at www.drcnet.com.cn/html_document/guoyan/Area/2002-11-27/143916drcnetchentechedfgdghdaA023.asp

36. Bao Xuding, “Government Work Report to the Fifth Session of the First People’s Congress of Chongqing,” 10 January 2001, www.cq.gov.cn/simplechinese/chqzhengwu/zhengwu_content.asp?NewId=406&NewIds=0201.

37. Wang Hongju, “Government Work Report to the First Session of the Second People’s Congress.”

38. Reported by BBC Online (Chinese programme) http://news.bbc.co.uk/hi/chinese/news/newsid_1805000/18059761.stm.

39. Chongqing Development and Planning Committee, “An analysis of the economic situation in Chongqing in 2002 and an assessment of its development environment in 2003.”

40. Wang Hongju, “Government Work Report to the First Session of the Second People’s Congress.”

41. *Chongqing Statistics Yearbook 2002*, CD version.

Table 2: Chongqing's Urban Employment and Unemployment, 1996–2001 (10,000 people)

	1996	1997	1998	1999	2000	2001
Total employment	24.99	442.30	456.90	473.30	496.20	525.00
State-owned	98.16	189.07	175.52	161.15	149.28	136.63
Collective-owned	43.10	152.58	155.32	163.00	171.51	162.11
Private	8.70	23.71	27.28	35.02	41.50	49.00
Individual	2.60	61.88	75.02	85.24	105.85	133.34
Others	2.43	15.06	23.76	28.89	28.06	43.92
Registered unemployment	0.95	10.85	10.10	10.08	10.15	13.72

Source:

Chongqing Statistics Yearbook 2002, CD version.

and stopping profit-loss by 2000. Bao came to Chongqing with some special policies granted by the State Council.⁴² He forced some profit-earning SOEs to merge with profit-losing ones to form profit-earning corporations. Through his connections in the central government, he lobbied relevant ministries of the State Council to permit some SOEs in Chongqing to go into bankruptcy so that their debts could be eliminated and municipal government would receive central funds to pay laid-off workers.⁴³

To some extent it is government decision, and not exactly market forces, that has led to many enterprise closures. Bao admitted at a meeting held by the SOEs' reform and development leadership group (*Guoyou qiye gaige fazhan lingdao xiaozu*) that Chongqing's industrial reform was just at "an early stage" and "not reliable" because "the economic structure of Chongqing is still not rational, the innovative power of the enterprises is not strong and the operational mechanism [of these enterprises] is not flexible."⁴⁴ Furthermore, although Chongqing has had positive growth in its gross value of industrial output there are still a considerable number of profit-losing SOEs. It is reported that 30 per cent of Chongqing's SOEs still made a loss in 2002.⁴⁵ By 2001 the total deficit of these profit-losing SOEs was over 2 billion *yuan*, or about 14.1 per cent of the total gross value of industrial output created by the SOEs

42. For example, the State Council approved Chongqing as the only city able to issue local industrial bonds, valued at 1.5 billion *yuan*, to be used for local industrial restructuring. Chongqing Development and Planning Committee, "An analysis of the economic situation in Chongqing in 2002 and an assessment of its development environment in 2003."

43. Bao Xuding, "Government Work Report to the Fifth Session of the First People's Congress of Chongqing."

44. Bao Xuding, "A speech at the 14th (enlarged) meeting of the leading group for the SOEs reform and development in Chongqing," *Government Gazette of Chongqing*, No. 18 (2002, available at www.cq.gov.cn/simplechinese/chqzhengwu/zhengfugongbao_content.asp?NewsId=612&NewsId=0202031904).

45. Chongqing Development and Planning Committee, "An analysis of the economic situation in Chongqing in 2002 and an assessment of its development environment in 2003."

in that year.⁴⁶ The municipal government admitted that in the first nine months of 2002, a total of 4.41 billion *yuan* was paid for social security. Some 1.52 billion *yuan* of this fund, or 34.5 per cent of the total, was from special subsidies provided by the central government. In addition, 437 million *yuan* was paid to laid-off workers.⁴⁷ Without the financial support of the central government the industrial restructuring programme is clearly less viable and may even result in serious social instability.

