

# Analysis of Promoting the New Urbanization of Hubei Province Based on PPP Mode

Xiuping Li

Wuhan Donghu University, Hubei, Wuhan, 430077

**Abstract :** New urbanization construction in Hubei province is suffering multiple barriers due to traditional way such as government borrowing and financial land. Social capital and government cooperation, namely, the PPP model is the best way to solve the present difficulties. In terms of the use of the PPP model and social capital cooperation, Hubei province has carried on some effective attempt. Due to the imperfect laws and regulations system, interest distribution mechanism and risk mechanism are not sound, the effect is not very ideal. To further promote the PPP mode, setting up a sound legal system, income distribution mechanism and risk-sharing mechanism are very necessary and urgent, as well as cooperating with the internationally renowned PPP consultancy.

**Keywords :** PPP mode, new urbanization, income, risk

## 1. Definition of PPP mode

The literal meaning of PPP is public-private partnerships, which originated in Britain after being widely used in the world of public facilities. On the concept of PPP mode, due to different effects of ideological and economic components, the parties did not have a uniform definition. PPP model initially refers to the long-term cooperation of government and corporate to provide public goods, the government holds shares in a commercial manner through the project company to intervene programs to operate to ensure the public interest, risks, revenue sharing, and reflects contracts and commercial spirit.<sup>[1]</sup> Jia Kang considers that PPP mode refers to the public sector and private sector cooperation in the process, so the non-public sector of the resources involved in the provision of public goods and services, in order to achieve the functions of government and the public sector as

well as the private sector.<sup>[2]</sup> The Ministry of Finance will be a long-term partnership for PPP mode is defined as government departments and social capital in infrastructure and public services<sup>[3]</sup>, PPP mode in the public sector of government departments can enlarge the scope of social capital but does not include the level of government financing platform owned by companies and other state-owned enterprises. Treasury pushing the PPP model emphasizes cooperation between government and social capital, social capital here includes not only the state capital but also including private capital and foreign capital, so we understand the government and business cooperation.

## 2. Theoretical basis of PPP mode

Samuelson pointed out that pure public goods refers to products or services.<sup>[4]</sup> According to Samuelson's point of view, there are two characteristics of public goods: non-competitive and non-exclusive. These two characteristics determine the indivisibility of public goods consumption, the "free rider" phenomenon seen on the market cannot effectively provide public goods and lead to market failure. Stiglitz<sup>[5]</sup>, who believe that to a certain extent, the government can make up for the lack of market behavior. Therefore, since the state and the government produce and provide public goods, so it is regarded as the most fundamental reason for the existence of government. Buchanan and others found that the government failure in terms of public goods supply was mainly for inefficiency and rent-seeking behavior<sup>[5]</sup>, and the supply of public goods for the market to find a theoretical basis. Although the market supply public goods to some extent to avoid many defects of government supply, but the effect of the market is entirely unsatisfactory. Dona thought that the

private sector services are suitable for any complex public sphere completely the remedy, which is a hasty statement.<sup>[6]</sup>

### **3. Features of PPP mode**

#### **3.1 Spirit of Contract**

Under the PPP model, the general construction and operation of the project cycle is longer, the government and enterprises conduct decades of cooperation in order to ensure the success of the project, the government and enterprises are equal subject, prior to enter the contract. Whether government or business is bound to be held accountable default, which would change the past, companies cannot be held at government default situation. Companies can be held according to the contract with the government's responsibility that the government must establish a spirit of contract and make strict implementation of the contract rules.

#### **3.2 The benefit-sharing**

First of all, the private interests of business with government representatives must unify the public interest to meet the interests of the public sector to take into account the interests of enterprises, which requires companies leave a certain profit margin, but to make excess profits of the enterprise control. Shared interest in PPP mode refers to the provision of social services to meet the high-efficiency demands of the private sector interest in cooperation between government and enterprises, making enterprises as participants in a relatively stable and reasonable return on investment, to achieve the target value for money (VFM).

