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TIEJUN
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Wen Tiejun is the executive dean of the Institute of Rural Reconstruction of the Straits at Fujian Agricultural and Forestry University, the director of the Rural Reconstruction Center at Renmin University, Beijing, and a founding member of the Global University for Sustainability. A long-time facilitator of the rural reconstruction movement in China, he spent years working in local communities prior to his education. Since receiving his PhD, Wen has spent 21 years as a policy researcher for Central Government, and 11 years as a university instructor.

The Rise and Demise of the Rural Co-operative Fund: 1984-1999

WEN TIEJUN

PART ONE

THE RISE AND DEMISE of the Rural Co-operative Fund (RCF) is closely related to the overall national condition and the changes made to financial policies.

In the first place, its rise is due to the collapse of the People's Commune in the mid 1980s, when the household responsibility system was put in place. Throughout the country, collective assets were audited and debts were transformed into loans from the 1980s to the early 1990s. The RCF played an important role in rural financial reform and economic development. As a result, it spread throughout the country. Its importance as a mechanism of raising funds in the development of local economies is such that not only the local government increased its intervention and control, but also the central authority throughout the period between 1984 and 1993 lent its support. Even in the period of rectification, from 1994 to 1996, the central authority still regarded it in a positive manner.

In the second place, the mid 1990s saw a loosening of control by the state in bonds, futures and real estate investments, all three being rather speculative. There was a squeeze of capital throughout the country, resulting in high interest rates. The RCF (mainly at the township level and above) ran into problems similar to other financial institutions. Hence, at the peak of its development in 1997, the higher authorities carried out rectification and decided to merge or close the funds. In the ensuing years between 1998 and 1999, even though problems occurred mainly at the

township level, funds that were established at the village level suffered the same fate.

In the third place, under the direction of the central authorities, the decision to rectify and close the RCF was soon carried out. Immediately, this created new problems. On the one hand, the administrative decision to close the RCF and to stop lending activities rather abruptly was bound to create large-scale bad debts. On the other hand, nothing was done to insure against this risk. Even though local governments pressed the central authorities hard for credit, there was not enough money to meet the need for hundreds of billions of yuan. As a result, governments at the village level were heavily in debt; and in the end these debts were passed on to the peasants and township enterprises. The outflow of capital from the village worsened. Capital for agricultural investment was stretched far and thin. Grassroots-level lending and borrowing, as well as usury, reappeared and spread to wide areas.

This essay sketches a brief outline of the emergence, development and decline of the RCF.

Historical background and causes of the emergence of RCF

The emergence and development of the RCF is by no means an accidental economic phenomenon. It is due to the following four aspects of underlying realities.

- I. In the course of the reform of the People's Commune, hundreds of billions of yuan was lost. Under instructions from the central government, local governments carried out audits of collective assets. By setting up fund organisations, debts were either cleared out or transformed into loans. At the time, directives from the central government were positive or even encouraging; and with the continuing improvement of marketisation, liquidity of rural capital diversified and further expanded.

Rural policy directives from the central government at that time contained the following clear and positive statements:

The central government's Document Number One of 1984 pointed out, "capital from peasants and collectives is allowed to flow freely, or to be organised to flow without any territorial restriction."

Central government's Document Number One of 1985 declared, "to loosen and enliven rural financial policies, and to enhance the effects of capital liquidity."

Document Number 27 of 1986, issued in the middle of the year,

supported the practice under certain conditions. It said, "In recent years, some rural co-operative organisations put together idle capital that belongs to the collectives and utilise them in profitable ways to support local villages, local co-operative organisations and peasant households in developing commodity production. As long as they do not attract deposits from outside sources, and carry out lending/borrowing activities only among themselves, such practice should be allowed to be tried out."

To show its support for the development of RCF, the Agricultural Bank of China also issued in 1986 Document Number 414, which demanded that "agricultural banks throughout the country and credit associations should not meddle with the internal lending and borrowing activities of rural co-operative economic organisations. Instead, they should guide them by doing business with them."

The central government's Document Number 5 of 1987 further pointed out that "some township or village economic co-operatives or enterprises have established co-operative funds. Some have set up investment trusts. Such activities are in line with the different demands of the development of commodity production. It helps to pool idle capital, and alleviate the contradictions arising from the lack of credit given out by the agricultural banks and other credit associations. In principle, it should be supported."

The 1990 central government Document Number 19 also pointed out the need "to manage well co-operative funds that are not profit-seeking, and to fully utilise capital belonging to collectives."