The centrality of the party-state to the economic development of Chongqing is reinforced by the relative non-development of the non-state sectors of the economy. There has been almost no growth in the private sector. Although the municipal Tenth Five-year Plan stipulates that by 2005 the non-government economy should exceed the state-owned economy by 50 per cent, and although the municipal government has issued a number of policies designed to encourage the private economy, no concrete measures seem to have been formulated to achieve these ends.⁴⁸ On the contrary, although non-government investment in fixed assets increased by 12.1 per cent from 1998 to 2000, the proportion of the non-government economy in total municipal GDP decreased by 41.3 per cent during the same period. These figures would seem to indicate the sustained importance of SOEs in the municipal economy. Certainly, for their part, private entrepreneurs frequently complain about the constant government monopoly of investment and activity. They are particularly critical of their exclusion from areas where foreign investment is permitted, including finance, insurance, the petroleum industry and car manufacturing.⁴⁹ These complaints led a deputy mayor to promise that the municipal government would “gradually” relax the conditions for non-government economic involvement in enterprises, and that it would in the wake of China’s accession to WTO extend national policy to all private entrepreneurs in Chongqing.⁵⁰

46. “Kan Chongqing zenyang tuijin gongye jigou tiaozheng” (“See how Chongqing pushes industrial restructuring”) *People’s Daily Online*, 24 December 2001, www.people.com.cn/GB/jinji/31/179/20011224/633454.html.

47. Chongqing Development and Planning Committee, “An analysis of the economic situation in Chongqing in 2002 and an assessment of its development environment in 2003.”

48. “Chongqing: quanli yifu shixian fei gongyou jingji fazhan mubiao” (“Chongqing: go all out to realize the target of non-government economy development”), 3 April, 2001, China Economic Network, www.drcnet.com.cn/html_document/guoyan/Area/2001-04-03/D500817481FA7A5E48256A230011D7E8.asp.

49. Yao Tianqiang and Bai Yong, “Chongqing huizhen fei gongyouzhi fazhan huanjing” (“Chongqing diagnoses the environment for non-government economic development”), *The China Industry and Commerce Times*, 12 September 2002, re-published by China Economic Network, www.drcnet.com.cn/html_document/guoyan/Area/2002-09-12/125704drcnetchentechdfgdghdaA023.asp. Also, Li Mingqing, “Guanyu Chongqing tizhi chuanguxin de ji ge wenti” (“On some problems about institutional innovation in Chongqing”), *Chongqing Economics*, No. 4 (2001), re-published at www.drcnet.com.cn/html_document/guoyan/Area/2001-05-23/2BBA4C5B3431930C48256A540026021E.asp, as of 11 February 2003.

50. Xu Zhongmin, “Zai quanshi siying geti jingji huibao hui shang de jianghua” (“Speech at the Report Meeting of Private Entrepreneurs in Chongqing”), 31 January, 2002, www.cq.gov.cn/simplechinese/chqzhengwu/zhengfugongbao_content.asp?NewsId=350&NewsId=0202031702.

Conclusion: Five Years and After

In his 2002 government work report to the Chongqing People's Congress the new mayor, Wang Hongju, argued that in the previous five years or so Chongqing had been very successful. Compared with 1996, GDP had increased by 68.9 per cent; the added value of industry had increased by 80.5 per cent; the total value of consumption had risen by 71 per cent; local government revenue had increased 1.7 times; and total investment in fixed assets during 1996–2002 was 3.4 times greater than during the six years before the establishment of Chongqing as a provincial-level municipality. By 2002 share-holding enterprises contributed 62 per cent of the total added value of industry, and the non state-owned industry accounted for 42.3 per cent of GDP.⁵¹ In the CBD, city squares, shopping malls, high residential buildings and a tree-lined expressway along the rivers suggest the development of a people-friendly and environmental-friendly city. Wang attributed these achievements to three historical opportunities: the building of the Three Gorges Dam, the establishment of Chongqing as a provincial-level municipality; and the launch of the campaign to Open Up the West.