#### **3.3 Risk-sharing**

PPP project involves mostly infrastructure, investment in long construction period, the amount of investment with a lot of uncertain factors faces greater risk, either by the government or by the company are inappropriate. In the control, the government and enterprises have their own advantages and disadvantages of risk, if each risk can be good at dealing with the most partners, the risk of the entire infrastructure projects can be controlled to

a minimum. PPP mode gives full play to the government and enterprises in their respective areas of risk control advantages, the use of the best risk-taking mechanism to maximize can resolve PPP project risk.

### **4. The significance of PPP model for promoting the new urbanization of Hubei**

Third Plenary Session of the Party's eighteen allows social capital through franchising and other ways to participate in urban infrastructure investments and operations, the use of the PPP model with good social capital and government cooperation can promote the new urbanization in Hubei .

#### **4.1 Ease the financial supply and demand**

The new urbanization requires huge capital investment, which has been the consensus of all parties. According to Nase Mu curve, urbanization can reach to 30% and continue to rise to 70% range, which is the fastest growing urbanization rate of development stage. At the end of 2013, the urbanization rate of population in Hubei province has reached 54.51%, which is entering a period of rapid development, its urbanization, industrial development and infrastructure are in urgent need of a large amount of capital investment. Currently, local government financing models in Hubei province are: local taxes and the central transfer payments, land transfer revenues, local investment and financing platform and central local government bonds. In these types of modes, Hubei local government is the main source of funding and a lot of land transfer through investment and financing platform loans to the bank application. The scarcity of land resources is not sustainable, and easily leads to local governments to increase land transfer revenue at the expense of pushing up prices in the short-term behavior. Soaring prices are likely to lead to a lot of empty houses, government land transfer income sharp decline in investment and financing platform for the bank loan applications is difficult to repay, which could trigger a financial crisis. In view of this, the central strengthen regulation and

management of real estate market regulation and financing platform. In this context, the urgent need to establish a new financing mechanism to address urbanization of financial problems. Promotion and use of the PPP model extensively absorb social capital to participate in infrastructure construction, which can reduce the financial burden, expand financing channels, and speed up the new urbanization process.

#### **4.2 Improve the quality of service in public**

In the form of contract, PPP model will have close links between government and business together to define the responsibilities of both parties. In addition, due to the government's own project to build and operate a lot of problems, such as staff redundancy, high cost and low efficiency. PPP model by introducing competitive social capital, social capital investors in order to obtain the maximum benefit, you must reduce costs while maximizing the efficiency and service levels, making shorter duration, to improve project quality.

#### **4.3 Activate the private capital**

Currently, some monopoly industries with high rates of return, social undertakings, infrastructure and public services and other areas are mostly non-competitive make private capital into difficulties, which will affect the normal development of private economy in China. Lack of effective private capital investment approach is not conducive to fair competition in the market and improve the overall efficiency of resource allocation. Under the PPP model, through cooperation with government participation in the construction of infrastructure, private capital give full play to their capital, technology and management advantages in promoting the construction of new urbanization, while obtaining a reasonable return.

At the beginning of the 1980s, a group of foreign capital try to enter the field of infrastructure in our country, mainly in the form of BOT. In the 1990s, the National Planning Commission has planned and organized to

promote PPP mode, so it select a number of pilot projects, Wuhan Junshan Yangtze River Bridge project, as China's first pilot in BOT highway projects. In 1993, the Wuhan municipal government reached an agreement with the Hong Kong New World, funded and constructed by the Hong Kong New World Group, Wuhan Tianhe Airport Expressway opened to traffic in 1995, which is the first time in Hubei PPP Mode field of infrastructure to achieve success story. After 2000, Hubei Province has launched a municipal utility market boom, sewage treatment, water, metro, town development, construction zone, gas, roads, bridges and other areas. In July 2014, the Provincial Development and Reform Commission officially open the promulgation of the first to encourage social investment projects, which clearly encourage private capital to participate in the construction and operation of a variety of ways. Early projects through PPP mode of operation of the province, there are a number of successful operation, but it suffered a question of social criticism and public opinion because of high charges. Some projects are not in place due to the coordination of government and business, progress is slow or aborted.