The resolutions of the Eighth Plenary Meeting of the Thirteenth Congress of the Communist Party of China (CPC) held in November 1991 asked local governments to continue overseeing the smooth functioning of RCF. At the same time, two documents jointly promulgated by the finance and agricultural departments were fully supportive of the development of RCF.

In 1992, the State Council, in its resolution to develop high-yield and high-quality agriculture, once again declared the need to "continue to develop RCF so as to fulfill the need of high-yield and high-quality agriculture."

From 1984 up till 1992, the central government constantly voiced its support, which was effective in softening the fierce opposition coming from established financial institutions in their bid to keep their monopoly and to prevent competition. It was this favourable policy orientation that propelled the development of RCF.

2. As the household production-based agricultural reforms deepened,

the rural economy boomed. With the increase in peasants' income, both commodity production and monetised relationships were strengthened. One million agricultural collectives and two hundred million peasant households became the basic units of production as well as owners of properties in rural areas. Due to the pressure of unemployment, many peasants turned to non-agricultural sectors. Many more still held other jobs while remaining on the land. Hence, demand for investment in rural areas was strong, and a variety of credit networks sprang up from grassroots levels to fulfill the need, putting pressure on established rural financial institutions to reform and to adapt themselves into more flexible institutions that can respond to the needs of the new situation. In this regard, rural reforms and the ensuing marketisation were the pre-conditions for the emergence of RCF.

3. The resulting rise of income from reforms, in particular, the rise of per capita cash income for peasants, resulted in the rapid expansion of financial resources within rural communities. For example, in 1988, per capita income reached 544.9 yuan, an increase of 353.6 yuan over the 1980 figure of 191.3 yuan. However, in the latter part of the 1980s, the recession that occurred in urban areas dampened demand, and the agricultural sectors also became sluggish. Its previous comparative advantage decreased, bringing down with it peasants' incentive for investments. For most peasants, they only knew how to invest in their own farms. Other than that, they knew very little. Yet they still wanted to use their idle capital in such a way that they could obtain additional income. At the same time, the development of township and village enterprises meant that demand for capital was on the rise. While both supply of and demand for capital within rural areas were increasing, the monopolistic state financial institutions were unable to seize the new opportunities - and that caused the widespread development of RCF.
4. With the agricultural bank as its flagship, the rural financial system, which included village credit associations, had maintained its monopolistic position as well as its closed and ossified way of functioning. Its main function was to absorb capital in rural areas and transfer it to non-agricultural sectors. Its involvement with supplying capital to agriculture and the development of rural areas was inadequate. With the coming of the 1980s, peasant households became the basic production units. For village credit associations, the

change meant that instead of dealing with a smaller number of large collectives, they had to deal with a multitude of peasant households and other economic entities.

Even though the state had foreseen this and had carried out financial reforms to speed up the process of marketisation, the more the financial sector was marketised, the less suitable it became for the diverse needs of a rural economy dominated by small peasant households. On the one hand, there was no way for the state to end the monopoly of state banks just as it was incapable of fundamentally changing China's single ownership structure of its financial institutions. On the other hand, agricultural banks and credit associations are not only strictly controlled by the state as regards scale and structure of credit, but also chastised by large-scale bad debts and overblown credit due to money used up in purchase of agricultural goods. On top of it was the inflexibility of their operation, making them unresponsive to the diverse needs of an environment undergoing reform and marketisation. A vacuum was thus created for RCF to fill.

Internal Dynamics

The four above-mentioned background factors and their dynamics only provide the ground and the external infrastructure for the emergence of RCF. The cause that started off the process was the need to strengthen management of rural collective assets and to safeguard their well-being and growth. The major factors leading to the emergence of RCF are:

1. The need to rebuild the mechanism of collective savings and to utilise them in profitable ways. In some areas, this was the primary cause for the emergence of RCF. In changing the three-tiered and production brigade-based People's Commune, the lack of timely institution-building linking the different property structures of village collectives and rural households so as to provide proper management of rural savings resulted in the drain of collective savings that were accumulated in the time of the Commune. This is due to:
 - a. Widespread damage, corruption and waste in the course of the handover of collective assets. It is estimated that assets handed down to households depreciated by 40 percent. A large proportion of loans to members of communes or outside units never returned. According to one estimate made in 1987 in 26 provinces, cities and areas, there were three hundred thousand commune cadres who had committed corruption, theft of collective assets or illegal

- use of funds totaling 1.17 billion yuan.
- b. In some places, management of collective assets was in such a mess that accounts that had been audited turned out to be unreliable, or assets continued to disappear even during the very process of auditing. Due to the power wielded by village cadres and their penchant for wasteful investments, capital accumulated by rural collectives was dispersed into diverse channels, resulting in chaos and lack of liquidity. All these were totally unacceptable to the peasants who reciprocated by refusing to pay dues and undertaking other forms of collective protests, straining the relationship between peasants and cadres, and calling into question the security of rural areas.

