

**RISING POWERS WORKING PAPER**  
Network Grant, ESRC Rising Powers Programme, 2010-2011

**From Chongqing to Shenzhen and  
Back: The Evolving "China Model"**

By Jiang Jun

# From Chongqing to Shenzhen and Back: The Evolving "China Model"

## Keywords

China Model, Chongqing Model, Shenzhen Model, Re-structuring, Land Institution, Spatial Structure, New Socialism

## China Model

The global-heated debate of China Model started from the beginning of this century, when the failure of neo-liberalism was first marked by 9.11, and later by the global economic crisis detonated from the liberal world. As a contrast, China's lasting economic growth seems to prove the sustainability of "Beijing Consensus" compared with "Washington Consensus". However, in terms of a definition of China Model, there isn't a real "consensus" so far. On the one hand, "China Model" is a cluster of inter-related (political, economical, social and historical) factors, most of which are not China's inventions - it's only in the specific composition of the factors that a model could be concluded; on the other hand, the composition itself is not only evolving along with time, but also diversified among different places, not to mention the dispute inside the governing Communist Party of China. In this perspective, it could be too simplified to take China Model as an existing political-economic model only invented recently, and too pointless to see the universal experiences from it.

To elaborate what has happened in the previous exploration of modernization of China, we need to compare the differences of China Model in different contexts; to expect what is going to happen in the future, we need to understand what is the coherence in-between all the apparent different compositions, and what's more important, the pattern of driving forces behind the changes. The study of China Model can be therefore described as a process of examining differences while seeking the common background behind - not only limited to the "Socialist Market Economy" era in the recent 30 years of China, but to a broader historical extent where we can find the recent changes are actually the continuation, instead of the disconnection, of the previous efforts of modernization, and how these sustaining efforts might function in the near future.

## Chongqing & Shenzhen

China Model is composed of many local paradigms: Wenzhou Model<sup>2</sup>, Sunan Model<sup>3</sup>, Dongguan Model<sup>4</sup>, etc.. The economic diversities are mostly the result of competitions in-between local governments, which could be an important impetus behind China's fast economic development. Although the competitive pattern of local governments was partly generated by the de-centralization of authority in 1994 when the tax distribution system was launched, the "visible hand" of central government has played a significant role in the allocation of resources together with the "invisible hand" of market. "Special Zone" is such an offspring of the two "hands" – when market was introduced into the socialist economic system to maximize the

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<sup>1</sup> The socialist market economy is the official term used to describe China's economic form after its reform and opening up. First used by Deng Xiaoping when he did the survey to the south China in 1992.

<sup>2</sup> Wenzhou Model refers to the non-agriculture development in the form of family industry and specialized market, which generates a pattern of cheap and small commodities with nation-wide big market. Invented in Wenzhou in Zhejiang Province in China.

<sup>3</sup> Sunan Model refers to the development of non-agriculture industries through the development of township enterprises with strong intervention of local government. First addressed by the astropologist Fei Xiaotong in early 1980s. Sunan means the south of Jiangsu Province.

<sup>4</sup> Dongguan Model refers to the rural industrialization driven by FDI and oriented to foreign demands. Dongguan is located in Guangdong Province in South China.

incentive mechanism, the patriarchal role of government, including the financial and institutional support from central government and the enterprise-like management of local government, was reserved to minimize the negative externalities of the market. The development of “Socialist Market Economy” is also a positioning and re-positioning process of government’s role in the market economy.

Chongqing and Shenzhen is a pair of Special Zones that could best present the transformations from Mao's industrialization to Deng's marketization, and further to China's strategic re-structuring written into the country's 12th 5-Year Planning<sup>5</sup>, and therefore the changing roles of government in economy in different eras of China. On the one hand Chongqing and Shenzhen present a serial tensions between traditional and modern (history), hinterland and coastal line (geography), introverted and extroverted (economic orientation), city-in-village and village-in-city (urban pattern), new-socialism and new-liberalism (governmental role), etc., on the other hand, they also shared a lot in common: both are one of the center cities in the Cheng-Yu Region<sup>6</sup> and Pearl River Delta<sup>7</sup>, both play a critical role in the complementary relationship between the hinterland and coastal line, both are "special zones" in different times of modern China, both economies are based on the government's experiments in the land institution, and both contribute inspiring experiences to the China Model.

