

BO XILAI AND THE CHONGQING MODEL

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Executive Summary

1. Chongqing (重庆), the fourth centrally administered municipality (直辖市), has become a bright spot amidst China's economic downturn because of its landlocked economy mainly based on domestic investment and consumption.
2. In 2008, when China's growth significantly slowed to only 9%, Chongqing's GDP grew by 14.3%, 5.3 percentage point higher than the national level.
3. Chongqing's export volume in 2008 was only about 7.6% of the local GDP, while for the whole of China, export was 32% of GDP. This inward economic structure made Chongqing less affected by the global financial crisis.
4. Its Party secretary, Bo Xilai (薄熙来), a Politburo member, is well noted for his political skills for handling tough economic issues and thorny social issues.
5. Son of Bo Yibo (薄一波), former vice premier of China in the 1950s and the 1980s, Bo Xilai is well educated, articulate, and charismatic.
6. In the meantime, Chongqing also increased its in-use foreign investment by 151% and its foreign trade by 28% year on year.
7. Taking advantage of its traditional strength in heavy industry, technology and education, and abundant natural resources, Chongqing seeks to invigorate its economy by accelerating urbanization and industrialization.
8. Located at the upper reaches of the Yangtze River about 1,500 kilometers from China's coast, the hilly city is set to become a manufacturing center, a logistics hub, and a civil aviation hub in southwest China.

9. With a package of preferential policies including a low corporate income tax of 15%, Chongqing is poised to attract more investment from multinational corporations and to grow another 12% of its GDP in 2009.
10. The Chongqing model was gradually developed under Bo's predecessors such as Huang Zhendong (黄镇东) and Wang Yang (汪洋) with significant contributions from government leaders such as Mayor Wang Hongju (王鸿举) and Vice Mayor Huang Qifan (黄奇帆). Bo Xilai is likely to reap the benefits of their labor and is better positioned for political advancement at the Eighteenth Party Congress in 2012.

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Chongqing: A Bright Spot in China's Economic Downturn

- 1.1 While the world is struggling to deal with the most serious global economic crisis since the Great Depression, Chongqing (重庆), a provincial-level municipality in southwestern China located 1,500 kilometers from the coast, seems to have found an answer.
- 1.2 An alternative to the export-oriented development model widely adopted in the booming eastern areas, the Chongqing model is based on domestic demand (domestic consumption and investment) for its economic growth. Chongqing's export volume in 2008 was only about 7.6% of the local gross domestic product (GDP), while for the whole of China, export was 32% of GDP.¹
- 1.3 China is going continental. The most robust consumer spending figures are now coming from inland and lower-tier cities rather than from the traditional growth powerhouses clustered around the Yangtze River and Pearl River delta regions.² Wal-Mart plans to increase the number of stores from five to nine in Chongqing, which mean the super retailer will have more stores in Chongqing than in Beijing or Tianjin.³

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¹ In 2008, China's export was US\$ 1.4 trillion, with GDP about 30 trillion yuan (US\$ 4.4 trillion); Chongqing's export was US\$ 5.7 billion, with GDP about 509.7 billion yuan (US\$ 75 billion).

² "Chinese tap an inner dynamic to drive growth," *Financial Times*, 11 May 2009, p.2

³ *Ibid.*

- 1.4 From a demand-side analysis, economic growth is the result of the rise in both domestic demand (domestic consumption and investment) and external demand (exports-minus imports).⁴ Domestic consumption, domestic investment and net export respectively contributed 49%, 42% and 9% to China's total GDP in 2007, while in Chongqing, the proportion of domestic consumption and investment in GDP was as high as 57% and 62% with that of net export as low as -19%.⁵ (See table below)

**COMPARISON OF CHINA'S AND CHONGQING'S GDP COMPOSITION,
2007 (BY EXPENDITURE APPROACH)**

	Unit: billion yuan	
	China⁶	Chongqing⁷
Total GDP	26,324	430
Domestic Consumption	12,844 (49%)	246 (57%)
Domestic Investment	11,141 (42%)	268 (62%)
Net Export	2,338 (9%)	-84 (-19%)

- 1.5 Due to the long distance from the coast Chongqing has its own logistical problem when exporting finished products to foreign countries. The winding railways from the west to the east make it costly to transport goods to sea ports by train. The limitation on tonnage (maximum 3,000 tons) also restricted inland shipping along the Yangtze River. Hence the landlocked municipality always faces difficulty in developing dynamic and export-oriented manufacturing industries due to the high transportation costs and the lack of a convenient outlet to the sea.

