

# Chongqing: Equitable Development Driven by a “Third Hand”?

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## Abstract

Chongqing's experience suggests that while Janos Kornai is surely correct about shortage in a planned economy, he is mistaken that market signals may only be employed under an economic regime of private property. Chongqing has called instead on government-owned firms, and their market earnings and appreciation, to fund social equity programs and infrastructural construction. This “third hand” is different from Adam Smith's “invisible” first hand, which, on the basis of rational individuals pursuing their own interests, supposedly generates a self-regulating and optimizing market economy; it is also different from the second hand, by which the state engages in a variety of interventions in order to perfect the functioning of such a market economy. Its main actors are state-owned and not privately owned enterprises but, unlike earlier state enterprises, it strives not for the profit of the enterprise but rather for social equity and public benefit. It in fact at once challenges and utilizes the other two hands. Though state-owned, in the context of China's current political-economic system and the globalized economy, this third hand does not behave like a monopoly; rather, it must compete against the other two hands, and not only against other localities within China but also other nations and economic entities outside China. Only if it succeeds in driving economic development under such competition can it become a “model” with wider application in China as a whole. And only thus can it, in a globalized economy dominated by

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capitalism, establish equitable development as a realistic alternative. Thanks to the Chongqing “experiment,” the question is no longer just a theoretical or ideological one, but one of observable and evolving realities.

### **Keywords**

Janos Kornai, Chongqing experience, economic development, land financing, third finance, social equity, Marxist theory

In Janos Kornai’s view, capitalist and socialist economies form diametrically opposite systems, each coherent unto itself and entirely opposed to the other. The key to capitalism is that economic decisions are made on the basis of market price signals based on supply and demand, leading to the optimal allocation of resources. For Kornai, this feature of capitalism is inseparable from private ownership of property: it is private property, as opposed to state ownership, that makes for the “hard budget constraints” of the market rather than the “soft budget constraints” of bureaucratic management. By contrast, socialist economies do not employ market price signals but rather make economic decisions on the basis of bureaucratic choices, leading to profoundly irrational allocation of resources. For that reason, socialist planned economies are characterized by chronic “shortage,” since goods are produced without regard to true consumer need. What is needed is chronically in shortage, while what is not needed might be in unwanted abundance. For Kornai, each of these two systems operates by its own logic; any mixing of the two can only lead to heavy incoherence costs (Kornai, 1992: esp. chaps. 11, 15).

Kornai’s views have been enormously influential, not just in the West under neoconservative (neoliberal) rule, but even more so in erstwhile socialist states that have rejected planned economies for privatization and the market. Kornai’s basic ideas have been so influential that they have taken on the full force of a hegemonic discourse in reform-era China. The influence has been particularly evident not only in economics, but also in other “social sciences” (Huang, 2011a; 2011b; 2009). As hegemonic discourse, it embodies not just a shared theoretical paradigm, but fundamental, unspoken premises or beliefs on which the theoretical constructs are built. Special efforts are needed to bring out contrary realities and principles.

This article will suggest that the recent developmental experience of Chongqing municipality (population 33 million in 2009, with 23 million peasants [Chongqing tongji nianjian, 2010: 59]) represents a contrary “model,” demonstrating a new possibility that is neither simply market capitalism nor planned socialism, but a combination of the two that draws on

reconfigured aspects of both. It emerged not so much out of any fixed theory as out of inventions through practice under given historical circumstances. It remains a changing work in progress, as is this article, which is based only on a tentative and preliminary summary and understanding of that experience, but is offered here to invite others to join me in thinking about its important implications; it may just herald a change of direction in China.

In brief, Chongqing's leaders have shown practical and ingenious market and business acumen, on one hand, and a deep commitment to social equity, on the other. They have used what has been tentatively conceptualized as a "third hand" approach to development, undergirded by a "third finance." What the experience suggests is that while Kornai is surely correct about shortage in a planned economy, he is mistaken that market signals may only be employed under an economic regime of private property. Chongqing has called instead on government-owned firms, and their market earnings and appreciation, to fund social equity programs and infrastructural construction. It has shown that such government firms can operate by market signals and forces but be directed toward public benefit rather than private gain. This article summarizes the main features of the empirical story and the principles they illustrate, beginning with the less distinctive and then moving on to the more unusual and counterintuitive.

## Chongqing's "Dragon Head Enterprises"

The Chongqing government has behaved much like other Chinese local governments in its efforts to draw in outside investment, though perhaps with even more imagination and success than most. There has been a spate of news reports since mid-2010 about some striking business deals with foreign and domestic firms. Numerous companies are involved; we will limit our discussion below to four main ones, which might be appropriately dubbed "dragon head enterprises" 龙头企业, the Chinese expression for companies that are expected to spearhead development: the American company Hewlett Packard 惠普 (HP), the world's largest laptop computer manufacturer; the Taiwanese firm Foxconn 富士康, the world's largest electronic (computer) components company and maker of Apple's iPod, iPad, and iPhone; the German firm BASF, the world's largest chemical products company; and Chang'an Automobile Company, China's fourth largest auto company and a partner of Ford Motor Company in Chang'an Ford Co. 长安福特公司. Together they represent different sectors of Chongqing's economy: from the auto industry built on Chongqing's (conventional) weapons industry dating back to the Guomindang national government's relocation to Chongqing in

the late 1930s and the 1940s, to the natural gas industry and its accompanying chemical products, and, most recently, the information technology industry.

The deal with Hewlett Packard was initiated in 2008 by Huang Qifan 黄奇帆, the key business strategist in Chongqing. Huang had been party to Shanghai Pudong's dramatic development as deputy head of the Pudong district, and had served since 2001 as deputy mayor of Chongqing, and is now both mayor and party secretary of the State Assets Supervision and Management Commission of Chongqing ("Jiedu Chongqing moshi," 2010).<sup>1</sup> In 2008, he personally took his proposal for HP to invest in Chongqing to the company's headquarters. Despite the financial tsunami, he argued, sales of laptop computers had continued to rise vigorously, such that one could expect further expansion in market demand in the coming years (from the then current 160 million to possibly 300 million). He wanted to bring the new production to Chongqing to meet that increased demand.

However, as HP's leadership reportedly countered, HP had until then invested mainly in China's east coast, under a model in which the component parts of notebook computers were imported to be assembled in China and then exported, dubbed "two ends outside" 两头在外 in Chinese, typical of China's export-processing development up to that time. If HP were to relocate to inland Chongqing, that would add 2,000 kilometers of travel to both ends of the production process to and from the coast, and presumably impossibly high logistical costs.

To this, Huang had an answer: what he had in mind was a different model, in which the components would be produced on site and assembled on site, in a model that would be "one end outside, one end inside" 一头在外, 一头在内. If HP would promise a sizable order—20 million laptops a year—he could put together the other necessary pieces.

For that, Foxconn, Taiwan's giant electronic components producer, provided the key. Huang went next to Foxconn's headquarters, and there persuaded the company to establish a factory in Chongqing's new IT "park" 园区, on the draw of the HP order. The proposed deal with Foxconn was actually signed August 8, 2009 (Huang Qifan, 2010g; cf. Huang Qifan, 2010d). According to Huang, total investment by HP amounts to US\$5 billion, while investment for related components requires ten times that amount, US\$50 billion. The key to the entire package is the deal for HP and Foxconn, largely brokered by him (ibid.; cf. Huang Qifan, 2010c).

Another important part of the deal was that Chongqing could promise an expedited export process. By working with China's Ministry of Railroads and China's Maritime Customs Administration 海关总署, Chongqing was able to develop an arrangement whereby customs inspection would take

place in Chongqing, and once cleared, the goods would be exported by rail to Shenzhen's Yantian harbor 盐田港 and then shipped straight out, thus saving critical time and costs. Goods could actually reach the European market two days faster than going out of Shanghai (Huang Qifan, 2010d).

Another, still more dramatic part of the draw was that Chongqing brokered a deal with a bold vision for rail transport that would go from Chongqing to Western Europe. That required agreement with Kazakhstan and Russia, which Chongqing put together with a proposal to share in the profits. The route would go from Chongqing to Lanzhou, then through Xinjiang, Kazakhstan, and Russia to Germany, and thence to Rotterdam (a journey of 9,000 kilometers). That route would cut as much as 20 days off ocean shipment to Europe from Shanghai or Shenzhen, and six or seven days off the route from Shanghai to Vladivostok and then from there to Germany and Rotterdam via the 10,000 kilometer trans-Siberian railway. The customs offices of the three countries already reached agreement for the deal, according to Huang's published report dated October 20, 2010 (Huang Qifan, 2010d; cf. Lee, 2010). On May 20, 2011, Huang reported further that the new route was already operating, requiring just 12 days to reach Europe from Chongqing (Huang Qifan, 2011d).

The latest projections are for Chongqing's new IT park to produce 20 million laptops in the first year, 40 million in the second, and 80 million per year thereafter,<sup>2</sup> including not just HP but also (Taiwan based) Acer and others, and not just Foxconn but also (the U.S. firm) Quanta and (the Taiwanese firm) Inventec and others (Huang Qifan 2010c, 2010d). HP's recognition of the importance of the arrangement is perhaps best shown by its strategic decision to move its Asia-Pacific accounts settlement center from Singapore to Chongqing, in itself a spur to Chongqing's development of its banking services and a planned globalized financial center.

Outside of information technology, another major part of Chongqing's economy is its chemical industry, which is linked to its rich resources of natural gas. The key firm here has been the German chemical industry giant BASF. In Chongqing, it will be producing mainly MDI (methylene diphenyl diisocyanate), a key raw material in the production of polyurethane 聚氨酯, widely used as insulation for the transport and storage of food, medicines, and the like. On March 18, 2011, the announcement came that Chongqing had obtained from China's National Development and Reform Commission approval (with elaborate environmental safeguards) to set up the world's largest production facility for MDI, with an investment from BASF of 35 billion yuan. That is the spearhead of the new Chongqing "chemical industry park" 化工园区 ("Sanbai wushi yi!" 2011).

Lest the impression be conveyed that Chongqing's development will be driven entirely or mainly by foreign direct investment (FDI), it must be pointed out that FDI serves only as the cutting edge. In fact, an important part of Chongqing's overall development strategy, as Huang Qifan explicitly points out, is to enlarge domestic demand (more below), at a targeted ratio of 70 percent of GDP for domestic consumption and 30 percent for export, and ultimately to bank more on China's domestic firms than on foreign firms (Lee, 2010).

A telling example of domestic investment is the fourth case, of Chang'an Automobile Company, another "dragon head" for Chongqing. While specific details of the incentives provided to HP, Foxconn, and BASF to induce them to invest in Chongqing are scarce, the case of Chang'an Auto gives a better sense of what might be involved. There had been fierce competition for Chang'an among numerous localities, during which Beijing emerged as Chongqing's main competitor. Chang'an, in origins local to Chongqing, had intended to set up a new plant in Chongqing occupying 2,000 mu, with an investment of 2.5 billion yuan. The competing Beijing offer amounted, by contrast, to 5,000 mu, for an investment of 11.5 billion, brokered by no less a figure than Politburo member and deputy mayor of Beijing Liu Qi 刘淇. An agreement-signing ceremony actually took place on June 9, 2010.

But Huang Qifan plunged aggressively into the competition for Chang'an with a vision for a new "100 billion auto city" 千亿汽车城. The key part of the deal was a commitment of 10,000 mu (6.67 square kilometers, at 1,500 mu per square kilometer) of land for Chang'an, double the size contemplated by Beijing, and at a price of a mere 50,000 yuan per mu, when its cost to Chongqing for developing infrastructural support (roads, bridges, water, power, communication) amounts to at least four to six times that much. The potential market price of the land was at least ten times that much (for example, 500,000 yuan per mu for factory use). This kind of incentive offered was true to the pattern of other aggressive solicitations of outside investment, typical in the fierce competition among different localities in China to "draw in business and investment" 招商引资, the key to Chinese development since the mid-1990s (Huang, 2011a).

As I have pointed out at some length elsewhere, enterprises under China's present political-economic system are faced with both high potential "transaction costs" and high potential "transaction benefits." That is to say, without active government support, the transaction costs in dealing with China's overbearing and labyrinthine bureaucracy can be immense and insurmountable, but all this changes if the government is actively courting a firm, which enables the firm not only to cut through bureaucratic red tape but

also to obtain huge benefits such as the land deal given to Chang'an, usually accompanied by tax benefits, plus low-cost or free power supply, low-interest loans, and even subsidies and other benefits explicit or hidden (Huang, 2011a). But the land deal is often the clincher. As a result, Chang'an withdrew from its preliminary agreement with Beijing and raised its originally planned 2.5 billion investment in Chongqing to 35 billion yuan, with a projected annual output of 800,000 vehicles by 2015 ("Chang'an qiche," 2011).