### **Re-structuring**

As one of the most important governmental engagements in the economy of China, 5-Year Plan has been reserved and further revised into 5-Year Planning<sup>8</sup>, which highlighted the critical transformation from mandatory plan to strategic planning. Along with this change of government’s role, “re-structuring” became the keyword of the 12th 5-Year planning (2011-2015) launched in early 2011. The previous equally important re-structuring was made in late 1970s, when the tension between Chongqing and Shenzhen was re-structured into another pattern that almost defined the development model in the following 30 years. And now, “re-structuring” is supposed to be a re-balance of this sided game between the east and west of China, as well as a macro-scale crisis management in the on-going global disorder.

Chongqing & Shenzhen is the two complementary sides of a coin of China’s national strategy. By studying WHAT the relationship is between the two cities/regions in different periods, we can acknowledge the historical changes of the structure of China Model; by studying HOW this changes were made, we might understand the potential changes China is able to make in the future.

### **Comparative Advantages of Geographic Locations**

Chongqing and Shenzhen are located at two complementary positions of China: Chongqing is located in the hinterland of southwestern China<sup>9</sup>, while Shenzhen is located at the coastline in the southern China. Both cities are one of the center cities of the region: Chongqing for Cheng-Yu Region<sup>10</sup>, and Shenzhen for PRD Region<sup>11</sup>, and both have its regional competitor city: Chongqing vs. Chengdu, and Shenzhen vs. Guangzhou.

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<sup>5</sup> The 12<sup>th</sup> 5-Year Planning (2011-2015) was launched in March, 2011. The full name is the 12<sup>th</sup> 5-Year Planning Outline of the People’s Republic of China for the National Economic and Social Development.

<sup>6</sup> Cheng-Yu Region is centered with Chengdu and Chongqing. The full name is “National Reform and Experimental Zone for Urban-Rural Integration with Comprehensive Facilities”

<sup>7</sup> Pearl River Delta is located in the South China, where Pearl River meets the sea. It’s the first opened regions in 1980s, famous for a series of big cities including Guangzhou and Shenzhen.

<sup>8</sup> 11<sup>th</sup> 5-year planning (2006-2010) was launched in 2006.

<sup>9</sup> Chongqing is located at the eastern gate of Chengdu Plain in the Sichuan Basin.

<sup>10</sup> See 6.

<sup>11</sup> See 7.

Both were generated as a gateway city for its region: Chongqing is the gateway from Central Plain<sup>12</sup> into Sichuan Basin; while Shenzhen is the gateway from Hong Kong (and the world at large) to the Mainland China<sup>13</sup>. Both cities connect (directly and indirectly) to a metropolitan city: Chongqing with Shanghai – the economic center in Mainland China; and Shenzhen with Hong Kong – the economic center in the Greater China<sup>14</sup>.

The distance between the two cities actually indicates the strategic depth of China's geography, which is not only able to allocate the coastal plains as space for development through a period of export-oriented economy, but also utilize the southwestern heartland for its well insulated safety during times of inward-looking protectionism.