- 1.6 Underdeveloped consumer market is another disadvantage, with average income only half of those in Shanghai and Beijing. In 1998, per capita GDP of

⁴ For details of the supply- and demand-side analysis of China's GDP structure, please refer to John Wong, "China's Economy in 2006/2007: Managing High Growth For Faster Structural Adjustment," *EAI Background Brief* No. 317, Jan. 2007.

⁵ The figures are calculated by the authors according to statistics provided by *China Statistical Yearbook* (2008) and *Chongqing Statistical Yearbook* (2008).

⁶ *China Statistical Yearbook* (2008), Beijing: China Statistics Press, p. 54

⁷ *Chongqing Statistical Yearbook* (2008). <http://www.cqtj.gov.cn/tjnj/2008/yearbook/index.htm>

Chongqing was only 4,684 yuan, much lower than the country's average of 6,038 yuan.

- 1.7 As a newly established centrally administered municipality (直辖市) in 1997, Chongqing has quickly caught up with the rest of China with a double-digit annual growth rate since 2002. Chongqing, a traditional defense and heavy industry base as well as the largest city in the western region, has spearheaded the central government's efforts to develop the west due to its unique geographic position and solid industrial foundations.
- 1.8 With the appointment of Bo Xilai (薄熙来, born in 1949), son of late Bo Yibo (薄一波, 1908-2007, a veteran leader of the Chinese Communist Party and former vice premier of China in the 1950s and the 1980s) as its Party secretary in December 2007, Chongqing continued its upward trend and began to shine in the gloomy global economic downturn.
- 1.9 In 2008, when China's growth significantly slowed to only 9%, Chongqing's GDP grew by 14.3%, 5.3 percentage points higher than that of the national level. In the meantime, Chongqing also increased its foreign investment utilization by 151% and its foreign trade by 28%. With a package of preferential policies including a low corporate income tax of 15%,⁸ Chongqing is poised to attract more investment from multinational corporations and to grow another 12% of its GDP in 2009.
- 1.10 China's most populous municipality, Chongqing has a total population of 32.5 million (2007), of which only 27%, or 8.8 million, were registered urban residents. Unlike the other three provincial-level municipalities (Beijing, Shanghai, and Tianjin), the boundaries of Chongqing Municipality reach much further into the surrounding rural hinterland and span 82,400 square kilometers, more than twice the land area of Hainan Province. Natural

⁸ According to the special document issued by the State Council in January 2009, such preferential tax rate will be maintained for another 20 years. See "Why can Chongqing's economy remain robust amidst crisis?" (*Chongqing jingji weihe nishi shangyang?*), *China Economic Times*, 23 March 2009

resources are abundant nearby with large reserves of coal, natural gas, and more than 40 kinds of mineral such as strontium and manganese.

- 1.11 Chongqing has a formidable competitor in the region, i.e., Chengdu, the capital city of Sichuan province. With a more pleasant climate and a location in the fertile Chengdu Plain, the livable Chengdu City has certain comparative advantages in tourism, agriculture and land transportation.
- 1.12 Competition often goes together with cooperation. In the long run, Chongqing, Chengdu and Xi'an, another economic and cultural hub in the west, are expected to become another city cluster after the Yangtze River Delta, Pearl River Delta and Bohai Bay Rim areas, which are all in the east.
- 1.13 With its industries (such as car assembly plants) forming vertical and horizontal linkages with other industries that supply their inputs or market and sell their products in the western region, Chongqing is eager to work with Chengdu and Xi'an to achieve maximum competitiveness. Chongqing's Vice Mayor Huang Qifan made the proposal for the formation of a city cluster at the annual session of the National People's Congress in March 2009.⁹
- 1.14 The fast growth of southwestern China buttresses the case that the inland could turn out to be one of the next well-springs of China's economic growth. The coast-to-inland shift, which has rough parallels in America's westward migration in the 19th century, has the potential to narrow the noxious income gap between China's vast neglected interior and a relatively well-off seaboard that has hitherto attracted most of the investment by the Chinese government and foreign companies.¹⁰
- 1.15 If the Chongqing model is sustainable, it can be replicated in inland areas as well as coastal regions. As a result, China as a whole would be able to recover sooner. Politically, the success of the Chongqing model would substantially