The above are all impressive business deals, and they require no adjustment in our conventional thinking and assumptions to grasp. Except for the land subsidies part, the above information has been well reported in the Western press (see, e.g., Lee, 2010; and Larson, 2010). But we need to probe a bit more beneath the surface to grasp fully the role that land and land development have played.

### **“Land Financing” in Shanghai and Chongqing**

In Chongqing, as elsewhere in China, “land financing” 土地财政 has been the key to development in a pattern that has been called the “Pudong logic” 浦东逻辑 of Shanghai’s Pudong area, where Huang Qifan served for more than ten years. In a nutshell, it refers to local governments’ use of the anticipated appreciation of land earmarked for development to fund urban development. To make the point graphic, we can call on Shanghai’s historical experience: in 1843, its pre-urban development land had a price of 6 to 10 taels per mu; by 1902, land on the Bund was worth 30,000 taels per mu and, by 1906, 100,000 taels, and further by 1925, 175,000 taels and, by 1933, 360,000 taels. This was an appreciation in 90 years of no less than 36,000 to 60,000 times (Zhao Qizheng, 2007: 195).

Of course, another important factor is that local governments in China are not constrained by clear-cut private property rights to the same extent as local governments in most capitalist countries. Land in Reform China is, in theory, owned finally by the state. Peasants hold use rights to agricultural land (more below), but ownership belongs, in theory, to the collective, while the government reserves the right to requisition land for non-agricultural public uses. In terms of operative realities, the crucial difference of China from the West is that, given its recent socialist planned economy past, it is private property that has to fight the uphill battle against state ownership, while in the West, it is the reverse. In the United States, local governments calling on the state’s right of “*eminent domain*” face far greater obstacles than do their counterparts in China.<sup>3</sup> It is the Chinese local governments’ immense powers over land that has made possible the land financing behind Pudong’s development (Huang Zongzhi, 2010: chap. 4; cf. Lin, 2009).

What it means in operation is that once a local government has a plan for development drawn up and approved, and puts in the required amount of land, accumulated through requisition 征地 or “demolition [of old housing] and relocation [of the affected population]” 拆迁, it can anticipate the rise of the market value of the land. That anticipated appreciation can be used to fund infrastructural construction. When the land is finally ready (becoming “ripe land” 熟地) with the necessary infrastructural support for residential, commercial, or factory use, the local government can “assign” 出让 the use rights (for a certain number of years, up to a maximum of 70 years for residential use and 50 years for industrial use) to private developers at a very much higher market price, many times its cost for infrastructural construction, and many more times the original cost for the requisitioning of the land—unless, of course, the local government wants to discount the land in aggressive pursuit of outside capital, as in the Chang’an example above. As development goes forward and land values rise further, the government may even buy back some of the land and “transfer” (转让) or lease it out 出租 again, or use it as security 抵押 for a loan, applying the gains once more to development. The entire process adds up to a snowballing effect from land to development (Zhonghua renmin gongheguo chengzhen guoyou tudi, 1990; cf. Zhao Qizheng, 2007).

As numerous scholars have pointed out, local governments have been willing to take a loss in the initial assignment of the land in order to draw in outside investment because of the added tax revenues down the road (25 percent of the value-added tax and 50 percent of the enterprise income tax, the balance to go to the central government), not to speak of the anticipated effects that “dragon heads” can have in drawing in other enterprises, as well as the chain reaction that will be set in motion as smaller businesses emerge to serve the larger enterprises,<sup>4</sup> thereby generating new sales and income taxes, 100 percent of which go to the local government (Huang, 2011a: 18; cf. Tao Ran and Wang Hui, 2010; Tao Ran et al., 2009; Tianze jingji yanjiusuo, 2007).

Through this mode of using land to finance development, the Chongqing government has in the past six years invested no less than an average of 30 billion yuan per year in infrastructural development (38 billion in 2008). It has added to this municipality of 82,000 square kilometers (a size larger than Taiwan) 2,000 kilometers of express highways 高速公路, 5,000 kilometers of “high-level” highways 高等级公路, 20 bridges, and 150 kilometers of subways 地铁 and light rail transport 轻轨 (“Jiedu Chongqing moshi,” 2010). Those were over and above what had already been in place by 2003, under the so-called “eight hours Chongqing” 八小时重庆 project, which



built a network of highways connecting the 40 counties and districts of the mountainous municipality within eight hours. The new target is to halve the time to four hours by 2012 (“Cong ‘ba xiaoshi’ dao ‘si xiaoshi,’” 2007; cf. Su Wei et al., 2011: 101).

Such infrastructural construction provides a graphic contrast with a city like Wenzhou, another area touted as a distinctive “model” of Chinese development. Wenzhou’s economy consists primarily of private enterprise, which accounts for 98 percent of its GDP, while the public sector remains underdeveloped, lagging far behind Chongqing’s. Wenzhou has now reportedly seen the light, deciding to copy the Chongqing model to improve its infrastructure (“Jihuo guoqi,” 2011). Chongqing’s infrastructure is of course another part of the explanation behind its success in attracting massive investments.

The combination of highly favorable terms of investment with sound infrastructure and cheap labor, as I have detailed elsewhere, is what explains high rates of return to foreign invested capital in China (Huang, 2011a). According to a Brookings study, “the aggregate rate of return to capital in China fell from roughly 25 percent between 1979 and 1992 to about 20 percent between 1993 and 1998 and has remained in the vicinity of 20 percent since 1998. These rates of return are above those for most advanced economies calculated on a similar basis. They are also high relative to a large sample of economies at all stages of development” (Bai et al., 2006: 62). At such a rate of return, it is small wonder that China has been widely considered the most desirable destination for foreign direct investment, shown for example in a 2005 survey of experts and multinational corporations conducted by the United Nations Conference on Trade and Development (Huang, 2011a: 21–22).

Chongqing’s land financing and infrastructural development described above are similar to the experience of Shanghai’s Pudong, but Chongqing’s development experience has drawn much greater Chinese media attention and discussion even than Pudong’s. We need to look more deeply to see why.

## **Chongqing’s “Third Hand” and “Third Finance”**

Chongqing’s experience in fact has multiple dimensions that are different from those of other localities, in what has only begun to be tentatively conceptualized under the expressions “the third hand” and “third financing.” Those formulations remain rather murky, still very much a work in progress, seen more in practice than in theory, and we can only attempt here to map out very tentatively their broad outlines.

## The “Third Hand”

“The third hand” is a reference first used by Huang Qifan to characterize Chongqing’s approach to development (“Guoqi tuodi Chongqing fazhan,” 2010). In my understanding, it is used to distinguish Chongqing’s approach from Adam Smith’s “invisible hand” and the state’s “visible hand.” Smith’s invisible hand is predicated on private ownership, division of labor, and competition, holding that the market is self-regulating and will achieve the optimal allocation of resources. As for the second hand, we can conceptualize it as different varieties of state interventions in the market economy, including supervision and regulation of the market, macroeconomic adjustments, and provisions of public services and social welfare. (The second hand may of course also be understood as referring to the erstwhile planned socialist economy; however, under present-day Chinese realities, it seems more appropriately understood as government developmental activities based on the so-called “second finance,” i.e., income from assigning land to private developers, discussed more fully below).<sup>5</sup> The purpose of the “second hand” is not to negate capitalist market economy, only to perfect its operations. In the Chinese environment, we can include under the rubric the behavior of local governments bent on “drawing in business and investment,” as well as Chinese government investments and expenditures, American style, in response to the 2008 financial tsunami. Chongqing’s “third hand” is different and, while coexisting with the other two hands, also represents a fundamental challenge to them.

Its historical origins lie in Chongqing’s approach to state enterprises crippled by bad debts 坏债, during the restructuring of state-owned enterprises into marketized firms in the late 1990s and after. In the pre-reform planned economy, the question of bad debts did not really come up, for state enterprises were funded by planned government appropriations determined bureaucratically without regard to profit or loss. Once subjected to market forces, however, enterprises operating at a loss had to depend on bank loans to survive. Many were soon simply unable to meet their debt payments, while others saw multiple abuses by company officials who exploited loopholes in the process of restructuring, hence the widespread rise of bad debts. For example, the local Chongqing finance industry, consisting of five major banks, had bad debts amounting to 50 percent of their total assets. One dramatic case, cited by Huang Qifan and others, concerns the Southwest Securities Company 西南证券公司, which possessed 3.7 billion yuan in total assets, but reportedly 3.3 billion were in bad and disputed debts, about one third of those in company funds being used for illicit purposes, one third

in embezzled and stolen funds, and the rest entangled in lawsuits. At year end 2004, the bank had just 3 million yuan left in liquid capital, when routine annual operating expenses alone required 25 million (Su Wei et al., 2011: 184; Huang Qifan, 2011c, gives somewhat different figures).

What was Chongqing to do? By the strict “invisible hand” market logic, the local government might simply let those banks go bankrupt, but that would have left many depositors with severe losses. Or, by the “second hand” model, it might inject massive amounts of government money into those institutions to keep them going, in a manner not unlike the U.S.’s Troubled Asset Relief Program (TARP), but that would not necessarily result in a genuine overhaul of the enterprise. What Chongqing did under Huang’s leadership was to take over the banks and the unprofitable enterprises, and then to reorganize them completely into new and dynamic government-owned corporations.

The first step was the formation of a government-owned assets management company (“Chongqing Wealth,” or Yufu, Assets Management Company, 渝富资产管理公司) whose initial act in 2003 was to buy up in one package the outstanding “no good assets” 不良资产 of 1,160 state-owned enterprises, totaling 15.7 billion yuan, held by the Industrial and Commercial Bank of China (ICBC) 中国工商银行 as security for the loans. In return for a deeply discounted price of 22.5 percent of the value of the assets, Yufu took over from ICBC the task of settling those debts, when ICBC itself might have been able to recover just on the order of 5 percent, according to Huang Qifan. In all, the state assets bought up by Yufu were assessed at a total value of 170 billion yuan, comprising 60 plus “corporate groups” 集团公司 and 1,700 plus legal entities (Huang Qifan, 2011c; “Jiedu Chongqing moshi,” 2010; Su Wei et al., 2011: 182, gives somewhat different figures).

This move was part of a much larger total development plan and effort, following a new approach to establish marketized government-owned corporations dedicated to public benefit. They took the form mainly of eight government investment firms for infrastructural development and provision of public utilities and services, called the “eight big investment firms” 八大投, for “urban development,” “express highway development,” “high-level highways,” “real estate,” city transport development, energy resources, water affairs 水务 (including water resources development 水资源开发, water supply 自来水供应, sewage treatment 污水处理, and hydroelectric projects), and water conservancy 水利 (including irrigation).<sup>6</sup>

In the Chinese political-economic context, the difference that such reorganized firms make is revealed to some extent by the following example, cited by Cui Jian 崔坚, chairman of the State Assets Commission of Chongqing. The

central government had allocated to Chongqing, from money raised through sale of (central) government bonds, 10 billion yuan to build 16 new sewage processing plants (to cope with the increased pollution of river water resulting from the Three Gorges Dam and reservoir, which slowed the flow of the river water). Chongqing was to come up with the other half of the required investment. As a government, however, Chongqing simply did not have the money (and could not issue municipal bonds for the project in the manner of U.S. local governments). The reorganized government investment firm, however, was able as a firm to use its holdings of government appropriated land as security to obtain a bank loan of 10 billion yuan, and thereby proceed with the project (Cui Jian, 2011).

These new government firms are the ones that have undertaken the massive infrastructural construction of express highways, “high-level” highways, and bridges, the building of an enormous amount of inexpensive public rental housing (more below), the new sewage treatment plants, the systematic development of water and power supply, the planning and development of the new commercial districts and industrial and IT parks, and so on. How are we to understand Chongqing’s record here? How have those firms been funded?

