

How to Promote the Public-Private Partnership of Public Works in Chengdu Under the Background of the New-Type Urbanization

Xianling Zhang

Southwest Jiao Tong University, Jiao Da RD. Jinniu District, Chengdu 610031, China

Abstract

In the process of new-type urbanization, due to the huge demand for construction funds, there is an expenditure pressure in local finance in Chengdu and it's difficult to meet the needs of urban construction by conventional public income, such as government revenue. This requires to adopt the Public-Private Partnership(PPP) in public works. However, through analysis, some problems may arise in the process of adopting the PPP in Chengdu, such as Lack of legal system for application of PPP, weak contract spirit, government supervision is not sure, the approval procedure is complicated, etc. The following countermeasures are proposed in this paper: strengthening and improving the legal system, setting up contract spirit, setting up professional management organization of PPP project, transforming roles to develop standardized PPP project approval procedures.

Key words: New-Type Urbanization; Public-Private Partnership; Public Works

1. Background: New-type Urbanization

City is the most concentrated place of all kinds of factor resources, the center of modern social economic activities and the locomotive of regional development. China has entered the decisive stage in finishing building a moderately prosperous society in all respects. It is in an important period of economic transformation and upgrading, and accelerating the socialist modernization. It is also in the critical period of the in-depth development of urbanization. The department of state bulletin "National Plan on New-type urbanization(2014-2020)" point out that the urbanization is a natural-historical procession which accompanied by industrialization development, non-agricultural industries and rural population gathering in the city. It is an objective trend of the development of human society and an important symbol of the modernization of a country. ^[1]

While building a moderately prosperous society in all respects and accelerating the socialist modernization, we must make great efforts to city, the locomotive. And we must grasp the law of development, promote the human centered new-type urbanization, play

the biggest potential of expanding domestic demand, and effectively resolve all kinds of “urban diseases”.

a. On the Level of China

Since the Reform and Opening, China has experienced the largest and fastest urbanization process in the history of the world. The urban development is magnificent, and has made remarkable achievements. From December 20 to 21, 2015, the Central Urban Work Conference was held in Beijing. The conference pointed out that China's urban development has entered a new period, urban development leads to the development of economy and society, urban construction has become an important engine of modernization.^[2] The conference pointed out that the next step of urbanization in China is to improve the level of the planning and enhance the scientificity and authority of urban planning, replace multiple plans for city (county) development with one master plan, carry out urban design in a comprehensive way, improve the construction policy in the new era. We need to enhance the level of construction, strengthen the urban underground and infrastructure construction, build Sponge City, accelerate the transformation of shantytowns and dangerous housing, orderly promote the comprehensive renovation of old residential areas. In 2020 and strive to basically complete the existing urban shanty towns, villages and reconstruction, to promote the development of green city, improve construction standards and the quality of the project, attaches great importance to building energy efficiency; to improve the management level, and strive to build the wisdom of the city, with the implementation of the residence permit system as the starting point to promote equal access to basic public services in urban resident population, strengthen the city public comprehensive management, improving the quality of citizens; promote the reform and innovation, to provide strong institutional safeguards for the development of the city.

b. On the Level of Sichuan Province

Sichuan Province put forward a new layout of urbanization in the "New Type Urbanization Project of Sichuan Province (2014-2020)" issued in March 2015, which answered how to achieve people-oriented urbanization. It requires all-round urbanization improvement, adhere to local conditions, classified guidance, promotion according to law, adhere to both the quality and speed, with the implementation of the national "three 100 million people" urbanization deployment as the starting point, and promote people-oriented urbanization; take the urban agglomeration as the main shape and promote the coordinated development of large and medium sized cities with small towns; take the problem orientation as the starting point and speed up the transformation of the

urbanization development mode;take the comprehensive carrying capacity as the support to improve the sustainable development level of cities and towns;take the innovation of institutional mechanisms as the guarantee,take the new road to urbanization in line with Sichuan's reality.^[3]According to the report, by 2020, the layout and pattern of urbanization in our province will be further optimized and the urbanization pattern of "One Axis, Three Belts, Four Clusters, One District" will be basically formed. "One Axis" means the axis of Chengdu-Chongqing urban development; "Three Belts" refer to Chengdu-Mianyang-Leshan, Dazhou-Nanchong-Neijiang-Yibin and along the urban development belt of the Yangtze River;"Four Clusters" refers to Chengdu Plain, Southern Sichuan, Northeastern Sichuan and Panzihua-Xichang urban agglomerations; "One District" refers to the northwestern Sichuan Ecological Economic Zone.