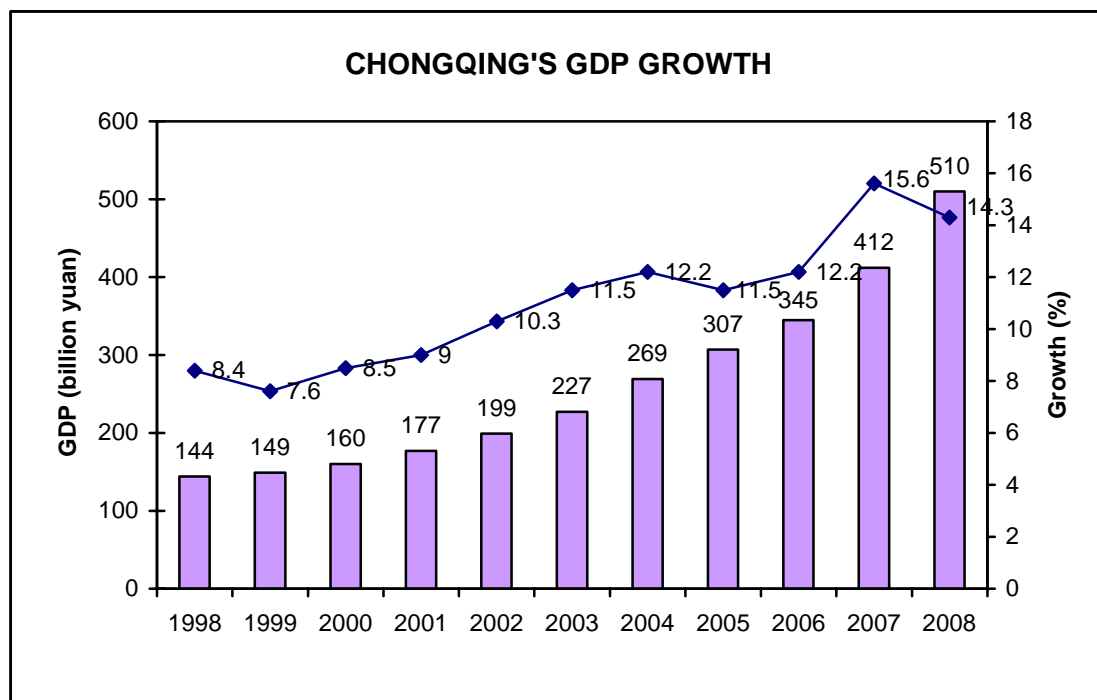
⁹ "Chongqing, Chengdu and Xi'an: western triangle's dream of becoming the 4th growth engine in China," *Chongqing Daily*, 9 March 2009

¹⁰ "Growth spreads from China's coast," *International Herald Tribune*, 14 April 2009, p.20

increase the odds of the current leaders of Chongqing such as Bo Xilai for future promotions.