One explanation is based on the way Chongqing had bought up in 2003 banks and firms hamstrung by bad debts, especially the reported bad debts totaling 15.7 billion yuan at the deeply discounted rate of 22.5 percent. Yufu was able to gain approval for and obtain the terms it did in part because of Chongqing’s special status since 1997 as a directly-under-the-center municipality 直辖市 (joining Beijing, Shanghai, and Tianjin) with special connections at the top of the Chinese official hierarchy. ICBC is a government-owned bank, as were the 1,100-odd firms involved in the buy up. As is well known and much touted, Chongqing’s state-owned assets have since 2002 compiled the extraordinary record of market appreciation from 170 billion yuan to 1,050 billion yuan by 2009—a better than six-fold rise (Wang Shaoguang, 2011: figure 5; cf. Su Wei et al., 2011: 182, with slightly different figures).

On the surface of these facts, it is easy to conclude, as many have, that Chongqing’s experience is unique, benefiting from the timing and low price of its purchase of state assets and from its special status, leading to a uniquely rapid rise in value.<sup>7</sup> Therefore, one might well conclude, it is not an experience that can be replicated or copied elsewhere.

What such a view leaves out, however, is the crucial role that land has played in Chongqing’s distinctive “third hand” approach. As Cui Jian of the State Assets Commission points out, the secret behind the jumpstarting and sustaining of Chongqing’s eight big government investment firms is that Chongqing under Huang Qifan had “stored up” 储备 fully 300,000 mu

(or 200 square kilometers) of land for development use, this while many other local governments had sold (or allowed factories and other units under them to sell) large tracts of land to private developers, giving them rather than the government the control over land development. Placed into the government investment firms, that crucial asset has allowed those firms to raise capital with the land as security, and then, with the appreciated values in the land, to pay back the loans and, with further development and appreciation, to fund other projects, in a snowballing process. At the assignment-to-developers price of 100,000 yuan per mu, the assets in land alone of the “eight big” would amount to 30 billion yuan. At the market value of completed development, the land assets would be worth as much as 300 billion yuan or more (using here the figure of 1 million yuan per mu) (Cui Jian, 2011).

Compared with the discounts obtained on the 15.7 billion of “no good assets,” the value of the land assets is clearly of a different order of magnitude. Another relevant example is the relocating of Chongqing Steel outside city limits in 2007: Yufu purchased the steel company’s 7,500 mu of land for 7.5 billion yuan, or 1 million yuan per mu (thereby funding the cost for the company’s relocation), but that land’s market value quickly went up to several million yuan per mu, 6–7 million yuan at its height, or a total of 42 billion yuan, returning a handsome profit for the “eight big” government firms (“Jiedu Chongqing moshi,” 2010). Yet another example is the building and construction of the Chaotianmen Yangzi River Bridge 朝天门长江大桥, which joins up Chongqing’s three central business districts. Once the bridge was completed, its 7,000+ mu of adjacent land was made part of the eight big’s storage of land, with huge appreciations in value, more than enough to pay for the bridge project and turn a handsome profit for the eight (Su Wei et al., 2011: 194).

In short, it was not so much government assets acquired fortuitously at a deep discount as Chongqing’s overall rapid development that has made its government-owned assets and enterprises rise in value. As the Chinese saying goes, “when the water rises, so do the ships” 水涨船高. Their total value has risen from 170 billion in 2002 to more than one trillion by 2010, placing Chongqing in a special status (above a trillion) group attained by only the cities of Beijing, Shanghai, and Tianjin. The key, of course, has been “land financing,” which is of much wider applicability for China as a whole.<sup>8</sup>

How then are we to interpret this aspect of Chongqing’s approach to state assets? It is, first of all, clearly very different from the old bureaucratically managed planned economy, because market forces have played a crucial role in ferreting out the profitable from the unprofitable, in the sale and purchase

of the assets, in market value–based bank loans, and in the assets’ subsequent market-driven appreciation.

It is also different from the privatized government enterprises created under neoliberal economic thinking. That ideology holds that only private ownership can generate the necessary incentives to make enterprises truly competitive. The process of conversion from state to private ownership under that ideology can be illustrated with a particularly well documented and studied case, of a major distillery of the southwest (with its top-quality main product now selling at more than US\$100 per bottle). In the earlier stage of reform, that enterprise had taken the approach of sharing the benefits of its unusual profitability among all its workers (with a pay scale that differentiated only minimally between management and workers and through the provision of housing for all equally). That approach had been guided by the strategy at that time to liven up state enterprises by separating out government authority from enterprise management 两权分离, including the use of a “responsibility” 承包 system for (state) assets management 资产经营责任制. But that approach had shown the obvious weakness of substituting a kind of “enterprise big pot” 企业大锅饭 for the earlier “state big pot” 国家大锅饭 in that only the workers of the more profitable enterprises benefited. Starting in the late 1990s came the approach to change the ownership structure itself, under the influence of the new “marketization + privatization” ideology. Under that approach, the distillery underwent complete privatization in the early 2000s. In the process, workers were allowed to hold only a total of 13 percent of the company’s assets, the rest being turned over to management (and investing firms). As a result, the manager of the restructured firm became fabulously wealthy, receiving a 20 percent share ownership and dividends totaling 97 million yuan.<sup>9</sup>

The difference with the state firms reorganized into Chongqing’s eight big is that they did not undergo that process of privatization. Though very much subject to the market forces of demand and supply, profit and loss, and appreciation in market value, those firms have operated mainly for governmental purposes, not private gain.

A comparison with American institutions might bring out more clearly their distinctive characteristics. The Chongqing government-owned investment firms should first be distinguished from American government-sponsored enterprises (GSE), like the Federal National Mortgage Association (Fanny Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), which, though benefiting from implicit government support, are privately owned by shareholders. The Chongqing investment firms are government owned, not privately owned, and therefore not subject to the conventional capitalist firm’s

imperative of satisfying private shareholders.<sup>10</sup> Yet they are also different from an entity like National Railroad Passenger Corporation (Amtrak) which, though in its founding intent was to become self-sustaining, has had in recent years to depend on congressional appropriations of a billion dollars a year to sustain itself, resembling in that respect a state-owned enterprise under China's planned economy ("Amtrak," 2011). Nor can Chongqing's investment firms be likened to an entity like the U.S. government-owned Corporation for Public Broadcasting, for they lack anything comparable to the sustenance of the Public Broadcasting Service (PBS) and National Public Radio (NPR) by private donations, which in 2006 amounted to about 60 percent of the two's total revenues ("Corporation for Public Broadcasting," 2011).

The Chongqing investment firms should also be distinguished from U.S. local government projects funded by the sale of municipal bonds by cities and states. Those are based strictly on government debt, not on the market income or appreciation of government-owned assets. Their appeal to some investors comes from their tax-free status, which raises their rate of return from the relatively low interest rates paid by the municipal bonds to the equivalent of a higher rate of return more competitive with U.S. Treasury bonds and private corporate bonds. The Chongqing investment firms, by contrast, operate not on the basis of government borrowing but rather principally on the use of market appreciation of government-owned assets, especially land, to fund public projects.

At bottom, of course, are the vast differences in the political-economic contexts of the United States and Reform China. In the United States, the notion that the capitalist pursuit of profit should be strictly reserved to private entities is a very deep-seated one; governments, as public entities, must be limited to taxes and borrowing with interest, and not engage in profit-making business. This sharp dichotomizing of the private and the public is almost a fundamental article of faith, traceable to the modern West's bourgeois-democratic revolutions. One manifestation is the American Social Security program, which is funded by dedicated taxes and invested only in government bonds, never in equities of private companies. Even as the program faces the prospect of bankruptcy, the insistence that Social Security, as a government program, must not be invested in common stocks of private corporations in the manner of private pension funds remains unshakable ("Social Security," 2011).

American entities that come close to the Chongqing version of the "third hand" are few and far between indeed, forming anomalous islands in a sea of private enterprises. One not so well-known example is the U.S. government-owned Overseas Private Investment Corporation (OPIC), founded in 1971 and dedicated to the furthering of U.S. private investment in "emerging



markets,” by providing direct loans, loan guarantees, and insurance against political risks in amounts up to US\$250 million. Since its inception, it has reportedly financed more than 4,000 projects with financing totaling US\$188 billion. Unlike Amtrak or the Corporation for Public Broadcasting, OPIC has been part and parcel of booming globalization and “outsourcing,” which has enabled it to be entirely self-supporting and profitable in its role as facilitator and partner to private enterprise investment (“Overseas Private Investment Corporation,” 2011).

Chongqing’s government has in fact engaged in projects similar to those of OPIC. One example is the Chongqing government’s facilitating of the recent purchase by Chongqing Steel of a 3 billion ton iron ore mine in Australia (for a price of US\$2.58 billion), resolving thereby a long-standing problem of insecure supplies of ore for the steel company (“Chong Gang shougou Aozhou tiekuang,” 2010). Another is the purchase of 3 million mu (2,000 square kilometers) of soybean land in Brazil for a reported price of 5.75 billion yuan by Chongqing’s corporate “Grain Group” (“Guoqi tuodi Chongqing fazhan,” 2010).

The difference, of course, is that Chongqing Steel and the Chongqing Grain Group are both state-owned, not private, firms. As such, the examples above tell not just about the Chongqing government’s OPIC-like role in facilitating Chinese overseas investment, but also about the close collaboration between the Chinese government(s), central and local, with their marketized but still state-owned firms. Even more than the examples of purchases of the iron ore mine and soybean land cited above, we have seen how the Chongqing government led in the agreements with Russia and Kazakhstan for expedited rail transport to Europe, brokered the deals with dragon head companies to spearhead the aggregation of other businesses in the city, and so on. Those go far beyond the role of the OPIC.

The government cum state-owned firms story is of course a huge one, dramatized by the fact that, to date, 61 of the Fortune 500 firms in the world are Chinese (up from just 12 in 2001), all but two of them state owned, all enjoying active government help in developing contracts and agreements with foreign governments and firms. (“61 Chinese companies make the Fortune 500 list,” 2011) An enterprising and authoritarian government, plus its firms, can clearly do much more than a private firm, and therefore enjoy a certain competitive advantage in the globalized economy.

Perhaps the nearest American analogue to Chongqing is the federal government-owned Tennessee Valley Authority (TVA), founded in 1933 under Roosevelt’s New Deal government to promote modernizing development for the poor and deeply depressed Tennessee Valley. It was even promoted for



a time by the United States as the American answer for development in Third World countries, most especially in Vietnam. TVA is like Chongqing in a number of ways. It was established to deal with massive local poverty; Chongqing's 40 districts and counties, similarly, encompass 20 impoverished counties and districts (14 of them designated as "national grade" poor counties 国家级贫困县, mainly in the Three Gorges' reservoir area 库区 and in the Wuling mountains 武陵山 area at the border with Hubei province to the east) (Su Wei et al., 2011: 156; Bo Xilai, 2011b). TVA was formed to deal with flooding in the Tennessee Valley by building dams and harnessing hydroelectric power to provide electricity for public use; Chongqing's directly-under-the-center status came in part from its mission to help in the relocation of the 1.2 million people displaced by the Three Gorges Project and to build hydroelectric plants (Su Wei et al., 2011: 152–53). (TVA went on to build three nuclear power plants.) But there the similarities stop, for the scope of development-promoting activities of the Chongqing's State Assets Commission and the "eight big investment firms" have far exceeded those under the TVA. Needless to say, the TVA has been hugely controversial in the United States—it was his fierce critique of the TVA as "socialist" that helped launch Ronald Reagan's political career ("Tennessee Valley Authority," 2011; cf. Cui Zhiyuan, 2011c).

OPIEC and TVA together, however, might help capture for an American reader part of the substance and logic of Chongqing's "third hand" approach, neither a "socialist" economy in the sense of a planned economy based on bureaucratic economic decisions, nor a capitalist economy based on private ownership, but something of a combination of selected parts of the two. It takes a highly developed market and private economy for granted but is government owned and dedicated to public benefit, not the pursuit of personal or corporate profit. It serves almost, we might say, as the intermediate linkage between government and the market, the public and the private, and state and society.

### *The "Third Finance"*

Closely linked to the concept of "the third hand" is the notion of "the third (source of government) finance" 第三财政. As Huang Qifan explained it,

I have been in charge of finance for seven years. I have always divided Chongqing's finance into three parts. One is the government's budget, which is used to "guarantee its subsistence," including the operating expenses of government agencies . . . ; the second finance is the income

from assigning land [to developers] 出让金 . . . ; the third finance is the budget of the state-owned assets. (Cited by Cui Jian, 2011)

By contrast, local government finance in other localities of China is typically conceptualized in just two parts, budgeted and extra-budgetary, or Huang's first two categories. What is novel in Chongqing is Huang's third category.