The Three Gorges Project has certainly been important for the development of the eastern part of Chongqing, without which it would undoubtedly remain as one of the poorest parts of China, with a negative impact on Chongqing's overall development. It is a project of the central government and as such has always been well funded. The deputy mayor, Gan Yuping, who is responsible for the relocation programme, was the deputy governor of Sichuan with the same responsibilities when Chongqing was part of Sichuan. He is still directly responsible to central government rather than to Chongqing. All relocation funds are tightly controlled by the central government and all fees paid to the migrants are issued directly from the centre. The Three Gorges Project is perhaps best understood as a central project located within Chongqing, like the Third Front Project during the 1960s and 1970s. The leaders of Chongqing probably like to see this kind of arrangement as long as adequate funds are allocated to rebuilding the region and to poverty relief.

Equally, Chongqing's elevation to a provincial-level municipality has provided certain advantages. Municipalities clearly are better placed to obtain central funds, and in Chongqing's case additional preference can be expected because of the emphasis on the west as a focus for development. While the competition for limited central funds amongst provincial-level units in the west can be expected to be fierce, Beijing would seem to have some preference for favouring city economies, like Chongqing, over provincial or sub-provincial economies, such as Sichuan or Chengdu.

The launch of the campaign to Open Up the West has also been strategically important for Chongqing's recent development. Chongqing,

51. Wang Hongju, "Government Work Report to the First Session of the Second People's Congress."

along with Shaanxi, Sichuan and Gansu, is particularly favoured by the new policy direction. While it lacks a substantial non Han population and certainly has no major minority nationality population, it already has a relatively strong agricultural and industrial base.

At the same time, its record of economic growth under both the central government's proactive fiscal policy (1997–2001) and the campaign to Open Up the West (since 2000) has not been wildly successful. All growth rates are considerably lower than those for other provincial-level municipalities and even for some other provincial-level units in the west. The gross value of industrial production even fell overall (by 16.5 per cent) despite favourable industrial policies granted by central government. A key question then is whether central government's proactive fiscal policy has achieved all it can in Chongqing, and even whether it is economically cost-efficient to invest central funds in a city like Chongqing, or west China in general. (Throughout the provincial-level units of the west the growth rates of both GDP and retail sales value are much lower than the growth rate of investment in fixed assets.) However, it is equally clear that increased government investment in west China and indeed the campaign to Open Up the West may be more concerned with political and social implications than their economic impact. In the case of Chongqing, for as long as private and foreign investment is unlikely to grow enough to ensure locally sustained economic development, the provision of significant central funds fills a gap, avoiding other more serious social and environmental problems, not the least of which may be a considerable amount of urban unemployment and its attendant problems.

Industrial restructuring in Chongqing has so far not changed the nature of the local economy. Bao Xuding's reform has successfully reduced the total number of profit-losing SOEs. However, a considerable number of local SOEs continue to make a loss, and perhaps more importantly, non-government economic agencies have not filled the gap left by the retreat of the government, which remains the biggest investor and shareholder in SOEs. Open Up the West is a government campaign, run by government and for its benefit. Private entrepreneurs, especially small and medium-sized domestic investors, will find it hard to participate in local economic reconstruction.⁵² On the other hand, many projects in Chongqing, like in many other places in the west, are non-profitable or non cost-effective at least in the short term, involving activities such as the training of laid-off workers, and the upgrading of infrastructure. It would be very difficult to persuade profit-seeking domestic and foreign investors to put their money here under those circumstances.

Government investment, as well as more general support, is clearly necessary for the less developed and disadvantaged regions where profit-

52. Li Mingqing, "Some problems concerning Chongqing's institutional innovation."

seeking capital may not be available. The key issue is whether Chongqing will be able to develop an economy that can weather the market even if central government reduces, or at the worst totally stops, its funding. With the continuation of the current proactive fiscal policy by central government, Chongqing should be able to survive at least until the market economy comes to dominate the interior to the extent it has the coastal regions. The consequences may be more serious if current fiscal support is removed, a likely scenario given the considerable extent of criticism from abroad and within China. Prosperity depends on both Chongqing's ability to develop a market-oriented economy under the umbrella of central support and funding, and the maintenance of significant financial support from central government. There are certainly a large number of uncertainties in that equation. All the same it is certain that Chongqing's current pattern of economic development cannot be used as model for the rest of China's west, or at least not without a very large chequebook in Beijing or substantial private investment, foreign or domestic, which is frankly most unlikely on current evidence.