Chongqing is located in the hinterland of Chengdu Plain surrounded by natural barriers of Sichuan Basin, which is rich in fertile arable land and natural resources. Because of this, Chongqing has been a “wartime special zone” in the recent 100 years: it was first selected by Chiang Kai-shek as the capital city during the WWII, and then by Mao as the “industrial capital city” of the “3<sup>rd</sup> Frontier<sup>15</sup>” during the cold war. In 1997, Chongqing was selected as the 4<sup>th</sup> municipality city of China<sup>16</sup>, which makes it into one of the biggest cities in the world with a permanent population of 28.85 millions (2010)<sup>17</sup>. A direct reason is because of the need for a direct administration of Three Gorges Reserve<sup>18</sup>, which was constructed as a mega-infrastructure for the self-sufficiency of China's energy supply. In 2007, Chongqing was selected (with Chengdu) as the special zone for the test of urban-rural integration<sup>19</sup>, a national strategy to incubate the domestic demand when the overseas demand is shrunk in the global crisis. The history of the “re-positioning” of Chongqing is a history of China's efforts in seeking self-dependence whenever it meets with external crisis.

Shenzhen is located at the borderline of Mainland China, with Hong Kong as its neighborhood. Founded in 1980, it's famous for its fast urbanization within such a short history – from a tiny coastal county to a metropolitan city with a permanent population of 10.36 million (2010)<sup>20</sup> within 30 years – and the competitiveness behind this speed – the most competitive city of mainland China according the annual blue paper of “comprehensive competitive power” launched by Chinese Academy of Social Science<sup>21</sup>. Shenzhen's success is based on its geographical adjacency to Hong Kong, whose equally fast economic growth during 1950s-1970s was also based on its position being the “secret gateway” from the capitalism world to the socialism China<sup>22</sup>. By setting up a Special Economic Zone (SEZ)<sup>23</sup> gated by two walls<sup>24</sup>, Shenzhen extended the gateway of Hong Kong into the mainland and thus shared with its geographical advantage.

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<sup>12</sup> Central Plain the cradle land for ancient China, was thought to be the center of Tian Xia (under the heaven) in Chinese philosophy. It is located at the Henan Province.

<sup>13</sup> Mainland China is an informal name for China in correspondence to Taiwan, Hong Kong and Macau.

<sup>14</sup> Greater China refers to the culture region of Chinese civilization, including Mainland China, Taiwan, Hong Kong and Macau, as well as the overseas Chinatowns.

<sup>15</sup> 3<sup>rd</sup> frontier is the military demarcation made in 1960s. It covers the hinterland territory to the south of Great Wall and to the west of Beijing-Guangzhou Railway.

<sup>16</sup> Another 3 municipalities are Beijing, Tianjin and Shanghai.

<sup>17</sup> From Chinese National Bureau of Statistics,

[http://www.stats.gov.cn/was40/gitjj\\_detail.jsp?searchword=%D6%D8%C7%EC%A3%AC%C8%CB%BF%DA&presearchword=%C8%CB%BF%DA&channelid=6697&record=1](http://www.stats.gov.cn/was40/gitjj_detail.jsp?searchword=%D6%D8%C7%EC%A3%AC%C8%CB%BF%DA&presearchword=%C8%CB%BF%DA&channelid=6697&record=1)

<sup>18</sup> Three Gorges Reserve is a widely controversial infrastructure project to utilize the waterpower of Yangtze River. The project started from 1994 and completed in 2009. There were all together 129 towns flooded and over 1 million people migrated because of the project.

<sup>19</sup> See 6.

<sup>20</sup> From Shenzhen Statistics Bureau <http://www.szstj.com/main/xxgk/tjsj/tjgb/pcgb/201105127231.shtml>

<sup>21</sup> The first one is Hong Kong; <http://baike.baidu.com/view/1585524.htm>

<sup>22</sup> When the Korean War started in 1950s, the central government of China decided to keep the status quo of Hong Kong so as to use it as a secret channel from the contained Mainland China to the world.

<sup>23</sup> There were 5 SEZs set up in 1980s, including Shenzhen, Zhuhai, Xiamen, Shantou and Hainan.

<sup>24</sup> The First Frontier is the border between Hong Kong and Shenzhen, constructed in 1950s, and the Second Frontier is the border between Shenzhen and Dongguan, constructed in 1980s when Shenzhen Special Economic Zone was established.