As a media report puts it,

Huang Qifan sees tax revenues of local governments as the "first finance," income from selling land as "the second finance." He characterizes the Chongqing state-owned assets as "the third finance" because Chongqing's state enterprises have put in each year for the different levels of government 30 to 40 billion yuan in investment for infrastructural construction, thereby enabling the government to spend more on social security, education, public health and public services. (Huang Qifan, 2009)

As can readily be seen, the key idea here is to finance government operations, most especially the development of necessary infrastructure, by the income and market appreciation of government-owned enterprises and their assets, most especially land. It is predicated on Chongqing's experience in its successful conversion of state-owned enterprises inherited from the planned economy into dynamic and enterprising entities, not to serve private interests for profit but to serve the public good.

Cui Zhiyuan has for some time now emphasized this theme, in part by calling on the work of James Meade, winner of the 1977 Nobel Prize in economics. Although Meade was awarded the prize mainly for his work in international trade (Meade, 1977), he himself apparently considered his best work to be his 1964 book, *Efficiency, Equality, and the Ownership of Property* ("James E. Meade," 2001). Cui Zhiyuan has drawn on Meade's cogent observation in that book that (Western) governments have been hampered by the insistence on funding government activities by taxes and debt alone, without drawing on the incomes and market appreciation of government-owned properties (Cui, 2010: 10, quoting Meade, 1992: 54). Cui has made the idea central to his advocacy of "liberal socialism" for China, and sees Chongqing's experience as something very close to his own long-avowed ideal and prescription for China (and for that reason has since 2010 taken leave from Tsinghua University, on temporary assignment in the Chongqing government as assistant to the chairman of the State Assets Commission) (Cui Zhiyuan, 2005; 2008a; 2008b; 2009).

Cui Zhiyuan has also suggested that Sun Yat-sen's idea of "the appreciation in the value of land should belong to the public" 土地涨价归公 points in the same direction as the approach Chongqing has taken (Cui Zhiyuan, 2010). Sun's idea had come originally from the American politician and political economist Henry George, who astutely perceived the fact that, in late nineteenth-century America, land values were rising faster than wages. To him, the big private landowners who raised the rent (and price) of land were the culprit, causing pervasive poverty among workers despite technological and economic progress (hence the title of his 1879 book, *Progress and Poverty*). He called therefore for public ownership of land, arguing that land as a natural resource is unlike other property in that it exists independently of human effort and therefore properly belongs to all of society.<sup>11</sup> His remedy for poverty in progress was a single tax on land to be used for the public good. (He believed that no other taxes need be imposed.) (George, [1879] 1912: see esp. V.II.)

George's ideas might have held special relevance for Sun because he too perceived the rapid appreciation in land values (as, for example, on the Bund in Shanghai), and perhaps also because of the Chinese tradition of economic thinking that saw land as ultimately state (i.e., the emperor's) property. Sun believed that equalization of land rights and using taxes on appreciated land values for public benefit would lead to social equity. He even conceived of land appreciation as a possible means for funding local programs for public benefit (Wang Fang and Xiong Jinwu, 2010; cf. Cui Zhiyuan, 2011a).

However, as recent research has further pointed out, given the disorder of the times, neither Sun nor the later Guomindang government ever had a real opportunity to implement these ideas about land. When finally carried out in Shanghai, for a period of just eight months from September 1948, the results were meager when compared with Sun's grand vision: land taxes only accounted for 2–3 percent of the Shanghai government's revenues of the same period (Wang Fang and Xiong Jinwu, 2010: 39).

But Henry George and Sun's central perception about the differences of land from other kinds of properties does stand as an important challenge to conventional economics that sees land and labor alike as scarce resources, or "factors" of production along with capital. Chongqing's experience has shown well the critical differences between land and labor, the more so in China: given the relative scarcity of land, under the market forces of supply and demand its value could only rise out of proportion to other factors of production, all the more so when it comes to urban residential land, for which there is almost inexhaustible demand; and, given the great abundance of labor in China, wages could only lag far behind land values. Under those conditions, a

truly “human centered” 以人为本 development strategy almost demands that land appreciation be redistributed for public benefit. That, perhaps, is how Henry George and Sun Yat-sen’s message should be understood.

For Chongqing, as for all of Reform China, land has come in practice to be of special importance because of the intersection of several historical tendencies. First is the pre-reform given of massive amounts of state-owned properties, a legacy directly from the planned economy, far more than might be imaginable in the U.S. context. Then came the decision to restructure the state enterprises by marketizing (in most cases meaning also privatizing). In Chongqing, the restructuring has taken on the form of refinancing state enterprises through revenues derived from land appreciation, and then to reorganize those state-owned enterprises for public benefit. And this has happened at a time of the most vigorous “take-off” phase of local economic development, helped along by massive infusions of foreign capital drawn in by the twin attractions of cheap labor and aggressive local government sponsorship and support. The result has been dramatic development of both Chongqing’s state-owned enterprises and its economy as a whole, with GDP growth rates as high as 15 percent in the past few years (Su Wei et al., 2011: 113). What has come with that dramatic development has been the stunning gains and market appreciation of the values of the state-owned land for development, gains that have been directed by Chongqing’s top leadership into investment for government-set purposes rather than private gain. That is one important dimension of the special meaning of Chongqing’s experience.

Yet, the above characteristics of the Chongqing experience are perhaps not adequate to distinguish Chongqing fully from the earlier Pudong model. There too land financing in a snowballing effect had played the major role. There too government-owned enterprises (the “four big development corporations,” each for one major area of the Pudong new district 新区) had largely led and directed urban development.

The distinction between Pudong and Chongqing lies perhaps partly in organizational form: Pudong did not yet have the new organizational form (instituted since 2003) in which the State Assets Commission becomes the “legal person” recognized by law to be the “owner” of the state assets; in Pudong, state assets had been more nebulously conceptualized as state property in general. Nor did it have quite the clarity of purpose shown by Chongqing’s function-specific government investment firms, for infrastructural development and provisions of public services, but was rather organized by area more like government administration. In those respects, Pudong was organizationally perhaps one step closer to the old system of a state administered economy, albeit in a marketized environment, while Chongqing

appears one step farther removed from the old system, perhaps more like a “third hand” (Zhao Qizheng, 2007; Yuan Jian, 2003; “Kaifa gongsi moshi de Pudong shijian,” 2010; Zeng Gang and Zhao Jianji, 2009).

Seen in terms of conventional Chinese economic theory, Chongqing’s organizational form is supposed to be closer to the ideal “modern enterprise system” 现代企业制度. In that view, the conceptual difference between the old planned economy model and the targeted new model is captured in part by the differences between the old term “state-managed enterprise” 国营企业 and the new term, “state-owned enterprise” 国有企业. The latter is meant to suggest a clearer separation between state ownership and enterprise management, and therefore a closer approximation of a “modern” (i.e., capitalist) enterprise (Tianze jingji yanjiusuo, 2011: chap. 1).

Such distinctions, however, seem to me to be rather murky. For a fuller picture of the distinctiveness of Chongqing, we turn next to the even more surprising use of this “third finance,” not just for infrastructural development, but also for the promotion of social equity. It is a dimension which has been largely overlooked by the foreign press (perhaps because it seems so counterintuitive), but has proved to be of the greatest appeal to the Chinese populace, given the context of the past three decades of inequitable development.

## Equitable Development

The Chongqing leadership has placed enormous emphasis on social equity, currently termed “people’s livelihood” 民生 in Chinese, with its long historical and modern traditions.<sup>12</sup> This emphasis is especially important in Chongqing, given its great difference from the other three directly-under-the-center municipalities of Beijing, Shanghai, and Tianjin in that it encompasses 20 poor counties and districts and 23 million people registered as peasants (including those working in urban areas in Chongqing as well as those working outside Chongqing [“China’s Chongqing starts household registration reform,” 2010]), out of a total population of 33 million (29 million permanent and the rest temporary residents [“Chongqing shi di liu ci quanguo renkou pucha,” 2011]). The Chongqing government claims that expenditures toward people’s livelihood have accounted now for more than half of all government expenditures for three years in a row, far more than any other locality in China. For 2009, the Chongqing government spent a total of 68.2 billion yuan for people’s livelihood, amounting to 51.7 percent of all government expenditures (“Guoqi tuodi Chongqing fazhan,” 2010; cf. Huang Qifan, 2011c; Wang Shaoguang, 2011: table 3). In 2010, it spent 88.7 billion yuan (Cui Jian, 2011).

The pivotal factor appears to be the arrival in Chongqing in late 2007 of Bo Xilai 薄熙来, the new party secretary for the municipality, member of the Politburo, and former mayor of Dalian city, then governor of Liaoning province, and from 2003 minister of commerce, before becoming party secretary in Chongqing (“Bo Xilai,” 2011). Bo has placed the promotion of social equity front and center of his strategy for Chongqing’s development. Referring to Deng Xiaoping’s famous saying “development is the true ironclad principle” 发展方是硬道理, Bo added the comment, “if development cannot improve the people’s livelihood, then it is not the ‘ironclad principle’ but is rather ‘without principle’” 没道理 (Su Wei et al., 2011: 207).

A great deal has already been written about the peasant migrant workers in China, the *nongmingong* 农民工, of whom those who “leave both the land and the village” 离土又离乡 and are in cities at the county-seat level and above totaled 145 million in 2009 (and those who “leave the land but not the village” 离土不离乡 and work in town and village industrial enterprises totaled another 150 million) (Zhonghua renmin gongheguo guojia tongjiju, 2010; *Zhongguo tongji nianjian*, 2009: table 4-2; cf. Huang, 2011a: 22–25). As the most recent National Bureau of Statistics investigation reconfirms, the *nongmingong* typically do the dirtiest and heaviest of jobs and, despite working long hours (typically 11-hour days 6 days a week) far beyond the standard provisions of labor laws, earn on average only 60 percent of the pay of urban residents, even without counting the great difference in benefits enjoyed in terms of health care, unemployment and retirement insurance, and access to public education (Huang, 2009; 2011a; 2011b). They are the most dramatic demonstration of increased inequity in China under the reform era, and there have been society-wide calls for improving their lot.

In 2009, in a municipality with a total population of 33 million, there is a *nongmingong* population in Chongqing of at least 4 million, among whom 3.3 million have served in the city for three to five years or more (while 4.5 million Chongqing-ites work outside as *nongmingong*, mainly on the east coast) (Su Wei et al., 2011: 221–22). Here as elsewhere, the *nongmingong* have lived as second class citizens in abominably shabby housing, in inner city slums, basement apartments, or in villages on the outskirts, paying rents to landlords seizing the opportunity to make extra money. As is well known, even in the capital city of Beijing, the *nongmingong* have been treated shamefully. Without unemployment insurance, loss of a job means loss of the means of livelihood. Without health insurance, any major sickness sets their lives into a downward spiral. Ineligible for public schools for their children, they must pay hugely burdensome extra school fees or find other kinds of schooling for their young.

The Chongqing government is really the first to have taken big steps to address the nongmingong problem, the most dramatic of which is the provision of inexpensive public rental housing. Construction has begun for 40 million square meters of such housing to be completed within three years, mainly for the nongmingong. At the average space of 15–20 square meters per person, the project will house 2–3 million people, a large majority of the nongmingong who have been in the city for three to five years or more. Rents are projected to be about 10 yuan per square meter per month, or a reasonable rent of 600 yuan a month for a 60 square meter (ca. 600 square feet) home for a family of three. To prevent the formation of cheap housing slums, the public housing buildings will be spread out in 21 larger community groupings, so that the cheaper housing will share in the same standards of public facilities and services. Eligible households will be able to purchase their units after five years, but will not be able to sell their homes on the open market for large gains. (They will only be able to sell back to the housing authority, at a modest gain of perhaps 20 percent.) (Huang Qifan, 2010a; cf. Su Wei et al., 2011: 218.) True to plan, the first of the residential compounds, named the Minxin jiyuan 民心佳园, literally “people’s hearts garden,” was completed by the spring of 2011, with nearly 17,900 households of eligible renters already scheduled to move in.<sup>13</sup>

The public rental housing project has been carried out by two of the “eight big” government firms, “real estate” 地产 and “urban development” 城投, by substantially the same method as the infrastructural construction projects. The government had earmarked 30,000 mu (20 square kilometers) of land for the 20 million square meters of housing planned for within the “main city” 主城区. It is estimated that, had that land been assigned to private developers, it would have brought a minimum of 500,000 yuan per mu, or a total sum of 15 billion yuan. Its market value after completing construction would be considerably more, at least 30 billion, to make up the bulk of the government’s “investment” in the project. The total estimated cost for the entire project of 40 million square meters is 100 billion yuan (at a cost of 2,500 yuan per sq meter); the remainder being raised from other sources, including bank loans and central government appropriations. Rental income will go to carry the loan payments and the maintenance of the buildings (Huang Qifan, 2010a; cf. Cui Jian, 2011, which gives somewhat different figures). The principal of the loan will be repaid by, in addition to the further appreciated value of the land (realized, e.g., by leasing out space for commercial use), proceeds from sales of the units to those renters who wish to purchase the units after renting for five years (“Xipu gongzuzufang daikuan zhangben,” 2011).