c.On the Level of Chengdu

The urbanization rate in Chengdu reached 70.6% by the end of 2016.Chengdu has entered a mature period of urbanization. In "Chengdu New-type urbanization Planning (2015-2020)" released on November 4, 2015, it is pointed out that by 2020, Chengdu will achieve a steady increase in the level of population urbanization, a more optimized urbanization pattern, a stronger support for urbanization industry, a marked improvement in the quality of urban development, a more prominent humanistic charm in urban areas, institutional innovation of urbanization keeps ahead and will have been built an international regional center city basically.^[4]Through the model calculation, the "Plan" set a target of 16.5 million permanent residents in Chengdu in 2020, and the rate of resident population urbanization is set at 77%, with an annual increase of about 1%. Liu Xingjun, deputy director of Chengdu Municipal Development and Reform Commission, introduced that Chengdu is facing three transformations: from emphasizing scale expansion to paying equal attention to quantity and quality.

In the process of gradual progress of urbanization, the provision of urban public works is considered as the responsibility of the government, which is financed by the government and run by the government. However, urban public works projects are generally large-scale and have a long construction period. If the construction is through the government financial investment channels to meet, which requires a huge capital investment. Seeking solutions to the shortage of funds has become one of the core issues in promoting the development of new-type urbanization. In the case of the limited financial resources of local governments, governments at all levels often rely on fiscal funds to promote new-type urbanization and often find themselves powerless to find new sources of funding.In recent years, the crisis of private lending broke out in Erdos and Wenzhou, to

a certain extent, also reflects the reality that private capital is abundant and a large amount of capital is seeking a way out. Therefore, during the new-type urbanization with Chinese characteristics, the PPP model can be vigorously promoted to solve the problem of shortage of funds and reduce the financial debt risk of local governments.

2. The Public-Private Partnership

In March 2014, former Vice Minister of Ministry of Finance Wang Baoan put forward: "The promotion of the use of PPP model is an important means to support the new-type urbanization; the promotion of the use of PPP model is an important measure to improve government public services; the promotion of the use of PPP model is the establishment of modern finance System requirements; under the current situation to promote the use of PPP model is facing many difficult and arduous task."^[5]

According to the definition given by the National Development and Reform Commission, PPP refers to the government to enhance public products and service supply capacity, improve supply efficiency, through franchising, purchase of services, equity and other ways of cooperation, sharing, and social capital to establish the benefit risk sharing and long-term cooperation. The broad sense of PPP includes various cooperation relationships, such as outsourcing, franchising, privatization, etc. the narrow sense of PPP refers to the special purpose of government and private organizations (SPV, Special Purpose Vehicle), emphasizing the whole process of cooperation between public and private sectors. In this paper, we propose the PPP refers to the broad sense of PPP, that includes a variety of forms of public works investment and financing public-private partnerships.

Combined with China's national conditions, PPP mode is an innovation in the investment and financing system and management mode in the field of public services under the framework of the socialist market economic system. The PPP model includes a comprehensive overall planning of cooperation and financing between the public sector and private enterprises in the field of public services. These areas mainly include urban transportation, rail transport, roads, bridges, hospitals, schools, stadiums, prisons and others. It is based on local conditions and policies, for different projects to take a variety of different packages. Through this form of cooperation, the cooperating parties can achieve more favorable results than those anticipated alone. When the parties participate in a project, the government does not transfer the responsibility of the project to the private enterprise, but the responsibility of the parties involved in the cooperation and financing risk.

3. The Feasibility of PPP in Chengdu

In 1980s, PPP first appeared in the UK and has been spread widely, and response in the major western countries the United States, Canada, France, Germany, Spain, Australia, New Zealand and Japan, and further application, application of PPP mode in foreign countries has been relatively mature.