## Shenzhen as a Special Zone

Special Zone has always been understood as a zone where special policies were given, while Shenzhen worked more as a zone where special experiences could be taken. For 30 years, Shenzhen had not only introduced huge amount of Hong Kong investment, which has been the biggest source of FDI in China<sup>25</sup>, but also the experiences in market economy, including the separation of “the right to use” from “the right to possess” (from Hong Kong’s Land Leasing System (土地批租制) to Shenzhen’s Land Transfer System (土地出让制)), the separation of the management of assets from the ownership of assets (from Hong Kong’s “Window Company (窗口公司)”<sup>26</sup> to Shenzhen’s “Red-Capped” Enterprise (红顶企业)<sup>27</sup>), the incubation of capitalists and entrepreneurs, the establishment of model enterprise system, the development of financial system (from HKEx to SZEx), the supervision and rectification of market order... Shenzhen Model is composed of a series of “Shenzhen experiences” in systematically introducing market mechanism into the socialist body, which was authorized by Deng Xiaoping and promoted to Pudong Special Zone in Shanghai in 1992. Huang Qifan, who was the deputy-director of the Administrative Committee there, introduced the further developed experiences to Chongqing when he was transferred there as the mayor of the municipality. Since Hong Kong used to be the “colonial special zone” for British experiment on Liberal Socialism<sup>28</sup>, there is a historical chain reaction of institutional experiments from Britain to Hong Kong in 1970s, from Hong Kong to Shenzhen in 1980s, from Shenzhen to Shanghai in 1990s and from Shanghai to Chongqing in 2000s. The gradual process of reform is one of the key features of China Model, which differed a lot from the Shock Therapy model in the transformation of Russia and Eastern Europe.

## Parallel Land Reforms

The similarity in land ownership between Hong Kong and Mainland China is the most important factor behind Shenzhen’s learning from Hong Kong. In Hong Kong, the land is owned by the government, who can therefore use the market profit from land leasing to benefit the public – including keeping a low tax rate for the private business, providing public housing and free public health care. In Mainland China, this public ownership is dichotomized into the state ownership of urban land and collective ownership of rural land. It’s actually a continuation of the tradition in pre-modern China when the centralization of state administration was paralleled with the de-centralization of social self-organization<sup>29</sup>, which was supposed to guarantee the social stability and food supply. The land reform in 1980s was therefore composed of two parallel parts – first in rural land with Xiaogang village<sup>30</sup> as the promoted model, then to the urban land with Shenzhen as the promoted model. In both cases “the right to use” was separated from “the right to possess”, which first generated a prosperous rural market before the mid 1980s, and then a prosperous urban market afterwards. In the 1990s, when the urban market started to expand, the parallel land reforms evolved into a complementary structure: massive amount of surplus labor released from the rural China became the

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<sup>25</sup> According to the report of Chinese Ministry of Commerce, 43.4% of the FDI invested into China comes from Hong Kong.

<http://www.mofcom.gov.cn/aarticle/tongjiziliao/fuwzn/diaoca/201101/20110107368033.html>

<sup>26</sup> “Window Company” refers to the companies registered in Hong Kong or Macau by the mainland governments to administrate the enterprises from the relevant regions or business.

<sup>27</sup> Red Capped Enterprise originally referred to those Hong Kong-based companies under direct or indirect control of Communist Party of China. Including the enterprises such as China Merchants Bureau, and China Resources. . Since 1980s, it also referred to those companies with governmental background.

<sup>28</sup> In Cui Zhiyuan’s *Chongqing Experience*, he cited the concept of Rent Socialization from Henry George and James Meade. Sun Yat-sen was also inspired by Henry Gorge in addressing his “Three People’s Principles”.

<sup>29</sup> “The imperial power stops at county level” was the principle for this dichotomy.

<sup>30</sup> Xiaogang village was set up as a paradigm for rural land reform in 1980s, when several peasants secretly signed a land contract with their blood for “a full responsibility of production”.

migrant workers of urban China, where the cheap labor (without labor union) was meeting with cheap land, cheap resources (with little environmental consideration) and rich FDI – the typical composition of “Made-in-China” and the export-oriented economy in China Model.