Where Chongqing's approach differs from other cities is that, instead of just assigning all undeveloped land or developed land with the necessary infrastructure to private developers, the government enterprises have retained a good deal of the land and have themselves entered into the construction of housing. What that means, in effect, is that the further market appreciation in the value of the land is being used by the government for the public good rather than allowing it to enter private coffers. The project would otherwise have been quite unthinkable, given the municipal government tax revenues in 2009 of just 116.7 billion yuan (Su Wei et al., 2011: 219).

In China, the land market is typically divided into a so-called "primary market" 一级土地市场 and a "secondary market" 二级市场. The first is monopolized by the government and refers to its "assignment" 出让 of land to private developers (typically after the government has built up the necessary infrastructure, as suggested above), which, as we have seen, commands a certain market price. The second refers to the subsequent "transfer" 转让 and lease 出租 among private developers and would-be developers of that land for actual use, which generally commands a much higher price as development goes forward.<sup>14</sup> The two are of course not always distinct, since in Pudong, for example, land was apparently often assigned earlier to developers with good official connections for lower prices, before the necessary infrastructure was in place (Yuan Jian, 2003) and, in Chongqing, we have seen, the government has held on to portions of the land well past the completion of the necessary infrastructural construction. Still, it is perhaps useful to employ these categories for Chongqing: in its public rental housing program the government is not limiting itself to the primary market of "assigning land" to private developers, but is retaining land to enter itself into later stages of the development of housing, thereby taking advantage of the higher values of the "secondary market."

Additional examples of this are the aforementioned purchase of 7,500 mu of land freed up by the relocation of Chongqing Steel to the suburbs, which quickly appreciated in value, and of the government retention of the 7,000 mu of land adjacent to the Chaotianmen Yangzi River Bridge joining together the three central business districts, which reached values as high as 6–7 million yuan per mu. Those actions, too, lend concrete meaning to Huang Qifan's notion of the third finance.

Chongqing's grand strategy for solving the mammoth urban housing problem is to arrive at a "two track system" 双轨制. The Chinese government had originally thought of dealing with the problem "mainly" by government-subsidized low-cost housing, but then, under the influence of neoliberal ideology, moved steadily to a position of relying mainly on commercialized



private housing. The result was that low-cost public housing came in practice to serve no more than a very small 3–5 percent of the urban population, while commercial housing prices have gone up out of sight. Chongqing's strategy, by contrast, calls for taking care of the bottom 30 percent of the urban population with low-cost public rental housing. Of the remainder, 60 percent would be served by standard public commercial housing, and 10 percent by high-end luxury housing subject to heavier taxes (Huang Qifan, 2010a; cf. Su Wei et al., 2011: 218).<sup>15</sup>

Chongqing has also kept tight control of the land market, setting the upper limit of land price at one third of the value of the housing. To date, it has managed to keep commercial housing at the reasonable price of 6,000–7,000 yuan a square meter, far more affordable for the middle income groups than in cities like Shanghai and Beijing, where prices inside the city reached a minimum of 30,000 yuan per square meter by 2010 (Huang Qifan, 2011a).

Chongqing's public rental housing has drawn an enormous amount of national attention, and has gained the stamp of central-level approval as a model to be applied more widely throughout the country. Already on November 16, 2010, the "three ministries" of the Ministry of Finance, the Commission for Development and Reform, and the Ministry for the Development of Urban and Rural Housing, with the approval of the State Council, issued a joint communiqué calling for nationwide construction of such housing, the policy to be concretized into "targeted responsibility contracts" 目标责任书 to be signed by local officials to ensure implementation ("Sanbuwei yaoqiu quanguo," 2010; cf. "Sanbuwei: tudi churang," 2010).

The guiding spirit behind this public rental housing project can be traced, in part, to Chongqing party secretary Bo Xilai's demonstrated experience in his earlier service in the northeastern city of Dalian, where he was mayor for eleven years (1992–2003). As is well known, the demolition of old urban housing and the relocation of residents to make way for new urban development, referred to as "demolition and relocation," along with the requisitioning of land from peasants in surrounding villages, has been the main cause of tens of thousands of collective protests reported each year. Local governments almost without exception operated according to the logic of minimizing their investments in such demolition and relocation to reduce costs and maximize government revenues. Bo Xilai in Dalian city, however, was exceptional in this respect, boasting of a record of demolition and relocation involving one million people (in a city of two million) without opposition. Apparently, this was largely because of the very favorable terms offered to those being relocated. Of the one million people relocated, nearly half (450,000) were able to move into improved new housing without having

to pay anything in addition. Dalian under Bo's leadership even managed to win a United Nations "habitat award" in 1999 for being one of the cleanest cities in the world ("Bo Xilai," 2011). In Chongqing, he has translated that experience into a program to develop what he calls the "five Chongqings" 五个重庆—that is, a livable 宜居, smooth flowing 畅通, afforested 森林, safe 安全, and healthy Chongqing 健康重庆 (Su Wei et al., 2011: chap. 5; see also Wang Shaoguang, 2011).

In Dalian, Bo had already been identified with a concept that he termed "managerial city" 经营城市. As he put it, "The city itself is an asset of the state, and is worth money, and money can be earned through management of this state asset." Dalian's government in 1993 had a mere 2.1 billion yuan to spend, but the new housing provided free to the 450,000 people whose old homes were torn down alone cost 11 billion. The money, as Bo explained it, came entirely from the market appreciation of the city's land, which went up about five-fold in price during the years 1993 to 1999. Land appreciation, according to him, also paid for the expensive removal of 90-plus polluting enterprises to suburban areas (Bo Xilai, 2003).

In Chongqing since the end of 2007, Bo Xilai has overseen the demolition and relocation of a total of 12 million square meters of housing, affecting several hundred thousand people, reportedly with a policy to provide them with half again as much space as in their old housing. "Demolition and relocation" under Bo, Huang Qifan pointed out in a joint press conference with Bo, has not led to a single instance of *shangfang* 上访, or complaint via letters or visits of appeal to higher authorities (Bo Xilai, 2011b).

Along with the above, Chongqing has instituted the nation's largest program of extension of urban registration status to its migrant peasant workers, incorporating them into the higher benefits of urban residents in retirement, health care, and education. The plan called initially for the re-registration of three million within three years. Begun in August 2010, the program had reportedly already processed no fewer than two million applications by March 2011, and will be completed ahead of schedule by the end of the year 2011 (Wu Bangguo, 2011). Longer term plans call for the extension of urban-resident status to a total of 10 million peasants by 2020, this on the basis of projections of an addition of 700,000 to 800,000 nongmingong in the city each year (Huang Qifan, 2010f).

The extension of urban resident benefits to peasants will be costly, given the present disparities in the provision of welfare. As Huang Qifan explains it, in Chongqing at present an enterprise is required to provide the equivalent of 20 percent of a worker's monthly pay toward retirement if the worker is an urban resident, but only 12 percent if a nongmingong. That amounts to a

difference of more than 1,000 yuan a year. For health benefits, similarly, an enterprise within the main city pays 1,400 yuan a year for an urban resident, but only 480 yuan for a peasant worker. For three million peasant workers gaining urban registration, the total cost for these two benefits alone would amount to about 5–6 billion yuan a year.<sup>16</sup> In addition, there would be indirect costs for the provisions of public rental housing, education, public health, and so on, another 2 billion a year in Huang's estimate<sup>17</sup> (Huang Qifan, 2010f).

How would the expenses of some 8 billion yuan a year be funded? As Huang puts it, enterprises will be expected to bear the lion's share, but the Chongqing government will bear several billion of the 8 billion. As can readily be seen, the cost, while high, is not unaffordable to a government that in 2009 was spending nearly 90 billion a year for "people's livelihood," with the money coming, we have seen, in large measure from land and the third finance. According to Huang, Chongqing's income from assigning land to private developers alone amounted to 98 billion yuan in 2010, as compared with just 0.2 billion yuan in 2001, before the Chongqing government undertook the systematic "storing up" of land for development purposes (Huang Qifan, 2011b).

The Chongqing government, in fact, has made social equity its primary goal. In Bo Xilai's words, it has set itself the target to reduce by 2015 the current urban–rural income gap from 3.4:1 down to 2.5:1 and to reduce the municipality's Gini coefficient (for measuring inequality, with 0 being completely equal and 1 being maximally unequal) from 0.42 down to 0.35 (those being the quantitative measurements used by the World Bank) (Bo Xilai, 2011a). At a Gini coefficient of 0.35, China would return nearly to the 0.33 figure that had been the legacy of the Maoist period at the start of the reform era.<sup>18</sup> Considering the special circumstances of this municipality (with 20 poor counties and districts and a peasant majority), this would be a big and impressive step forward in social equity.

## **Economically Sustainable?**

Just how economically sustainable, we must ask, can such an order of government expenditures for social equity be? Will it not, in time, cave under the weight of social welfare spending as "land financing" runs out, development slows down, and expenses go up? Or, will it, as in Huang Qifan's and Bo Xilai's conception, become a critical dynamic for sustained overall development in Chongqing?

Huang's conception includes a number of dimensions, all interconnected. First among them is that such programs of social equity will help enlarge China's domestic demand 内需 and market. As Huang puts it, each peasant

who moves into the city will spend at least 10,000 yuan more per year than one in the countryside. For 3 million such peasants, that alone will amount to a total consumption increase of 30 billion, a powerful stimulus for Chongqing's emerging industries and services (Su Wei et al., 2011: 222).

The projection is of 700,000–800,000 additional nongmingong to be drawn into the city each year until 2020, to fill the jobs generated by the massive foreign and domestic investments in new production facilities (along with their requisite services) discussed earlier. Together with those already in the city, the new nongmingong will make up that cheap labor supply (and comparatively cheaper still than the more developed municipalities of Beijing, Shanghai, Tianjin, Guangzhou, and Shenzhen) that has been and remains so attractive to foreign investors. That is also a necessary piece of the projected development.

Of course, the migration of half of the current rural population into the cities will also free up a good deal of land for the cultivators who remain, as Huang points out. That, in my view, would make possible a closer approximation to what might be considered more “optimally sized” 适度规模 family farms, especially for those close to transport routes and engaged in the small-scale but capital and labor dual intensifying farms of the “new agriculture” of high-value vegetables and fruits cultivation, and crops + animal husbandry. I have written about this subject at length in my new book on China's “hidden agricultural revolution” (Huang Zongzhi, 2010a) and will not repeat those observations here.

Less obvious, perhaps, is the amount of land that will be “freed up” for urban development by the urban migration of the rural population on such a scale. This point is not understandable without clarifying the special Chinese political–economic context with respect to cultivated land. “Freed up” here is used because of China's distinctive policy with respect to cultivated land. The central government has imposed a “red line” of maintaining no less than 1.8 billion mu of cultivated land to ensure China's food supply and agricultural needs and has imposed by that standard very strict quotas on local governments as to the amount of cultivated land that may be converted for urban development purposes. However, the central government has also legislated that the quota may be expanded if rural land currently not used for cultivation were to be returned to farming. Peasants' residential plots qualify under that category. That means that for every mu of residential plot land returned to cultivation, the local government's allocated quota of development land would potentially expand by one mu, in a policy termed “linking up increased land use for urban development with (decreased) rural (non-agricultural) land use” 城乡建设用地增减挂钩 (Zhonghua renmin gongheguo guotu ziyuan bu, 2008). Given the

very high profits to be made by both private developers and government-investment firms from land development, that lends such conversion of residential plots 宅基地 a market value. Now, the peasants' residential plots typically amount in Chongqing to 0.26 mu per person; for the projected conversion of a total of 10 million peasants from rural to urban status between 2010 and 2020, there will be potentially a total of 2.6 million mu of land "freed up" for urban development (Huang Qifan, 2010e).