With the sustained and rapid economic development in China in recent years, the restrictive effect of the insufficient supply of infrastructure on economic development has once again highlighted. Rely on government financial resources cannot meet the huge investment required for the infrastructure and investment, government also bear a huge deficit risk, especially in education, health care, health, energy, environmental protection, transportation and other public facilities. The shortage of infrastructure construction funds provides a good opportunity for domestic and foreign social capital to participate in the construction of China's public infrastructure investment by PPP. Therefore, China has conducted a trial of Shenzhen Shajiao B Power Plant, Guangxi Laibin B Power Plant, Changsha Power Plant and Guangdong Dianbai Highway. After years of exploration and development, various forms of the PPP model have been widely used all over China. These cases have provided experience and lessons for the later PPP projects, which have served as a reference to prove the feasibility of PPP projects. In the first half of 2015, 1,043 government and social capital (PPP) projects jointly announced by the National Development and Reform Commission recommended a total investment of 197 billion yuan. Among them, there are 31 projects in Sichuan Province and 11 projects in Chengdu, including Chengdu T1 tram and Jintang Dongfeng Reservoir expansion project.

4. The Driving Factors of Implementing PPP in Chengdu

Wang Baoan, the former Deputy Minister of finance, said that the investment demand caused by urbanization was estimated to be 42 trillion yuan.^[6] According to "New-type urbanization Plan of Chengdu City (2015-2020)", Chengdu will speed up the construction of new-type urbanization in the coming five years based on "one core, three major focuses and six major tasks". Among them, "one core" is the urbanization of human beings; "three major points" are population aggregation, industrial aggregation, public service functionalization; in order to optimize the layout and pattern of urbanization, the "Six Major Tasks" will promote the population urbanization in an orderly manner, strengthen the support for urbanization industries, comprehensively enhance the quality of urban development, promote the sustainable urban cultural heritage and improve the institutional mechanisms for urbanization.

In the next 5 years, Chengdu will gradually break the single center and circle development mode, accelerate the construction of axis support, corridor expansion of

"one axis, dual core, six corridors" urban spatial pattern, construct a metropolitan urban system consisting of 1 extra large central city (dual core), 8 satellite cities, 6 regional centers, 10 small cities and 68 special towns and more than 2000 new rural communities. Among them, the central urban area will comprehensively promote the transformation of old cities such as urban villages and shanty towns, and maintain the features of urban space and the traditional landscape to the utmost. In accordance with the different functions of the load, with the adjustment of urban layout, the industrial layout of cities and towns in Chengdu will also be coordinated and promoted, and a broader industrial cluster will be built. Huge construction funds demand form a huge local government expenditure pressure. Obviously, it is difficult to meet the needs of urban construction by the conventional public revenue, such as government revenue, which is also the reason that directly leads to the adoption of the PPP model.

5. Analysis of the Implementation of PPP in Chengdu

Based on the risks caused by various reasons and the current difficulties encountered in the PPP model itself, the problems that Chengdu may encounter when implementing the PPP model are summarized as follows in combination with the actual conditions in Chengdu:

a. Lack of Legal System for Application of PPP

From countries such as Britain, Japan, the PPP pattern practice experience, its effective operation needs a good legal environment to protect the society, the current operation of PPP model in our country lacks the support on the level of national laws and regulations, the PPP's law is still in progress. The PPP project management still refer to the act of franchising, the government procurement law, bidding law, "contract law" and so on, but the law does not fully involved in the the possibility of all sorts of problems of construction of the PPP project. The PPP model is mainly used in public infrastructure, public infrastructure because of its non-exclusive and natural monopoly, determines its characteristics of "the non-marketing", so the public infrastructure construction should be by the government to step in, to meet the needs of the development of the public and the society.

b. Weak Contract Spirit

The whole process of the PPP project is conducted by contract for the project constraints, therefore the PPP project smooth completion of the need to pay attention to contract spirit throughout the construction period, but the government has been in a leading position, authority, for contract spirit understanding insufficiency, in the process of traditional infrastructure, governments at all levels in China is facing a local debt pressure,

poor credit environment problems. Positive commitment when the investment promotion and capital introduction, complete infrastructure construction operations cannot be carried out in accordance with the contract after payment, especially when facing the government transition. The significant policy adjustments, buck-passing phenomenon occurs frequently between the government, damage the legitimate rights and interests of the social capital. Due to the long-term development, the government contracts are weak and the official standard is serious, which seriously affects the promotion and application of PPP mode.