Recent Economic Progress and Industrial Structure

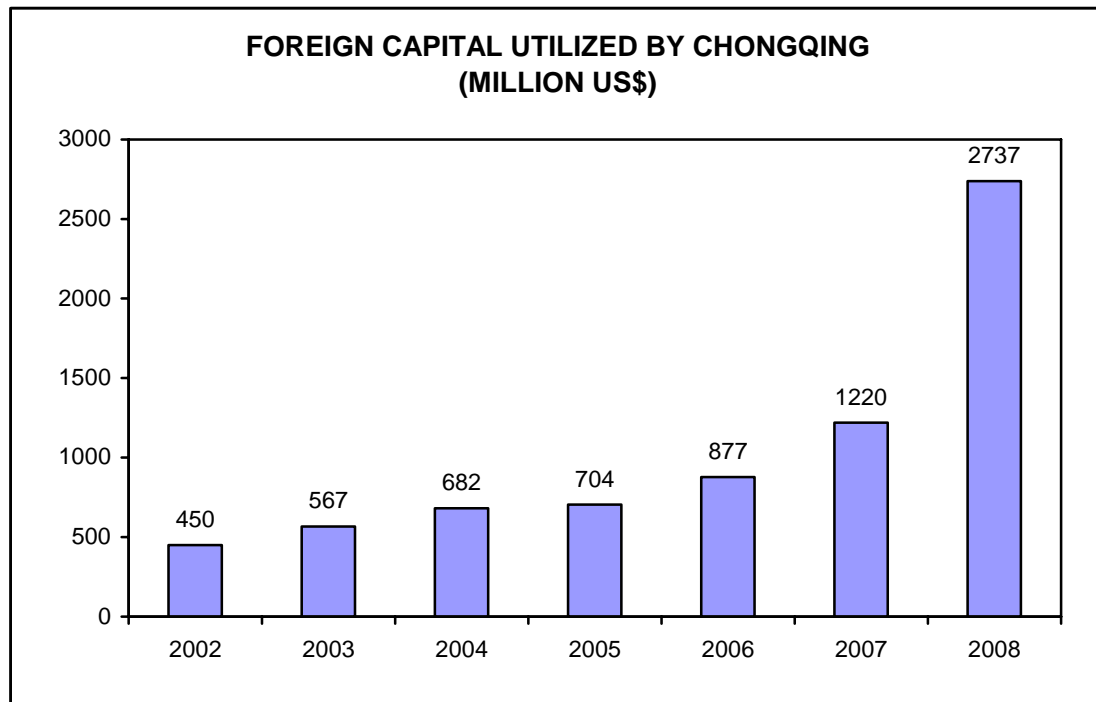
- 2.1 Chongqing's economy has been keeping double-digit annual growths since 2002 (see figure below), and in 2007, its GDP jumped 15.6%, much higher than the average level of 13% for the whole country. From 2001 to 2007, Chongqing's foreign trade volume soared 310% while its in-use foreign capital (including both foreign loans and foreign direct investment) jumped about 200%.¹¹



- 2.2 Of note was Chongqing's economic achievement in 2008, when the U.S. financial turmoil gradually escalated into the worst-ever global economic crisis since the Second World War, dealing a big blow towards China's economy that is heavily dependent upon foreign trade.

¹¹ These figures are from the Chongqing Statistical Yearbook (2008). <http://www.cqjtj.gov.cn/tjnj/2008/yearbook/index.htm>

2.3 In 2008, China registered an economic growth of 9%, while Chongqing, outperforming most of its domestic peers, managed to increase its GDP by 14.3%.¹² One eyeball-catching index is the foreign capital actually used by the municipality in 2008, which jumped 151% to US\$ 2.7 billion from the past year. Chongqing's foreign trade volume also increased 28% in 2008, 10.2 percentage point higher than that of the country's average level.



2.4 In the fourth quarter of 2008 after the U.S. financial crisis was exacerbated by the collapse of the Lehman Brothers, Chongqing's economic growth still reached 14.3%, even higher than the first quarter of the year. In the first two months of 2009, Chongqing's industrial sales, property sales and commercial retail sales all grew 20% or more.¹³ Meanwhile, its banking loans jumped 29%, the highest among all provincial areas in China.¹⁴ When the central

¹² All economic figures of Chongqing in 2008 are from the official website of Chongqing Municipal Statistical Bureau. <http://www.cqjt.gov.cn/UploadFile/20090202105811703.doc>

¹³ "Why can Chongqing's economy remain robust amidst crisis?" (*Chongqing jingji weihe nishi shangyang?*), *China Economic Times*, 23 March 2009

¹⁴ *Ibid.*

government put forward an 8% economic growth target for 2009, Chongqing Municipality actually proposed a much higher target of 12%.

- 2.5 *Yazhou Zhoukan*, a Hong Kong-based weekly newsmagazine, even hailed the “Chongqing Model” in a cover story as the new way for China’s economic rebound.¹⁵ According to this article, the “Chongqing Model” is very different from previous export-oriented coastal models of Guangdong, Southern Jiangsu, Wenzhou, and Shanghai Pudong because Chongqing’s economy is more dependent upon domestic market and its rapid industrialization and urbanization process.
- 2.6 Much of Chongqing’s economic strength lies in heavy industry and a growing multinational corporation presence. Attracted by lower labor costs and favorable tax policies, a number of prominent domestic and international manufacturers whose production was previously concentrated in coastal provinces have established plants in Chongqing.
- 2.7 Industrial sectors such as motorcycles, autos, auto parts, chemicals, pharmaceuticals, agricultural product processing, and light industrial goods have witnessed the fastest development in recent years.¹⁶ Unlike coastal provinces, 90% of Chongqing’s industrial products go to the domestic market.¹⁷
- 2.8 As a major manufacturing base for defense industry since 1949 due to its geographical remoteness, Chongqing owns many military factories, most of which have been converted to civilian use and become a strong part of the economy.