Chongqing has taken the lead in a rather ingenious move to develop a "land certificate exchange" 地票交易所 to deal with this "freed up" land. The exchange is intended above all for trading in peasant residential plots that have been reconverted into cultivated land. Upon local certification that the land has been thus converted, the "land certificate" may be offered up for sale at the "exchange." Since each such certificate amounts to authorization for the purchaser to develop for urban use that additional amount of land, it commands a considerable market value. The buyers, thus far, have been private developers (with big-player developers accounting for about a fifth of the purchases) and the Chongqing government itself (about a half of the certificates). As of the end of 2010 and beginning of 2011, the going market price of the certificates has been ca. 100,000 yuan per mu (Huang Qifan, 2010e; cf. "Chongqing 'dipiao' jixu shi," 2011).

From the government's point of view, such storage potentially enables it to replenish its present holding of 300,000 mu, which at the current usage of 30,000 mu per year would otherwise run out in ten years (a figure given by Cui Jian, 2011). Now, at the rate of one half of 260,000 mu projected to be freed up each year, that means a potential storage of 130,000 mu per year by the government for development purposes for the next ten years. The land "exchange" scheme would allow the government to more than sustain the recent rate of land development and land financing for some time to come, undergirding thereby the most critical source of its "third finance" ("Chongqing 'dipiao' jixu shi," 2011).

From the private developers' point of view, such purchases are, we have seen, well worth their while, for the market value of the fully developed land on completion of the housing compounds will be many times the purchase value of the land certificate.

Finally, from the point of view of peasants offering up their land for reconversion to cultivation for the certificates that can be traded at the exchange, the arrangement is also attractive, especially for peasants in more remote areas farther from the city center. The going market price of their land, without going through the exchange, has been around 11,000 yuan a mu ("Chongqing 'dipiao' jixu shi," 2011). Through the exchange, the remotely

based peasant family can obtain a price for its residential plot that is basically the same as that of the peasant family living close to city center. For those changing their registration from peasant to urban resident, this means a sizable sum of money for a down payment on a home in the city or else important start-up capital for a small business. The 100,000 yuan sum is all the more attractive given Chongqing's special program for helping "micro-enterprises": A private investment of 100,000 yuan will be given a subsidy of 50,000 yuan by the government, plus government help in arranging a loan of 150,000 yuan, to make up a starting capital of 300,000 yuan (Huang Qifan, 2010b). The Chongqing land certificate exchange, in a word, has extended the advantages enjoyed by the few "lucky" suburban peasants<sup>19</sup> to peasants at large, thereby enhancing social equity. This too illustrates how market appreciation is being used in Chongqing to fund equity, by making it available to peasants. Of course, the whole system of the land certificate exchange is still under trial, yet to gain final approval from the party Central. But from Chongqing's point of view, it is part and parcel of its overall strategy of development with social equity, or what might be termed, simply, "equitable development," this in contrast to the inequitable development of the past three decades.

Just how sustainable such a strategy of development with equity, or even of equity-driven development, might turn out to be over the longer term of course remains to be seen. Obviously, land financing cannot be sustained forever; nor can the pace of development of Chongqing in recent years. But the prospect of replenishing its land storage via the land certificate exchange makes the approach seem financially viable for at least the short to intermediate term of the next decade or two.

A key factor in the sustainability of Chongqing's "land financing" is that, unlike most other large cities in China, it has managed to keep its real estate prices within reasonable limits, at 6,000–7,000 yuan a square meter, compared with, for example, Shanghai and Beijing's 30,000 yuan plus, as we have seen. That greatly lessens the risks of the downturn in real estate values, or what some would term a bursting of the "real estate bubble," might bring for local government development projects funded mainly by the market appreciation of land (and borrowing against it). In this respect, Chongqing's model of equitable development, which has kept real estate values relatively low, argues for greater economic sustainability, contrary to our conventional understanding that burdensome social welfare spending can only impede development.

As for the sustainability of Chongqing's special attraction for foreign investment, the view expressed by Foxconn president Guo Taiming 郭台铭 also reveals an unexpected set of considerations, showing how social equity

can be good business from the standpoint of outside investors. As is well known, Foxconn had been very much in the news in 2010 for labor problems in its factories in Shenzhen, which employed a total of 500,000 workers (out of a whopping total of 1 million workers in China as a whole). It had imposed military barracks-like discipline on its work force within the massive dormitories and living compounds it built. The stresses of such work organization lay behind a host of reported suicides by Foxconn's workers during the year, fourteen in all. Asked by Wu Bangguo, Politburo member and chairman of the Standing Committee of the National People's Congress, during his visit to Chongqing, why with all of Foxconn's coastal factories, would it want to invest in Chongqing, Guo replied,

First, because you are building public rental housing, which will alleviate the burden on our company and allow us to concentrate on doing business. Second, because you are pushing forward household registration change, relieving [us of] the worries of providing welfare and health benefits and children's education for the workers. Third, because you have struck at organized crime and have developed an "afforested Chongqing," creating a good environment for development. (Wu Bangguo, 2011)

Foxconn has apparently made the decision to relocate inland 200,000 of its 500,000 jobs in Shenzhen ("Foxconn to Move 200,000 of Its Jobs," 2011).

We can now return to the question of just how Chongqing's government-owned enterprises differ from those of Pudong, Shanghai. It seems to me that the organizational differences discussed earlier may or may not turn out to be truly important over the longer term, the big unknown being whether the new organizational form, intended to be one step further toward the separation of ownership and management, will permit more effective institutionalized checks on the enterprises. One main problem, as critics have pointed out, remains the overlap in personnel between government and enterprise. Another is the ambiguity in mission of government-managed as well as government-owned enterprises in a marketized environment: is it simply to make a profit for the enterprise and protect and ensure the appreciation in value of state assets, or is it to serve the public good? Conventional economists in China, as might be expected, have adopted the basic American article of faith to argue strongly for a clear delimitation between the two spheres: profitability to be limited to private enterprise under market competition, public service to be performed by state enterprises (Tianze jingji yanjiusuo, 2011: chap. 10).



Herein lie perhaps Chongqing's true distinctiveness and significance. It has challenged the fundamental American assumption that the private and the public, profit and service, must be clearly separated, by illustrating how profits from the market appreciation and earnings of state assets can be effectively used for social equity development. It also provides a sharp contrast with Pudong, which certainly used market appreciation of land to fund infrastructural development, but did far less in the way of social equity than the big dramatic steps Chongqing has undertaken.

Another major objection from neoliberal economists is that state-owned enterprises are favored by monopolistic access to resources, especially to land free of rent, thereby distorting market mechanisms. They insist that government enterprises are generally less efficient than private enterprises, which are driven by more powerful incentives. They therefore call for clear delimiting of government enterprises to strategic and public service sectors, leaving the competitive economic sphere entirely to private enterprise (Tianze jingji yanjiusuo, 2011: chap. 1).

Here it should be made clear that Chongqing's new government enterprises have in fact limited themselves to public services. The big eight are dedicated to infrastructural construction, public utilities, and such. As Huang Qifan has emphasized repeatedly, Chongqing's government enterprises have not competed with the private sector; what they have undertaken are things that private enterprises are not willing to enter into. The vigorous development of Chongqing government enterprises has not constrained private enterprise development, quite the opposite: according to the data gathered by Wang Shaoguang (2011: figure 5), at the time of Huang Qifan's arrival in Chongqing in 2001, non-government enterprises accounted for just 40 percent of GDP in Chongqing; by 2009, that proportion amounted to 60 percent. Furthermore, we can point out that Chongqing's government enterprises have also engaged vigorously in social equity programs, and such engagement for the general public good can go a long way to justifying what special advantages in resource use they have enjoyed vis-à-vis private enterprises. What the mainstream economics point of view can easily miss is the main innovative characteristic about Chongqing: that market appreciation of government assets may be used to fund programs for the public good. That is what is truly distinctive about Chongqing's third hand.

It is obviously different from Adam Smith's "invisible" first hand based on individuals seeking their own maximum benefit; it is also different from the second hand, of state interventions seeking to perfect a capitalist market economy. Its main entities are state-owned, not private, enterprises. But it is



also different from previously existing state-owned enterprises in that it seeks not just the enterprises' own profit, but social equity and public benefit.

Finally, we must ask: from the standpoint of economic efficiency, is Chongqing's third hand going to be like monopolies in conventional economic theory, lacking competition and therefore inevitably sinking into inefficiencies?

Here it must be made clear that behind Chongqing's third hand, there are definite competitive mechanisms and dynamics at work. We have seen how the approach itself emerged from problems left by the workings of the first and second hands. The resulting "eight big investment firms," in order to succeed in the competition to draw in outside investment, must develop infrastructural construction better and more efficiently than other localities. From Hewlett Packard to Foxconn to Chang'an Auto, Chongqing is obviously competing with coastal east China, Shenzhen, Beijing, and other areas. If profit-seeking private enterprise can be more effective in undertaking infrastructural construction and providing public services, then this third hand will eventually lose out in competition. At the same time, under the central government's call for social equity (more below), Chongqing's multiple "people's livelihood" projects are also competing with other localities. If different models of the second hand can be more effective in providing social welfare, then that part of Chongqing's third hand will also fall by the wayside. The fact is that, in the context of a globalized economy, every Chinese local government must compete not only domestically with other local governments but also internationally with other countries and economic entities. We have seen from the Foxconn example how Chongqing's inexpensive public rental housing, household registration reform, "afforestation," and even its campaign against organized crime to be discussed below, are all integral components in its economic competitiveness. To date, one indication of Chongqing's success in using social development to drive economic development is that it was actually picked by *Fortune Magazine* in July 2011, as one of the world's 15 best new cities for business ("Caifu," 2011).

In the context of the past three decades of inequitable development in China, Chongqing's equitable development is the reason it has drawn so much attention from the Chinese media. The fact is that many Chinese have retained some measure of attachment to the equity ideals of the Revolution. The inequitable development of the past three decades, to be sure, has its supporters—including those who have benefited directly, and those who have accepted the neoliberal ideology—but the majority of the population have not benefited to any comparable extent and many have been critical of the inequities of development. Such opposition between the Left and the Right has formed the fundamental divide in China's intellectual and public

opinion. Chongqing's special appeal to the Chinese populace has come in large measure from its reaching across this divide, and holding out the promise of transcending or synthesizing them.

## **“Law and Order” in Chongqing**

Another important part of Chongqing's experiment is its “law and order” campaign, which has drawn so much international attention. In the United States, calls for “law and order” are commonly associated more with the political Right than the political Left, the latter being generally more considerate of the social roots of crime (what makes criminals criminals?) and more receptive to measures to address those, rather than to insist simply on strict discipline and punishment. The Chinese political context, however, is very different. “Order” is more associated with the leftist past than the neoliberal present; it is the latter that is more tolerant or “liberal” toward criminal offenders (calling for establishing Western-style rights for the accused). The Mao Zedong era, excepting its disorderly mass movement periods, is commonly associated with honest and clean government, for better or for worse. Crime was certainly at a minimum, even if mainly because of strict control.

“Marketization” and “transition” have come with the loosening of control and the proliferation of prostitution, gambling, drug trafficking, and even human trafficking. In addition, the migration of millions into the vast informal economy operating largely in the margins or outside the boundaries of formal law has provided fertile soil for the rise of organized crime (the local expression is “black organizations” 黑社会). And organized crime, in turn, has penetrated into the government in many places, leading to what in Chinese is described as the “joining of money, power, and organized crime” 钱权黑携手. It is in that context that “law and order” has come to be expressed by the expression “striking at organized crime and getting rid of evil” 打黑除恶.

In Chongqing, this was done under Bo Xilai with military precision and efficiency. Wang Lijun 王立军, a nationally renowned hero of a campaign against organized crime in Liaoning, was brought in by Bo (who had served as provincial governor in Liaoning, after his stint as mayor of Dalian) in June 2008 to head up the campaign (Su Wei et al., 2011: 40–41). On June 20, 2009, Chongqing's “small group” in charge of “striking at organized crime and getting rid of evil” deployed several hundred teams of public security personnel and armed police 武警 to attack in one fell swoop 104 organized crime entities, arresting more than one thousand. A four-month period of follow-up actions saw a cumulative total of 2,915 people arrested and 1.7

billion in assets seized or frozen. It was surely the largest such attack on organized crime on record in reform-period Chongqing (*ibid.*: 26).