c. Government Supervision is Not Sure

At present, our country is the transitional period of market mechanism, market access control is insufficient, make some public services involved in running too many social capital, the competition of the chaos, the service level is uneven. Because of government regulation is not enough, or because of corruption breeding, makes the government department of the public service price and service supervision is insufficient, lead to collect fees in disorder and high charges, cause some of the private sector for large profits, eventually damage the interests of the public. At the same time, in some public services, the government regulation on investment too much, causing rampant power rent-seeking activities, economic activity by artificial cost increase, and responsibilities between the government departments and all levels fuzzy makes the definition and division of labor in some public services on the regulatory activities of more chaos, increases the risk of the social capital investment.

d. The Approval Procedure is Complicated

The PPP program must be in the face of complex and time-consuming permission and approval process, in the process involving different levels of various government departments, investors need to deal with many government officials, consultations or negotiations. However, in the long run, the government departments are not efficient, there are many uncertainties, affecting the approval process. Due to different government departments to the requirement of project examination and approval, the social capital for the PPP project approval will cost a lot of time and energy, reduce the operation efficiency of the project, can't achieve ideal performance.

6. Countermeasures

a. Strengthening and Improving the Legal System

It is necessary for the country to introduce a comprehensive legal policy to define the rights and obligations of the government and the private sector to ensure the interests of both parties. At the same time, the operation of the PPP projects need to clear and

improve the system of laws and regulations to guarantee, need in project design, financing, operation, management and maintenance and so on each stage of the government departments and enterprises must bear their respective responsibilities and obligations and to define risk and protect the interests of the partners, provides the high quality of public services.

b. Setting Up Contract Spirit

By establishing the contract system, to specify the duties of the government departments, government and specify default action decision basis, and different levels of default punishment, punishment and head directly affect the relevant government departments. Insist on equal consultation, mutual benefit and reciprocity, the honest code of honor and strict performance, in the public sector can't use their strong position occupy, squeezing the legitimate rights and interests of the private sector and the reasonable profits, the private sector also cannot use information advantage for profiteering, damage the interests of the public.

c. Setting Up Professional Management Organization of PPP Project

The PPP projects are generally complex and time-consuming, and the market is unstable, which requires the government to set up an organization that is responsible for the design, development, supervision and management of PPP projects. It in reducing the PPP project risk, and also improve the service efficiency of funds and ensure the effective operation of the PPP project, but also the government guarantee of social capital provide public services and the quality of the products and prices. But such a set of institutions need infrastructure construction, the administrative department of the relevant government departments and industry communication and coordination between departments, and ensure sustained and effective operation of the management mechanism, give play to the role of the supervision and management, to further reduce the risk of government credit. Relevant technical support is required to ensure the completion of PPP projects.^[7]

d. Transforming Roles to Develop Standardized PPP Project Approval Procedures

The PPP mode cannot be separated from the government's active promotion, in which the government role transformation and simplification of the PPP project approval process are the key factors that can be widely promoted in PPP mode. Compared with the traditional model, the PPP investment and financing model should be the dominant role of the past in the construction of public infrastructure and the role of the private sector to cooperate and supervise the completion of projects. In this process, the government should reform the investment and financing system of public infrastructure construction and innovate the management system so as to better play the role of supervision,

guidance and cooperation. Government through effective policies and measures to promote the domestic and foreign investors to participate in the investment of infrastructure in our country, and form using the sharing and risk-sharing cooperation mode of the government and private capital. With the change of government role, the government will be the organizer and promoter of PPP projects. At the same time, the approval procedure of PPP project should be simplified to attract the participation of social capital. Suggested by the central government regulators public-private cooperation project approval procedures and operating procedures, the development of the local PPP project reference to this procedure, the standard procedures should be through the project economic conditions, such as investment performance indicators to evaluate its rationality and feasibility. Once you have a standard procedure, each public-private cooperation project must comply with these procedures, without using any outstanding by the program or procedure required by the standard project in should not be approved.

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