¹⁵ Ji Shuoming, “Chongqing Moshi Chuang Zhongguo Jingji Fangong Xinlujing,” *Yazhou Zhoukan*, No. 6, 2009, p. 24

¹⁶ Industrial sectors in Chongqing contributed 40 percent of its total GDP in 2008.

¹⁷ Ji Shuoming, “Chongqing Moshi Chuang Zhongguo Jingji Fangong Xinlujing,” *Yazhou Zhoukan*, No. 6, 2009, p. 24

- 2.9 Chongqing is China's third-largest center for motor vehicle production and the largest for motorcycles.¹⁸ Chongqing produces about 60% of China's motorbikes, and one million sedans per year, most of which are sold to domestic consumers. Chongqing-based ChangAn Automobile Group Co., Ltd. is China's largest producer of minivans and fourth-biggest automaker.¹⁹
- 2.10 Due to the large investment in the local auto industry, car parts have come as well. U.S. Ford's auto joint venture in Chongqing has brought with it several big parts suppliers. U.S. engine-maker Briggs & Stratton even set up a global sourcing centre in Chongqing rather than in Shanghai.²⁰ The market share of Chongqing-produced cars is expected to account for 15% of the country's total by 2010.

OUTPUT GROWTH OF MAJOR INDUSTRIAL PRODUCTS IN CHONGQING²¹

	Cars (1,000)	Motorcycles (1,000)	Rolled Steel (million tons)	Cement (million tons)	Sulfuric acid (million tons)	Natural Gas (billion cubic meters)	Generated Electricity (billion kwh)
1997	161	1,770	1.16	8.62	0.5	3.1	14
2007	708	6,383	4.37	28.2	2.2	7.1	33

- 2.11 Thanks to the abundant supply of natural resources nearby, Chongqing is also home to China's largest aluminum processing plant, as well as the largest acetic acid plant. At the end of 2007, Chongqing was home to 4,451 foreign-

¹⁸ David Lammie, "Pillar of the West," *The China Business Review*, <http://www.ChinaBusinessReview.com/public/0901/criticaleye.html>

¹⁹ The joint-venture ChangAn Ford Mazda Automobile Co., Ltd., which has an annual capacity of 250,000 units, manufactures several car models, including the Ford Mondeo sedan, Ford Focus compact hatchback, Ford S-MAX sports utility vehicle, and Mazda 3 and Volvo S40 compact sedans. Most of these cars are sold to domestic consumers.

²⁰ "Building It – But Will They Come?" *Far Eastern Economic Review*, 4 September 2003

²¹ Ji Shuoming, "Jinrongweiji zhong de Chongqing qiji," *Yazhou Zhoukan*, No. 6, 2009, p. 31

invested enterprises, with cumulative investment of \$19.8 billion.²² The city had 93 Global Fortune 500 enterprises in 2007.

Political Leadership and the Chongqing Model

- 3.1 Chongqing's remarkable growth since 2002, notably, is partly due to the strong leadership of the municipality in the past seven years.
- 3.2 When Chongqing was upgraded to the status of a provincial-level municipality under direct central control in 1997, Zhang Delin (张德邻, born in 1939) was appointed as its founding Party secretary and Pu Haiqing (蒲海清, born in 1941) its founding mayor. Yet the two could not get along with each other. They were both fired in June 1999.
- 3.3 He Guoqiang (贺国强, born in 1943), former governor of Fujian, was transferred from Fujian to replace Zhang as Party secretary, and Bao Xuding (包叙定, born in 1939), former vice minister of the National Development and Reform Commission (NDRC), was transferred to replace Pu as mayor.
- 3.4 Yet a new model of development only began to emerge when Huang Qifan (黄奇帆, born in 1952) was transferred to Chongqing in 2001. A native of Zhejiang Province, Huang spent his earlier political career in Shanghai.²³ When he was deputy director of the General Office of the Shanghai Pudong Development and deputy director of the Shanghai Pudong New Area Management Board in the early 1990s, Huang contributed to the development of the Pudong model in which bank loans are guaranteed on the future earnings of infrastructure projects.²⁴

²² David Lammie, "Pillar of the West," *The China Business Review*, <http://www.china-businessreview.com/public/0901/criticaleye.html>

²³ For his biographical information, see http://big5.china.com.cn/zhuant2005/txt/2004-12/24/content_5737773.htm.