### **Troika of China’s Economy**

“Land Finance” was the most important experience Shenzhen learned from Hong Kong, in which land reserve was reinforced with urban planning to maximize the increment. When tax distribution system – the financial de-centralization – was launched in 1994, it became the main income of local government, who could dominated the urban development through top-down urban planning and efficient infrastructure investment. In 1998, housing – another public asset from the planned economy – was commercialized. Massive amount of “unit houses” were transferred into commodities, which generated a real estate market of considerable size. It has triggered not only the demand of living, but also the demand of speculating. Since 2009, China has surpassed the US to be the top real estate investment market in world<sup>31</sup>, in which Shenzhen became one of the most expensive Chinese cities in its housing price. The market is supposed to be growing for another 10 to 20 years, as there will be 4 more millions of peasants to be urbanized by 2030<sup>32</sup>.

Based on Keynesian macro-economic analysis model, the description of “troika” is widely used to structure China’s economic growth: investment, import & export trade, consumption. However, the troika is also polarized in each of the driving force: investment dominated by infrastructure, trade dominated by export, consumption dominated in real estate market – each of them is more or less a consequence of land finance. Shenzhen was the first to be benefited from this model, and also the first where the model is going to expire: infrastructure construction is saturated because of the shortage of land, export-oriented economy is risky in the global crisis because of its low value-added product, labor-intensive industries and extensive development, real estate market is bubbled as the housing price has been over-speculated, which has transferred too much capital that is supposed to be invested into the real economy. The inflection point of Shenzhen is actually the prelude of the inflection point of China. Shenzhen needs to reinvent itself in a more sustainable model to provide experience to the rest of the country as a special zone.

### **Social Externalities**

In Mao’s time, rural economy was deprived as the main source of “socialism primitive accumulation” for self-dependent industrialization. After a short prosperity in the countryside during the first half of 1980s, the priority was again moved to the cities. Many of the migrant workers in Shenzhen were from rural Chongqing and Sichuan at large<sup>33</sup>. Driven by the export-oriented industries, the industrialization of Shenzhen soon sprawled to the PRD, and then to the entire southeastern coastline of China. The industrial belt further evolved into urban clusters since the end of 1990s, where the land demanded by the urbanization has extend from the state-owned urban land to the collective-owned rural land. The movement has led to a “double non-agriculturalization” in both the coastline and the hinterland. In Chongqing, peasants left their villages to work in the coastal cities, while in Shenzhen, when the arable land was transferred to industrial or urban construction land, the peasants became the rent-feeding landlords of the industrial villages or urban villages. Coastal collective land, built with factory dormitories and urban villages, could accommodate the hinterland peasants with jobs, while the hinterland collective land could accommodate those jobless peasants who chose to go home. This is why China doesn’t have the massive-scale urban slums as those in other new

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<sup>31</sup> According to the *Report of Global Real Estate Investment* by Cuzshman & Wakefield, World

<sup>32</sup> Urbanization rate of China reached up to 47.5 % by the end of 2011, and expected to be 70% in 2030.

<sup>33</sup> Chongqing was a city of Sichuan before it was upgraded to municipality in 1997.

economies such as India, Brazil and Mexico. Collective ownership of land still works as a social welfare institution.

Ironically, the earliest low-rent housing in China after 1980s was not provided by the government, but by the coastal peasants whose houses on the rural construction land became the rental housing for another group of peasants from the hinterland. Compare with the “passive leaving from the land” for Chongqing peasants, it’s more about “positive giving up the land” for Shenzhen peasants. Shenzhen peasants could accumulate enough capital for their “non-agriculturalization<sup>34</sup>” with the rents from land and housing, while Chongqing peasants didn’t have such a geographical advantage. The polarization of China’s peasant stratum is an epitome of the social externalities of China’s fast economic growth.