Special emphasis was placed on taking down the “protective umbrellas” 保护伞 that had shielded crime. The most prominent among officials charged were Wen Qiang 文强, Chongqing Public Security Bureau’s executive deputy head 重庆市公安局常务副局长 and head of the city’s Judicial Bureau 司法局局长, and Zhang Tao 张弢, deputy head of the city’s Superior Court 重庆市高级人民法院副院长 (Su Wei et al., 2011: 26–27). Wen Qiang’s home reportedly sat on a 20 mu lot and had a market value of 30 million yuan (“Chongqing dahei gushi,” 2009). In the end, more than a dozen high-ranking police, judicial, and other local officials were charged (see name list and titles in Su Wei et al., 2011: 42–43), showing the depth of the penetration of formal government by organized crime. Symbolic of the entire campaign, Wen Qiang was executed on July 7, 2010, after a much publicized trial revealing many specific details about his corrupt activities. The campaign thus turned out to be as much about cleaning up government as striking down organized crime. That too distinguished Chongqing from other localities in China, where the results of such movements were often to bring down “only the ‘black organizations’ but not their protective ‘umbrellas’” (Yang Tao, 2008).

An important part of the campaign was the government’s active solicitation of reports and accusations from the public 群众举报, receiving in the end a total of 40,000 such, 80 percent of which were signed (rather than anonymous), thereby lending a “mass participation” dimension to the campaign. Such an approach, added to its high-handed methods, has recalled for He Weifang 贺卫方 and other critics the extremes of the “mass movement” and arbitrary justice (utter disregard of judicial procedures) of the Cultural Revolution (He Weifang, 2011).

He Weifang’s critique turns out actually to be more about the structural problems of China’s entire criminal justice system, including the lack of independence of the courts and of clear separation of the powers of the police, the procuratorate, and the courts, the widespread resort to coercive interrogations, and the disjunction between judicial practice and codified law. Those problems, however, stem more from the fact that the present Chinese legal system, especially the criminal justice system, is inevitably a mixing of its three integral traditions: imperial law, revolutionary justice, and transplanted law from the West.<sup>20</sup> To equate Chongqing’s law and order campaign with those fundamental issues of legal structure seems to me a mismatch, and also obscures Chongqing’s accomplishments against organized crime. I have

written elsewhere about those broader structural issues and will not repeat myself here (Huang Zongzhi, 2010b).

Chongqing's "law and order" campaign should really be understood in the frame of Reform China's tradition of several nationwide efforts to "strike hard" (严打) against rapidly proliferating crime, beginning with the 1983 campaign targeting especially criminal elements, the "hooligans" 流氓 among the "floating population," the 1996 campaign against serious violent crimes, the 2002 campaign targeting especially organized crime, and the 2006 campaign against organized crime and its "protective umbrellas." All of those evidence the combined influence of the three traditions mentioned above, while evincing also a steady trend toward greater emphasis on procedures (Biddulph, 2007; cf. Trevaskes, 2007; *Zhongguo falü nianjian*, 2007: 187, 217–18). To criticize Chongqing's experience merely on the grounds of ideals drawn from an imagined American system of justice can contribute little to an understanding of what happened.

What is unquestionable about Chongqing's experience is that Bo Xilai's campaign has won widespread local support and approval. On May 27, 2011, Wang Lijun was "unanimously" elected deputy mayor of Chongqing by the Standing Committee of its People's Congress ("Chongqing shi gonganju juzhang Wang Lijun quanpiao dangxuan fushizhang," 2011). In the Western press, *Time* magazine included Bo Xilai, charismatic and handsome, among its selection of the "hundred most influential people" of 2010, citing mainly his crime-fighting credentials ("The 2010 Time 100," 2010). Already a member of the Politburo, Bo is widely expected to become a member of its Standing Committee, the most powerful entity in China.

## **"Mass-line Governance" and "Red" Ideology**

If the combination of development with equity, and of business acumen with leftist ideals and law and order emphases seems surprising, Chongqing's use of some elements of Maoist methods and ideology in governance will surely seem even more so.

As is well known, "bureaucratism" of the reform era has combined the characteristics of red tape, officiousness, toadying to those above, and the like, all legacies of the Mao Zedong era, with the reform era's crass commercialism and pursuit of self-interest and advancement, complete with unending banquets, drinking, karaoke and nightclub entertainment, and ugly office politics, all widely satirized in the media.

Part of Chongqing's answer has been the much publicized policy of requiring its officials to engage in the "three going into's and three same's" 三进三同, the

three going into's being "going into the poor counties, the villages, and the peasant households" (also formulated as "going into the villages, the peasant households, and the fields"), and the three same's being "eat the same, live the same, and work the same." District and county cadres in leading positions are required to "go below" in this manner no less than 12 times a year, while newly appointed cadres are required to spend no fewer than 30 days "down below," in a manner distinctly reminiscent of the Mao Zedong era. Its intent, like in the Mao era, is to combat "bureaucratism" by bringing officials into closer contact with the people and with basic-level realities.

Chongqing has added to this the twist of asking all cadres to engage in the "big visitation below" 大下访, inverting the *shangfang* or "visit above" process (in which thousands upon thousands of peasants appeal in person or in writing to upper levels to seek redress for grievances). Chongqing claims to have mobilized in 2009 fully 200,000 cadres to engage in such, helping to resolve something on the order of 200,000 pending complaint cases from the "visit above" system (Bo Xilai, 2011b; cf. Su Wei et al., 2011: 242).<sup>21</sup>

Finally, as the third main part of the program, the cadres are required to each "adopt a poor relative" 结穷亲, visit the family no less than twice a year, and to try to do something for them as one might a relative's family (Su Wei et al., 2011: 233).

While such a program against bureaucratic "formalism" 形式主义 (meaning emphasis on appearances rather than substance) no doubt breeds its own formalistic excesses, it has likely changed in important ways the local culture of bureaucracy, at least in the short term. A mass mobilization of officials to help resolve basic-level complaints probably has its effect as well. The "adopt a relative" program probably helps heighten bureaucrats' awareness of problems of rural poverty (particularly severe in Chongqing, which encompasses a high proportion of poorer mountainous rural areas, as has been seen), and is perhaps also a way to search for and implement workable solutions. Its real results for rural development have yet to be determined. (The question of Chongqing's rural development as a whole, and of the municipal government's aggressive project to raise the income of every peasant household in the outlying rural areas by 10,000 yuan within three years, will require separate treatment.)

What comes with these "mass-line"-like measures to curb or rectify widespread bureaucratism is an ideological program that has struck many critics as overly Maoist. The acronym for the program is "sing, read, tell, and spread" 唱读讲传, which refers to singing "red" songs, reading classics, telling tales, and spreading exhortative maxims. As Bo Xilai explains, it is a program intended to reconstruct the nation's "spiritual civilization" 精神文明, targeting

of course the crass commercialism, pervasive individualism, and ideological vacuum that have characterized reform-era China (Su Wei et al., 2011: 71).

On its surface, such a program might well seem like a blueprint for distasteful propagandizing, or even thought control, but Bo's intent is clearly not that of the extremist aspects of Maoist thought associated with the Cultural Revolution. The "red" songs are not Cultural Revolution-type songs but rather ones drawn from all different periods of the revolution, most especially the War of Resistance (Su Wei et al., 2011: 74). The "classics" are not narrowly conceived as quotations from Mao, but rather are drawn from a plethora of thinkers from the Chinese Revolution as a whole, as well as from non-Chinese thinkers. To underscore his unifying perspective, Bo refers specifically to the thirteen founders of the Chinese Communist Party (CCP), who, according to him, were "all theorists . . . who commanded important truths and were good at propagating those . . . , 'rallying tens of millions of workers and peasants'" (71–72). He also refers not to Mao narrowly but to the insights from the "hundreds and thousands of years of Chinese and foreign, past and present" (77). He has apparently personally overseen the project to compile a "Read Some Classics" 读点经典 series of books. Selections come from, as he puts it, people ranging "from Confucius to Sun Yat-sen, from Wen Tianxiang 文天祥 to Lin Zexu 林则徐, from Marx and Lenin to Mao and Deng, from Fang Zhimin 方志敏 to Norman Bethune, from Einstein to 'Madame Curie'" (Bo Xilai, 2011c). His approach to "telling [inspiring] tales" and "spreading [exhortative] maxims" is the same (Su Wei et al., 2011: 80, 82–83). The exhortatory "Chongqing Stories" 重庆故事 and "Ideals" (or "Faith") 信念 programs of Chongqing television have drawn widely from selfless and heroic individuals, commoners and elite, past and present. Overall, Bo's emphasis seems more on moral values and a spirit of service than political ideology. His vision of a "red culture" 红色文化 is clearly intended to be broad and inclusive, rather than narrow and exclusive. Its intent is above all to regenerate a "spiritual" or moral core for the Chinese people, given the current nihilism and crass commercialism.

His detractors' association of his "red" talk with Maoist extremism and most especially with the arbitrariness of the Cultural Revolution (some recalling, of course, all the great pain and suffering it imposed on millions, especially high-ranking officials and intellectuals) seems unfounded. Like some of his critics, Bo too suffered greatly from the Cultural Revolution, when his father Bo Yibo was incarcerated 关押 for ten years and his mother hounded to death 逼死 by Red Guards. The difference, perhaps, is that like his father, Bo came out of the experience still committed to the finer ideals and practices of the revolution rather than a confirmed enemy of it like many

others. Indeed his “moral rearmament” program in Chongqing calls to mind the kind of admonitions his sister Bo Xiaoying recalls receiving from their father (Bo Xiaoying, 2008). In the larger context of an almost schizophrenic China with deeply conflicted feelings toward the revolutionary past and the reformist present, Bo’s approach seems a positive first step toward a more balanced and healthier integration of the two.

Yet it remains as yet a vision only fuzzily formulated. There are certainly some tendencies toward a one-sided emphasis on redness. Su Wei, co-author (with Yang Fan and Liu Shiwen) of the rather exhortatory book *The Chongqing Model* (重庆模式), for example, gives the following interpretation of things: Mao had done well in the spiritual sphere, though he failed in practical implementation; Deng, by contrast, had done well in practical development, though he failed in the spiritual realm. The Chongqing model, in such an interpretation, is about joining together the two great strengths of China’s recent past (Su Wei, 2010). Such a formulation dichotomizing the “spiritual” and the economic is reminiscent to some extent of Zhang Zhidong’s *tiyong* 体用 “substance and use” binary between China and the West of more than a century ago. It does not seem to have the depth and sophistication of the economic approach of Chongqing, which carries with it possibilities for transcending the Left/Right and plan/market divides in a “third hand” alternative.

Finally, the “mass line” and ideological dimensions of Chongqing remind us just how crucially important the role of the top leadership, most especially Huang Qifan and Bo Xilai, is to the entire Chongqing experiment. The Chongqing populace thus far has certainly benefited from having two leaders who seem genuinely to have the people’s interests at heart, but in the longer view, the question must be raised: what happens in the absence of such exceptional leadership? How then might governance in the people’s interests and for the public good be ensured to last beyond the exceptional ruler? Part of Chongqing’s answer is to reconstruct the party’s core values and social basis, which are surely very important. But perhaps what is also needed is to find a way to develop institutionalized and genuinely powerful structures of popular supervision.

## China’s Leftward Turn?

We need next to ask: is Chongqing’s experiment an isolated incident in China, an island in a larger capitalist or “state capitalism”<sup>22</sup> sea? What is the likelihood that the Chongqing experiment might turn into something of broader import for China as a whole?



As is well known, the record of China in much of the reform period has been one of strong leftist rhetoric, but rightist actions, evidenced among other things in its very aggressive pursuit of foreign investment from the Fortune 500 and its flagrant neglect of workers' rights.

Yet, since the turn of the century, there has been a distinct leftward turn, that is, toward social equality, in central-level policy that has steadily gathered momentum. First, with the placing of the so-called "three-peasant problem" 三农问题 (or "triple dimensions" of the rural problem, i.e., "rural production, rural village, rural peasants" 农业, 农村, 农民) on the central policy agenda, then the abolition of agricultural taxes, provision of 9-years free compulsory education, and institution of cooperative health care for peasants (Wang Shaoguang, 2009). Quite a few local governments have also adopted some constructive measures toward the migrant workers, including loosening the household registration system and provisions of some welfare benefits for them.