²⁴ For details, see Zhu Yunhan, "Huang Qifan yu Chongqing Jingyan," *Shangye Zhoukan*, No. 1108 (February 2009), p. 16.

- 3.5 After Huang was transferred to Chongqing as vice mayor in October 2001, he applied his experience in financial management and created eight investment corporations. Huang's measures were endorsed by his superiors such as Party Secretaries He Guoqiang and Huang Zhendong (黄镇东) as well as Mayors Bao Xuding and Wang Hongju (王鸿举).
- 3.6 Chongqing's profile expanded when Wang Yang replaced Huang Zhendong as Party secretary in December 2005. A rising political star, Wang had had work experiences in both local and central governments. He was appointed to the Politburo at the Seventeenth Party Congress held in October 2007.
- 3.7 When Bo Xilai, another Politburo member, was appointed as Party secretary of Chongqing in December 2007, people in the municipality had high hopes that he could turn the gritty city of Chongqing into a developed region after the fashion of Dalian, a coastal city where Bo served as mayor for a decade.²⁵ During Bo's stay in Dalian, he was active in attracting investment from Singapore.
- 3.8 In contrast to his ostensibly high-profiled activities in his previous positions, Bo has been relatively low-key in his new post. Yet he has proved to be equally capable and effective in his new position. He is said to be a good listener, a problem solver, and a sensitive strategist.
- 3.9 On the eve of the Chinese New Year in 2008, he invited people's congress deputies working at the grassroots for a meeting. He wanted to listen to their views. In his words, he wants to get their ideas with original flavor (*yuanzhi yuanwei*, 原汁原味). After talking with more than 30 deputies for two hours, Bo was touched by their sense of responsibility and their sense of democratic participation.²⁶

²⁵ Lindsay Beck, "New Optimism for a gritty Chinese city," *International Herald Tribune*, 20 February 2008, <http://www.ihf.com/articles/2008/02/20/business/chong.php>.

²⁶ http://www.cq.xinhuanet.com/2009-02/09/content_15635602_4.htm

- 3.10 On another occasion, after oil prices hit an all-time high of US\$147.27 per barrel on 11 July 2008, taxi drivers in various cities staged strikes because of rising costs and dwindling income. Bo Xilai held a meeting with representatives of taxi drivers and other citizens on 6 November 2008 to investigate the situation and ease their concerns.²⁷
- 3.11 At an academic seminar, the Chongqing leadership learned that bad loans in the financial sector of the United States were in trillions of US dollars instead of hundreds of billions. Bo Xilai and Mayor Wang Hongju then acted promptly to investigate the situation in Guangdong, Zhejiang, and Shanghai in March 2008. The leadership introduced six measures to promote the economy as early as April 2008, long before Lehman Brothers declared bankruptcy.²⁸

Coping with the Financial Crisis and Geographic Isolation

- 4.1 Chongqing's economic development recently drew intensive attention mostly due to its relatively good performance against the backdrop of the global financial crisis and its dazzling infrastructure construction to overcome transport barriers. Its recent progress can be attributed to such factors as its domestic demand-oriented economic model, speed of urbanization, low corporate tax rate, cheap labor cost, improved transport networks as well as capable leadership.
- 4.2 Due to its difficulties of transporting components and finished products to and from coastal ports, Chongqing's economy has been relying more on the domestic market than eastern provinces. With 90 percent of industrial production going to the domestic market, Chongqing's GDP was less affected by the shrinking overseas demand in the global financial crisis. All the 74 Chinese and foreign-funded enterprises now located in Chongqing's Jianqiao

²⁷ For details, see “薄熙来和代表细算成本账 关心出租司机收入” <http://news.rednet.cn/c/2008/11/06/1629624.htm>.