In 1985, the Jin County in Liaoning Province transformed its collective assets into shares in accordance with policy instructions. Shares totaling 14.04 million yuan were formed while the collective still held 23.66 million yuan as capital. However, audits carried out in 1987 found the amount of 18 million yuan unaccounted for.

- c. A considerable amount of rural collective funds deposited with credit associations was seldom touched. However, when peasants needed to borrow, they had to pay higher interest to agricultural banks or credit associations. There was likewise no guarantee that they would be loaned the money. Unsurprisingly, peasants resented this.

To resolve such problems, some regions took the opportunities offered by the audits of village collectives. They transformed collective assets into shares for co-operative funds and allocated them to households. Other regions turned debts into new loans and incorporated them with the business of co-operative funds, enabling the effective collection of village collective debts. The setting up and efficient functioning of RCF thus became an effective way to manage and fully utilise collective assets. It not only stopped the drain of collective assets, but also helped to realize the further accumulation of collective assets.

2. The search for new mechanisms for insuring agricultural investment

In the course of rural reform, the implementation of the household responsibility system and the increase in prices for agricultural by-products resulted in a change of urban-rural relationship on the one hand, and relationship between central government and local authorities on the other. Fiscal decentralisation and other reforms in investment policies resulted

in an increased lack of funds for agricultural infrastructure and decreased incomes for peasants in rural areas, thus adding to the burden of local governments. Fields were deserted; and at the macro level, the further development of agriculture was called into question.

As the process of marketisation gathered momentum, it became more difficult for private capital to flow into agriculture, which is marked by long production cycles, high risks and low returns. If no readjustment is made to the peculiarities of different sectors, the survival and development of agriculture will not be guaranteed. However, the reality of reforms in China is such that it is rather difficult to carry out readjustments to different sectors. This is evidenced in three aspects.

Firstly, fiscal decentralisation is actually the result of the adoption of "replacement of profit by tax", which leads to conflicts of interest between different government bodies. Decentralisation consists of delineating the levels of income for central government and local government respectively. While the interests of the two are thus delineated, there is no provision as to who will bear the burden of looking after the weak agricultural sector. Moreover, with the completion of primitive capital accumulation in China, the proportion of industrial output within the national economy is twice that of agriculture. Government income has come to rely less and less on agriculture. This is the background to the decrease in investment in agriculture since the reform of "replacement of profit by tax" and fiscal decentralisation.

Secondly, collective saving capabilities are weakening, resulting in a decrease in agricultural investments. According to the statistics, the ratio of contribution to village administrative fees to total net income in the village is down from 16.7 percent in 1978 to 10.2 percent in 1988. Agricultural investments made by township enterprises are also down from 15.4 billion yuan in the five-year period between 1979 and 1983, to 5.5 billion in the period between 1984 and 1988. For peasants, a land lease of fifteen or even thirty years does not imply an increase in investment, as agriculture is a high-risk and low-return business. In actual fact, peasants' households have increasingly turned to investing in non-agricultural sectors.

Thirdly, as the main financial bodies in rural areas, agricultural banks and credit associations have all along acted as the main channel of capital outflow from agriculture. The increase in peasants' income and the rise in savings also saw an increase in the volume of outflow. What should be noted in particular is the conflict of interest these bodies face. Since the mid 1980s, budget deficits have become the norm. As a result, the cost of agricultural subsidies is shifted to departments responsible for purchase

and sales, which in turn pass it on to agricultural banks in the form of accounts payable. Banks are therefore loaded with overdue loans. For instance, our research of 1992 shows that the proportion of such loans to all other loans at the agricultural bank in Anhui, an important province for agriculture, is 38 percent, causing credit to be overblown. With the adoption of the market principle in 1992, banks naturally seek higher profits and shun agriculture which is high-cost, high-risk and low-return. This means that the central government is unable to do anything even though it does want to help.

In a word, given the state's difficulty in making macro adjustments, there is the need for mechanisms to guarantee further investments in agriculture.

3. To fill in the "credit vacuum" left by banks, to stem the tide of usury

Even with the implementation of households as units of production, agricultural banks and credit associations continued their practice of lending to collectives and ignoring peasant households. Their hands were tied by the limits imposed by the state on the amount and composition of loans. They were not equipped to meet the demands for small loans from two hundred million peasant households, who then had no choice but to borrow from underground sources which had been in existence all along. As such practices spread, the financial situation in rural areas was bound to worsen. When some underground operators disappeared with large funds, the locale was thrown into chaos and unrest.