If cooperating with the government consortia, the government urgently needs to promote the region's economic development by way of investment. For cooperation is in a weak position, the value of PPP projects has been underestimated. If you cooperate with the government in general social capital, not in the course of the project, for coordination of relevant departments is in a weak position, the successful construction of the project is difficult. PPP model has slow progress in Hubei Province with four reasons. First, the domestic laws system is imperfect and regulations, rights and obligations of the government and enterprises have fuzzy boundaries, disputes between the two sides cannot be resolved within the existing legal framework. Second, the interest distribution mechanism is not perfect, there is no regular government approving project cost

and price. Third, after the introduction of social capital, a number of government departments in the project results in the project itself deviate welfare and quasi-public nature of the mind, and thus lead to criticism. Fourth, because of the longer period of PPP projects, many risks with the government's policies, laws and administrative approval, and other related companies cannot control the operation of the project and lead to the failure.

## **5. Countermeasures and Suggestions**

PPP model is an effective way to solve the current construction of new urbanization in Hubei. In depth, PPP model not only need to put the government and enterprises the legal definition of rights and responsibilities, but also need to establish a sound mechanism for income distribution and risk-sharing mechanism.

### **5.1 Sound law guarantee**

With the PPP mode, government and enterprises should carry out up to 20 years ~30 years cooperation to determine the rights and obligations of both parties, which needs a set of perfect, scientific, reasonable legal system to regulate its healthy operation and development. The integrity of the legal system help market participants to improve predictability, reduce transaction costs and provide system of soil for PPP model development. At present, the legislative framework in the development of the project in PPP mode lack public facilities and social capital to enter the field of investment. To enter the negative list, the bill of rights clear the government and enterprises, especially clear the government in the process of PPP, which is not to business commitments, to avoid some of the local government over commitment through the concrete responsibility.

### **5.2 A reasonable income distribution mechanism**

From the perspective of public interests, because of the asymmetry, the government is difficult to grasp the operation of the project with comprehensive information which will lead to the damage of

public interests. Both the interests of enterprises in the protection of the public interest at the same time, you can use the profit belt system, the interests of the segmentation mechanism<sup>[7]</sup>. So on the one hand, as far as possible to ensure that the interests of the social investment, on the other hand does not appear to enterprise profits situation and damage the public interests. At the same time, the government can also reap the economic benefits. The government and the enterprises form the benefit community, is committed to the successful operation of PPP projects.

### **5.3 Reasonable risk sharing mechanism**

Risks faced by PPP includes political, legal and regulatory risk, administrative management risk, market and financing risk, project design, construction risk and force majeure risk, such as earthquake disasters. According to the PPP project participants to master the different resources, rational division of liability risk control. The policy, legal and administrative risk from the government to undertake, market risk and financing risk shared by government and enterprises according to the proportion, the construction risk is assumed by the enterprise, the force majeure risks can be borne by the insurance company.

### **5.4 professional guidance and support**

For the laws and regulations are not perfect, the relevant operation mechanism is not perfect, the PPP model cannot jump on the bandwagon, the need for a special government departments to take the lead in doing well in the relevant work. At present, the Ministry of finance is to establish the PPP working mechanism, actively promote the establishment of PPP management mechanism. Some local governments are actively exploring the feasibility of the establishment of the PPP center in the local financial departments, our province can also be relevant to consider. In addition, not all government projects can adopt PPP mode. At the same time, PPP has

a very strong technical actually, the international has done consulting project some professional PPP consultant team had to governments, enterprises and a number of projects, has accumulated rich experience. Through the international consulting, financial to include project technology, multi views, learn from the valuable experience accumulated for many years. PPP project practice in developed countries can avoid detours.

## 6 Conclusion

The PPP project generally has a quasi-public nature, the public satisfaction is the ultimate standard of success project. The failure of the PPP project is largely due to the lack of effective monitoring and supervision. Government departments shall establish a supervision mechanism of normal to the PPP project, in the guarantee of the social capital and profit, and resolutely put an end to serious erosion of public interest by enterprise monopoly. To play the positive role of the NPC and the CPPCC, the supervision, the third party evaluation department, agency or stakeholders, continuous supervision process of maintaining the social public to the PPP project before the construction, the medium-term, post operation, avoid in the PPP mode of power and capital breeding corruption, damage the public interests.

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