²⁸ http://www.cq.xinhuanet.com/2009-02/09/content_15635602_4.htm

Industrial Park are producing to meet domestic demand, and none of them have closed the local plants there due to the financial crisis.²⁹

- 4.3 Facing high costs and the complexity of transporting freight, Chongqing has encouraged local export-oriented enterprises to provide products aimed at neighboring markets or products and services that can be transported by air, sent via the Internet (such as software), and other telecommunication means.
- 4.4 The IT giant Hewlett-Packard (HP) established a new global calling center in Chongqing, shortly after it had set up its global software test service center at the Xiyong Microelectronics Industry Park, Chongqing, in June 2008. HP has also announced its plans to build a computer manufacturing plant in Chongqing to produce desktop and notebook PCs for the unique demand of the western areas of China.³⁰
- 4.5 To forge itself into a logistics hub in western China, Chongqing is accelerating the construction of its three-dimensional transport networks. The construction of the Three Gorges Dam has slashed river journey times between the city and Shanghai.³¹ Wuhan-Chongqing-Chengdu high-speed railway is expected to begin operating in 2012. When the entire project is completed, the travel time between Chongqing and Shanghai will be more than halved, to about 10 hours.³²
- 4.6 Chongqing is set to become western China's largest civil aviation hub and plans to build a network of four airports across the municipality. With a

²⁹ Ji Shuoming, "Chongqing Moshi Chuang Zhongguo Jingji Fangong Xinlujing," *Yazhou Zhoukan*, No. 6, 2009, p. 27

³⁰ "HP To Build Second Chinese PC Plant In Chongqing," *China Tech News*, 14 Oct. 2008, <http://www.chinatechnews.com/2008/10/14/7731-hp-to-build-second-chinese-pc-plant-in-chongqing>

³¹ A nonstop container service on the 2,500 km route currently takes as little as five days. Deeper water levels in the reservoir also yield benefits. Companies such as Yangtze River Acetyls can operate bigger vessels to and from the city, reducing costs. See David Lammie, "Pillar of the West," *The China Business Review*, <http://www.chinabusinessreview.com/public/0901/criticaleye.html>

³² David Lammie, "Pillar of the West," *The China Business Review*, <http://www.chinabusinessreview.com/public/0901/criticaleye.html>

current capacity of seven million passengers annually, Chongqing Jiangbei International Airport is undergoing a third phase of expansion to raise its capacity to 25 million passengers a year.³³ Infrastructure within the city has improved as well. Chongqing opened China's first straddle type monorail in 2005, which consists of 13.5 km of track and 14 stations.

- 4.7 As one of the two experimental zones for urban-rural integration reform,³⁴ Chongqing has been actively engaged in reforms on household registration (*hukou*), land management, social security and governance, to reduce income gap and other welfare, education and medical care differences related to the *hukou* system between urban and rural people.
- 4.8 With this effort to accelerate urbanization and convert more rural people into urban residents, Chongqing owns special advantages in developing its housing and land market, as well as in providing abundant cheap labor. Chongqing's urban area accounts for just 7% of its total but is responsible for about 50% of its economic output. About 64% of its 31 million people, however, are still registered farmers. In its experiment in trade of rural land-use right, peasants are permitted to exchange their contracted land-use rights for shares in "specialized peasants' cooperatives" (*nongmin zhuan ye hezuoshe*). China's first rural land exchange agency was set up in Chongqing in December 2008.
- 4.9 Chongqing has also offered a package of preferential policies to lure investment, including corporate income tax at the reduced rate of 15%, much lower than the country's general standard of 25%. Rising land and labor costs in the coastal regions, coupled with improved transport connections to the interior, have persuaded many foreign manufacturers to consider Chongqing as a viable investment destination.

³³

Ibid.

³⁴

The official name of the reform is called "integration of urban and rural economic and social development" (城乡经济社会发展一体化). The other experimental zone is Sichuan Province. The State Council approved these two experimental zones in 2007. See Chen Min, "Experimental zones aimed at ending urban-rural gap," *China Daily*, 9 July 2007

APPENDIX I LOCATION OF CHONGQING IN MAINLAND CHINA



Source: <http://www.fas.usda.gov/info/fasworldwide/2006/04-2006/ChongqingChina.htm>

APPENDIX II CHONGQING'S ADMINISTRATIVE DIVISION MAP



Source: <http://www.chinahighlights.com/chongqing/map.htm>