RCF, which was set up spontaneously, took the role of extending small amounts of credit to peasants, thus filling in the gap left by the banks. At the same time, judging from the results of recent years, only in areas where RCF was well-developed was the practice of usury contained.

External Forces

It should be said that heads of all levels of local governments and agricultural banks were strongly driven by their own self-interest, which greatly influenced the development of RCF.

1. Local Governments

Since the mid 1980s, all levels of local governments have had to cope with two new situations. One is financial reforms which abolished the old practice of the state taking all incomes and paying all expenses. Instead, various forms of fiscal decentralisation were put in place. Local governments had much greater say over their own financial resources. As

a result, they had every incentive to increase their own resources through investments. Another factor is that as banks gradually adopted the market principle, the ability of local governments to influence them diminished. They could only watch as capital flowed out of rural areas, and banks channeled their resources to non-agricultural sectors. As the gap between supply and demand grew, the local governments welcomed the setting-up of alternative regional financial mechanisms which would meet the need for local capital shortfall and thus enhance the authority of local governments to control local finances.

2. Departments for the administration of agriculture

In China, the departments for the administration of agriculture form an all-embracing system. They are responsible for policy guidance as well as provision of services. They oversee the finances of rural collectives. They field a large number of personnel to audit rural collectives. They resort to administrative means and launch campaigns which produce results that have proved to be adverse or ineffective. The need to adopt new management practices and develop new mechanisms that will prevent the drain of collective assets is something that has come to be appreciated by everyone within the departments for the administration of agriculture. What must be pointed out is that in overseeing all new as well as old collective assets, the department does not profit a cent. Its operation is supported by the government budget which is enough to maintain the personnel but not enough to do business. Hence, the management at township level is particularly interested in making their collective funds become live capital, so that they can make profits in the process.

PART TWO

The process of development: reform, experiment, rapid expansion, rectification and abolition

The process of development of RCF can be roughly divided into five phases.

1. Formation (1984-1986)

As early as the second half of 1983, some villages in Heilongjiang, Liaoning and Jiangsu Provinces had experimented with lending money held by collectives to members of the collective as a way of better utilising resources. Such activities produced positive results. While safeguarding the security of collective assets, new channels of agricultural investments

were established. Peasants welcomed the practice; and the economic branches of local governments gave their support. Since the formal set-up of an RCF in a village in Hebei Province in 1984, similar experiments took place throughout the country. By the end of 1986, rural communities in the provinces of Heilongjiang, Liaoning, Hubei, Zhejiang, Guangdong, Sichuan and Jiangsu had all developed some forms of internal lending and borrowing, laying the foundation for rural co-operative financial institutions.

The central government had, on occasions, supported such spontaneous developments of internal financial arrangements. The 1984 central government Document Number 1 mentioned that "the free flow of capital belonging to peasants and collective is allowed." This is the policy base for the activity of internal lending and borrowing in rural areas. As to the setting up of RCF, the earliest documentary support came from the 1985 central government Document Number 5, which lent its support to "the development of diverse forms of capital liquidity."

2. Reform and Experiment (1987 - 1991)

In this phase, the benefits of RCF, which are the spontaneous creations by peasants to provide capital, gradually came to be appreciated by the authorities. In August 1986, the central government instructed that as long as deposits and lending remained within the collectives, they should be allowed to continue. In January 1987, the Politburo passed a motion to deepen agricultural reforms. Part of it stated that "the co-operative funds set up by villages or enterprises are fulfilling the different demands of commodity production. They help pool idle capital and ease off the pressure put on banks and credit associations for supply of capital. In principle, it should be supported."

In 1987, under Document Number 5 passed by the Politburo, various bases for the experiment of rural reforms were set up in Heilongjiang, Hebei, Shandong, Guangxi and Sichuan to carry out experiments that would institutionalise RCF. These well-run, well-organised bases steadily promoted co-operative funds at the grassroots level and their umbrella organisations. The framework of a new system of co-operative funds was taking shape.

Supported and promoted by the central government, RCF spread throughout the country. The period between the end of 1986 and the end of 1988 saw the fastest growth of internal capital flow in rural areas. There was an increase of 4 billion yuan in these two years. For example, in 1988, 80 percent of the townships and villages in Jiangsu province had set up co-operative funds, with the capital reaching 800 million yuan. In

Sichuan, half of the townships and villages had financial organisations that mainly relied on co-operative funding as their source of capital, which amounted to 201 million yuan. In Hubei, RCF was set up in 40 percent of the townships and in 5,927 villages, with a total capital worth 280 million yuan.