## Re-structuring

The global crisis has considerable impact on China’s export-oriented economy. It also rewinds the seasonal population flow between the hinterland and coastline China. The return migration<sup>35</sup> has shown the fact that the “non- agriculturalization” of hinterland peasants can’t fully rely on the coastal cities, where salaries from the low value-added industries became less and less attractive compared with what they could get in the hinterland<sup>36</sup>. The serial suicides in Foxconn<sup>37</sup>, the world’s largest “contract manufacturer” based in Shenzhen, has announced the unsustainability of the “sweatshops model” of China. For the central government, it’s becoming urgent to restructure the hinterland-coastline relationship, as well as fight inflation caused by the global “quantitative easing”; for Chongqing, it has to restructure itself to urbanize the local surplus labor and create a domestic market to digest the overcapacity from the coastline; for Shenzhen, it has to upgrade itself for high-end industries and modern services.

In most of the other economies, monetary policies and financial policies are the most frequently used tools in macro-economic control. China, due to its centralized political system, as well as its dominating proportion of public assets in its economy, has two more tools: institutional reform and spacial re-structuring. Since 1980s, institutional reform has been an efficient tool in the crisis management – 1990s’ reform for 1989’s political crisis, 1998’s housing reform for the Asian financial crisis. Each reform released a new point of economic growth, and thus buffered the shock of crisis. As the special zones such as Shenzhen and Chongqing have the priority to experiment new institutions, the expectation for the local economy is also supposed to be higher. The key is what institution reform is able to maximize the comparative advantage in the local context.

Spacial re-structuring is another tangible institutional reform, in which new regions are designated as special zones to match the long-term plan of national strategy. Master planning usually works in zoning and defining the land use within a specific administrative region, which could be conflicting when the economy goes beyond the borders. In China, the hierarchic structure of the authority make it possible for the master

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<sup>34</sup> Household registration system, or the hukou system in Chinese, worked as dual track structure in urban-rural dichotomy. The Communist Party instigated a command economy when it came to power in 1949. In 1958, the Chinese government officially promulgated the family register system to control the movement of people between urban and rural areas. Individuals were broadly categorised as a "rural" or "urban" worker. Since the 1980s, an estimated 200 million Chinese live outside their officially-registered areas, with much less access to education and government services, and in several respects occupy a social and economic status similar to illegal immigrants.. The millions of peasants who have since quit the land remain stuck at the margins of urban society, and have been blamed for the rising crime and unemployment. [http://en.wikipedia.org/wiki/Hukou\\_system](http://en.wikipedia.org/wiki/Hukou_system)

<sup>35</sup> By the end of Dec., 2008, massive amount of migrant workers went back to hometown in advance because of the global financial crisis. In Chongqing, there were 46.1% of migrant workers returned within the 7.78 million migrant workers. <http://www.guangzhoujob.com/info/10/2/11217.shtml>

<sup>36</sup> According to the statistics of labor department, the monthly salary of a normal worker is 900-1500RMB in Shenzhen, while in Chongqing, it has reached up to 1000RMB. <http://www.guangzhoujob.com/info/10/2/11217.shtml>

<sup>37</sup> The Foxconn Technology Group is a multinational business group anchored by the Hon Hai Precision Industry Co., Ltd. Foxconn is the trade name of Hon Hai and legally used for its various business entities outside of Taiwan. Foxconn is the world’s largest maker of electronic components.

planning of regional economy and industrial clusters. Central government is able to coordinate the local governments to minimizing the externalities caused by the deadlock of de-centralized authorities. 30 years after the planned economy, China's authorities have gradually found out a way to interact with the market, so as to maximize the combined effect of "planning market economy" – a third approach to modernization other than the fundamentalist communism or neo-liberal capitalism.