As Cui Zhiyuan has pointed out, there has been a steady reformulation of central policy on the issue of development vs. equity (Cui Zhiyuan, 2011b). The initial approach was summed up in 1993 in a resolution (of the third plenary session of the 14th Central Committee of the Chinese Communist Party) "concerning certain problems in the building of a system of market socialism" by the expression "efficiency first, equity second" 效率优先, 兼顾公平 (Zhonggong zhongyang, 1993). In 2002 in the 16th Party Congress report, this formulation was elaborated and modified to include

in the initial distribution 初次分配 [e.g., wages], emphasis will be on efficiency, to give full play to the market. . . . In redistribution 再分配 [i.e., taxation, social welfare programs, and the like], the emphasis will be on equity, to strengthen the government's role in adjusting the distribution of income, moderating excessive differences in income. (Jiang Zemin, 2002)

Then, in 2006 (at the 6th plenary session of the 16th Party Congress) came the statement "with economic development as the foundation, there will be greater emphasis on social equity, to strive to raise the income standard of those with low income" (Zhonggong zhongyang, 2006). Finally, in 2008 in the 17th Party Congress report, the original phrase of "efficiency first, equity second" was discarded in favor of "greater emphasis on equity in redistribution" 再分配更加注重公平, signaling a definite leftward correction (Hu Jintao, 2008). Chongqing has in fact been the main "test-point" designated by the party Central for that reorientation.<sup>23</sup>



The Chongqing “experiment,” then, is potentially a national model, linked of course to the talk about Bo Xilai possibly being nominated onto the Standing Committee of the Politburo and a major role in the party’s top leadership. Approving reports published in the national *People’s Daily*, covering the extension of urban registration to the nongmingong, the public rental housing program, the “three into’s and three same’s” program for cadres, an interview with Huang Qifan, the “sing, read, tell, and spread” ideological program, and so on, suggest the same (see, e.g., *Renmin ribao*, 2010a, 2010b, 2010c, 2011a, 2011b), as does the adoption by the central government of Chongqing’s public housing approach as a model to be applied throughout China. The recent visits to Chongqing of top leaders Xi Jinping 习近平, Hu Jintao’s designated successor (Xi Jinping, 2010), Wu Bangguo, member of the Standing Committee of the Politburo and chairman of the Standing Committee of the National People’s Congress (Wu Bangguo, 2011), and Li Yuanchao 李源潮, head of the powerful Central Organization Department 中央组织部部长 (Li Yuanchao, 2011), who all gave publicly their stamp of approval to what Chongqing has done, point in the same direction. It seems fair to say that Chongqing has become a serious contender as a national policy model for China.

## Conclusion

Though still very much a work in progress, with features and concepts that are not yet entirely clear, Chongqing does appear to represent a distinctive approach to economic development that stands out from what has happened in reform-era China thus far. It places social equity front and center. It has developed a set of government-owned enterprises that are neither like those of the old planned economy nor like those of the reform era’s privatized government enterprises; not even like most of the typical present-day government-owned enterprises. The market appreciation and incomes from their assets, most especially land, have not simply become revenues for the local governments but have been explicitly earmarked to fund social equity programs and infrastructural construction for public benefit.

Perhaps we can also think of it this way: given China’s severe scarcity of land and abundance of surplus labor, it seems unavoidable that, with marketization and urbanization, development land values would rise far faster than wages. Under those circumstances, the appreciated land value may go either to private developers, or to the local governments, or both, as in the reform era thus far. Or, it can be dedicated to improving the livelihood of the common people, as in Chongqing. In such a perspective, from the

“equalize land rights” and “land appreciation to belong to the public” of Sun Yat-sen to the Communist revolution’s Land Reform and “ownership by the whole people” enterprise system, to Chongqing’s “people’s livelihood,” there is actually substantial continuity. The record of Chongqing’s experiment, both in terms of economic development and of social development, has been strikingly successful.

In addition, Chongqing has made impressive strides toward “law and order” and clean government when China as a whole seems widely afflicted with corruption and abuse and the interlinking of organized crime with officials. Chongqing has done so through a highly effective military-style campaign, even though it is open to criticisms of arbitrariness. The campaign was waged under an ideology of spiritual and ideological regeneration, which has also proved to be controversial. At its core, however, that ideology draws on the higher minded ideals both of the Revolution and of China’s Confucian past, both of “serving the people” and of “benevolent government,” joined in the expression “people’s livelihood.” Chongqing has done a good deal to rebuild the party’s core values and social bases. However, it has yet to develop genuinely powerful and stable institutions of popular supervision. Nevertheless, the combination has captured the imagination of many in China, offering a way to bridge and transcend the deep Left/Right rift of the reform era, and to bridge and integrate the reformist present with the revolutionary and pre-revolutionary past.

Mainstream economists in China have certainly been right to call on Kornai to criticize the weaknesses of the planned economy and argue for marketization; Chongqing’s experience has in fact incorporated those points of view. But mainstream economists have also called on Kornai to argue for clear-cut property rights, complete privatization, and exclusive reliance on private enterprise (excepting non-profit strategic sectors and public services). In so doing, they have missed the crucially creative role that unclear land rights have actually played in China’s development, as well as the very positive role that local governments have played in leading and facilitating development. Most of all, they have missed how local government enterprises can use market forces, profits, and appreciations in value to drive equitable development. That is what forms the core of the meaning of the third hand in Chongqing.

At the same time, Marxist scholars in China have certainly been right to point to the exploitative use of surplus rural Chinese labor by foreign and domestic capital and to argue for greater attention to social equity. But any doctrinaire understanding of the Marxist labor theory of value, of class relations as simply a matter of surplus value extraction, and foreign investment

as simply nothing more than capitalist exploitation, misses the critical role that market forces and globalized trade and investment have played in Chongqing's equitable development. Chongqing's experience, perhaps, shows more than anything else the possibilities of using the market not for private gain but for public benefit.

We have seen above that competitive mechanisms and dynamics operate behind Chongqing's third hand. Its very emergence stems from weaknesses in the operations of the first and second hands; it both challenges and utilizes the other two hands. Given the coexistence of all three hands, the third hand must in fact compete with the first and second. The fact is, in the context of the globalized economy and China's current political-economic system, Chongqing's third hand must compete not only domestically with other localities but also internationally with other countries and economic entities. Only if it succeeds in driving economic development under such competition can it become a broadly applied model in China as a whole. And, only then might it come to stand for equitable development as a realistic alternative in a globalized economy dominated overwhelmingly by capitalism. Thanks to Chongqing's "experiment," the question is now no longer just a theoretical or ideological one, but one of observable and evolving realities.

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### **Notes**

1. As the party secretary of an east coast city pointed out to me at dinner after a lecture I gave in November 2010, this is an unusual combination, for it is rare for

the “number one person” 一把手 (i.e., the party secretary) to allow his second-in-command to serve both as mayor and the head of this crucial commission that controls the municipality’s key resources.

2. For a sense of the scale of these numbers, HP’s total worldwide production in 2010 was 65 million laptops.
3. For a series of monographs on “eminent domain” cases in the United States, see the website of the Institute for Justice’s Castle Coalition (against the abuse of eminent domain), [www.castlecoalition.org/about/38](http://www.castlecoalition.org/about/38).
4. The new “service industry” includes large numbers of commonly neglected new- and old-style, and semi-new style getihu 个体户, that is, individual or family operations, the urban “petty-bourgeoisie” or “self-employed.” For a detailed analysis and discussion, see Huang, 2011b; Huang Zongzhi, 2008.
5. Such an understanding should be distinguished from the conventional understanding in American business administration studies, which emphasizes the “hand” of management, distinguished from Smith’s classical liberal view of the “invisible hand” operating behind the rational choices of the individual economic man (Chandler, 1977).
6. The complete names of the eight in Chinese are: 重庆城市建设投资 (集团) 有限公司, 重庆高速公路发展有限公司, 重庆市高等级公路投资有限公司, 重庆地产 (集团) 有限公司, 重庆市能源投资 (集团) 有限公司, 重庆城市交通开发投资 (集团) 有限公司, 重庆水务控股 (集团) 有限公司, 重庆市水利投资 (集团) 有限公司 (Su Wei et al., 2011: 183).
7. Wang Shaoguang, 2011: figure 4, gives a rate of increase of 29.7 percent a year. Cui Zhiyuan, 2010, uses figures of 19 percent per year for Chongqing, and 3.7 percent for a nationwide average.
8. With the caveat that, as Cui Jian points out, a directly-under-the-center municipality enjoys the distinctive systemic advantage of being able to own land and also make laws and regulations. Other cities, under provincial administration, hold land but cannot make laws, that privilege being reserved for the provincial governments (Cui Jian, 2011). But that institutional constraint can presumably be overcome by provincial governments’ working in close collaboration with the cities under their jurisdiction.
9. On the enterprise, see Chan and Unger, 2009; on changing approaches to restructuring, see Tianze jingji yanjiusuo, 2011: chap. 1.
10. Fanny Mae and Freddie Mac, despite their impressive historical contribution to enlarging the home-ownership base in American society (accounting for something like one half of all outstanding home mortgages), in the end collapsed as private firms precisely because they tried to satisfy at once two conflicting demands: government pressures to lend to more and more marginal borrowers for the (political) purpose of enlarging the numbers and proportions of home-owning Americans, on one hand, and pressures from shareholders to make a profit and

drive up the value of shares, on the other, leading to the two entities' ever greater involvement in higher yielding "derivatives" of packaged "mortgage backed securities." The collapse in the housing market led to their being placed under government conservatorship in 2008 and their being de-listed from the New York Stock Exchange in 2010 (because the share values had sunk below \$1 for more than 30 days) ("Fanny Mae," 2011; "Freddie Mac," 2011).

11. George's example was the house and the land on which it stands: the former results from human effort, and properly belongs to that person, while the latter does not. The two should not be lumped together as a single "property" (George 1879: VII.I.16).
12. It is, of course, one of Sun Yat-sen's "Three People's Principles." Its historical roots go back to the classic *Zuozhuan* 左传, and may be viewed as part and parcel of the Confucian ideal of "benevolent government" (仁政).
13. I wrote about this subject in Huang, 2011a: 30; for a more up-to-date report, see Wu Bangguo, 2011.
14. The distinction of "primary" versus "secondary" seems to be drawn from practices in the American equities market, in which purchases from the original issuer are considered transactions in the primary market, while further exchanges are considered "secondary."
15. Huang Qifan also points to the Hong Kong example, where the government has used income from periodic sales of reclaimed land to build public housing for 2 million, or a similar proportion of the population.
16. Huang uses for illustrative purposes the figure 80 billion yuan across a 15-year period.
17. Huang uses the figure of 30 billion yuan for a 15-year projection.
18. The 2005 China Human Development Report gives, for China as a whole, a 0.30 figure for 1982 and 0.45 for 2002. By the latter figure, China ranked 90th of 131 countries in the world for that year (China Development Research Foundation, 2005: 13).
19. In suburban Beijing's Wali township 洼里乡 just north of the 5th ring road (adjacent to the Olympic Park), for example, as one former resident villager told me, peasants received 6,000 yuan for each square meter of their existing housing, so that his 250 square meter house brought 1.5 million yuan in compensation for demolition and relocation, with which he purchased new housing (and also a car to go into his "black [unlicensed] taxi" business.).
20. For an analysis of China's civil justice system from such a historical angle, see Huang, 2010.
21. The place that shangfang occupies in China's political-economic system can be illustrated with an investigative report published by the Hong Kong Phoenix Weekly ("Dalu jiefang liantiao diaocha," 2008) about the permanent offices local governments have established in Beijing for the express purpose of "intercepting"

shangfang people 截访 before they reach the central government's shangfang offices. This is in part a result of the system used by the central government to evaluate provincial officials, one criterion of which is the incidence of central-level shangfang by people from their localities, tallied into a point system. Provincial officials, therefore, have in turn pressured the cities and counties under them to minimize such. The entire system has led provincial, city, and county governments to establish offices to intercept shangfang. Those offices are reportedly staffed by as few as a handful of personnel to several dozens, with the numbers increasing at the peak periods of shangfang, such as the time of the "two meetings" 两会 (of the National People's Congress and the Political Consultative Conference in the spring) and, even more, during the Olympics in the summer of 2008.

22. See Ivan Szelenyi's challenging argument (Szelenyi, 2008).
23. For a discussion of the role of local "experiments" in Chinese national policy formation, see Heilmann, 2009.

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## Biography

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