### **Chongqing as a Special Zone**

When Huang Qifan was transferred from Pudong to Chongqing, he was supposed to bring the Shenzhen-Shanghai experiences there. However, given the special context Chongqing has, the special zone couldn't be the same. Chongqing is huge – 82,402km<sup>2</sup> – 40 times of Shenzhen (2,020km<sup>2</sup>), 13 times of Shanghai (6,341km<sup>2</sup>), and almost twice of the Netherlands (41,864km<sup>2</sup>). However, unlike the "villages-in-city" pattern in Shenzhen, there is a "city-in-villages" pattern in Chongqing, with 648km<sup>2</sup> of constructed urban area – close to that of Shanghai (610km<sup>2</sup>), bigger than Shenzhen (396km<sup>2</sup>). Within the permanent population of 28.85 millions, over 72% are registered as rural population (2010)<sup>38</sup>. The sheer difference between Chongqing and previous special zones requires an updated model.

Chongqing's status quo as a big city surrounded by big countryside has inspired the authority to combine the two public ownerships of land – state-owned urban land and collective-owned rural land – into one. The institutional invention is called "land coupon system" – any development in the urban construction land has to be qualified with "land coupon", which is made by the voluntary peasants or collective rural economical cooperation through reclaiming their rural construction land into qualified arable land. In the previous land transfer model, what the peasants have is only the responsibilities of being expropriated passively, instead of the right of transferring positively. The co-existence of planned transfer (from collective-owned to state-owned) and market transfer (from government to developer) has caused big difficulties in standardizing the price system of land and the fair distribution of differential rent. The "land coupon system" is actually a rebalancing index in the land transfer, in which the rights of taking (the urban construction land) is balanced by the responsibility of giving (the rural arable land), no matter how remote the rural construction site is from the urban area. The wide-range exchange tremendously improved the value of remote rural land, which is supposed to stabilize the rural society and ensure the food supply.

As peasants can get more income through the exchange of land coupons, the cost of development on urban land is higher. However, the average price of housing in Chongqing ranked No.40 in China (Oct.2010). Chongqing's experience is an updated version of the Liberal Socialism experiment in Hong Kong: the government is not only managing the public land through the combination of land reserve and urban planning, but also managing a series of SOE (state owned enterprise) who are running the development of urban infrastructure, social facilities and public housing. The market profit from the management of state-owned land and state-asset, administrated by SASAC (State-owned Assets Supervision and Administration Commission), is partly invested into public rent housing, which is supposed to cover 30-40% of the urban population<sup>39</sup>. Along with public housing supply, the land reserve system is planned in a long-term scale to meet with the demand for commercial housing. In this way, the market supply is going along with the governmental supply, which established a dual-track system for housing.

Private enterprises are also benefited. When the increment from state-owned asset mostly goes to the

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<sup>38</sup> Being registered as rural household doesn't mean he/she is living in the rural areas. See 34

<sup>39</sup> Chongqing public rent housing is different from the low-rent housing or affordable housing. It is targeted at the so-called "sandwiched stratum" – those who are in the security line, but unable to buy commercial housing, which occupied 30-40% of residents in Chongqing.



government, the demand in high taxation is reduced. Compared with the 33% enterprise income tax in the other 12 provinces in western China, Chongqing reserves the low one at 15%<sup>40</sup>. The preferential investment environment has paved the way for the industrial transfer from the east to the west, and the national spacial re-structuring from the coastline to the hinterland.

### **China's Spacial Re-Structuring**

Both Shenzhen and Chongqing has shown a model of “planning market economy”. Although the roles government played in the market economy differed a lot because of their different contexts, the governmental dominated land planning and the strictly supervised land reserve, which is only possible with the public ownership of the land, is the key of their models. The same mechanism is also working in the on-going re-structuring written into the 12<sup>th</sup> 5-Year Planning (2011-2015).

Despite of the increase of production cost in the coastline cities, China is still going to keep its competitiveness as the “world factory” since labor-intensive industries can provide many more jobs than technology-intensive or capital-intensive industries. The solution is to bridge the hinterland and coastline with fast transport infrastructure, which is going to reverse the flow prevalent in the previous 30 years – the hinterland labors used to migrate seasonally to coastline enterprises and wire their income back to hinterland, now the coastline enterprises could migrate to the hinterland and transport product to coastline ports.

When the hinterland is undertaking the labor-intensive industries, the coastline is eliminating the less competitive enterprises, upgrading its industry to a more technology or capital-intensive orientation. Shenzhen used to be the suburb of Hong Kong, and then Dongguan and the rest of PRD became Shenzhen's suburb, and now Shenzhen gets its wild west in Chongqing and the hinterland China at large. Shenzhen itself is more and more incorporated into the metropolitan region with Hong Kong, in which the two cities are able to compete in different directions in the form of strategic partnership. The core competence of Shenzhen is its innovative high-tech enterprises and northern culture, while the core competence Hong Kong is its capital raising advantage as an offshore financial center, which could generate an investment system for Shenzhen's hi-tech, creative and culture industries – an updated version of “shop – factory”.

Because of the increase of production cost, the coastline is losing its competitiveness in light industry. However, the cost for heavy industry in China is still very low. The salary of heavy industry workers in the countries such as Germany, Japan and South Korea is around 7-20 times higher than that in China<sup>41</sup>, which explains the fast development in heavy industry China, especially the new heavy industrial bases constructed recently in Tangshan, Tianjin, Shanghai and Guangzhou. If the inter-provincial transport infrastructure could work to minimize the cost of production and logistics for those light industries transferred to the hinterland, a “multi-leveled, full-ranged manufacture system”<sup>42</sup> is supposed to be constructed, which will make China into a real “world factory”.

In the hinterland, Chongqing is providing a competitive environment either for working or for living. The model of “new-socialism” is expected to keep the workers working close to where they live. When they don't have to care about where to live or how much compensation they should get from land transfer, their consumption will stimulate a tremendous domestic market. In the history, the agriculture China used to be

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<sup>40</sup> Cui Zhiyuan, *Increment of State-owned Assets and Distribute Wealth among People*

<sup>41</sup> Xie Guozhong, *China's Heavy Industry has entered a Golden Time*

<sup>42</sup> One of the strategic goals set up by the 12<sup>th</sup> 5-Year Planning

a self-sufficient “globe<sup>43</sup>” under the great unity of centralized authority, now the urban China is trying to cope with the global crisis by regaining the tradition.

### **Conclusion: From Plan to Planning**

5-Year Planning, as it is called now, used to be 5-Year Plan. Invented by Soviet Union, it showed an ambition that everything could be planned logically and scientifically, until it was proven to be a failure in the collapse of the planned empire. China is one the few countries in which the tradition of plan is still reserved. However, the name was changed in 2005 when the 11<sup>th</sup> 5-Year Planning was made. The tiny change is indeed a landmark of China’s re-positioning of government’s role in market economy. The over-quantified index has been replaced by macro-adjustment and strategic deployment. Government’s direct control in all the details of economy has given way to indirect control, while market can play its fundamental role in resource deployment under the guidance to national planning. It’s also going to cover the ecological, social and culture aspects, where the market mechanism is less able to overcome the externalities in the economic development.

Chongqing used to be a planned city, where huge amount of factories were discreetly set up into a macro industrial chain for a self-sufficient industrial system. Shenzhen was a much less planned city, where a strictly supervised zone was set up for all the makeshifts in the interacting with market economy. Chongqing and Shenzhen are now both cities in planning, where policies for comprehensive development are being made in a less quantified, but more dynamic way.

China (Zhong Guo), in Chinese, means “the country in the central plain<sup>44</sup>”, which is surrounded by eight different directions. Both Taoism and Confucianism take the central plain, or being in the middle, as the spiritual core of Chinese civilization, which indicates the inclusiveness with diversities and open-minded flexibility with changes, not to be too paranoid with any one side. The tactical side of China Model will be always changing, while the philosophical side of it never changes.

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<sup>43</sup> The self-globalization is called by ancient Chinese Tian Xia (under the heaven) .

<sup>44</sup> See 12.