In November 1991, the resolution of the Eighth Plenary Session of the Thirteenth CPC Congress required local governments to continue to develop RCF. Earlier, in January of the same year, the agricultural department circulated the document *Notices on the Institutionalization of RCF*, which gave further impetus to the development of co-operative funds.

Encouraged by the resolution of the Eighth Plenary Session of the Thirteenth CPC Congress, rural co-operative financial organisations spread out from the successful bases, and entered the stage for complementary reforms. In Shangzhi City, 341 co-operative funds were formed, utilising a total of 39.664 million yuan. In Yutian County, which already had 34 co-operative funds, an umbrella organisation was formed, and total lending amounted to 420 million yuan. In Pingdu City, total deposits amounted to 264 million yuan, while the figure for loans was 250 million yuan. All these show that the capacity for accumulation within the agricultural sector was increasing, and the problem of outflow of capital from villages was temporarily solved.

By 1992, throughout the country, there were 17,400 townships and 112,500 villages which had co-operative funds as their chief financial institutions. The figure represented 36.7 percent of all townships, 15.4 percent of all villages, and a total capital of 16.49 million yuan accumulated by the end of 1992. Each of the two provinces of Sichuan and Jiangsu had more than 2 billion yuan; figures for Hebei and Shandong are close to that.

Summing up the results of experiments and experiences of different locales, the department for agriculture issued Document Number 8 in 1993, which said, "On the premise of persevering with the present right of ownership of capital as well as its concomitant incomes, the RCF is formed by village collectives and households out of their own will for mutual aid. The aim is to serve the peasants, to boost agricultural production, and to further develop the economy of village collectives."

3. Rapid Expansion (1992 – 1995)

With Deng Xiaoping's tour to south China in 1992, economic growth picked up its pace under the impact of highly speculative sectors such as securities, futures and real estate. The whole country was seized by a new round of investment fever. Investment stimulated demand, thus benefiting

rural economies. The gap between demand for capital and its supply grew rapidly, resulting in high interest rates in capital markets. Under such conditions, the now established RCF encountered the contradictions of expansion. Many funds were forced by local governments to lend blindly to village and township enterprises that were in dire need of capital.

According to central government documents, Yutian County in Hubei province began to set up community economic organisations in 1987, and RCF was one of the main items. In 1994, its capital reached 176 million yuan, of which 48 million came from collectives, while individual peasants contributed 128 million. With its flexibility, low operating costs, and the fact that it was operating outside the framework of official financial institutions, it succeeded in rapid expansion. However, as the whole country was seeking high growth, the funds came to be used increasingly in non-agricultural sectors. In 1998, when the funds in Yutian went into receivership, it had loaned a total of 230 million yuan to village and township enterprises. The figure represented 38 percent of its total capital. Ninety percent of these loans were made under the heavy hands of local governments, with 70 percent bound to be written off.

With the coming of financial reforms, agricultural banks and credit associations gradually turned into commercial enterprises. Their role as instrument of policy weakened. *Every financial institution tried to bypass agriculture - RCF was no exception. Industry and commerce became favoured clients.* Co-operative funds began to operate outside its base, and accepted deposits from non-members. The funds further expanded. For instance, by the end of 1995, the number of funds set up in Sichuan grew to 5,349, or 84.7 percent of the townships. Capital accumulated amounted to 14,526 million yuan, an average of 2.7157 million for each fund, or a growth of 62.4 percent and 50.8 percent respectively, compared to the previous year.

By the end of 1996, the year the central government decided to close the operation of the RCF, there were 21,000 funds at the township level and 24,000 funds at the village level throughout the country, with total capital amounting to 150 billion yuan.

During this period, the finance sector was all chaos, with various government bodies such as sales and marketing co-operatives, planning commissions, village bureaus and ministries for labour and social security all competing to form funds and join the field of high-interest rate lending. RCF had relied on a policy of interest rates higher than those sanctioned by the government for their deposits as well as loans. Higher interest rates naturally attracted more deposits, while the lack of supply of capital meant that it was possible to lend at higher rates. The fact that such a policy worked meant that it reflected the actual price of capital markets. However,

with frequent interventions from local governments, the lack of check and balance, low management quality and high risks, the efficacy of the funds became diminished. The proportion of loans to non-agricultural sectors was too big, and worse still, small-scale runs on the bank occurred in some places.

4. Rectification (1996 - 1998)

Issued in August 1996, *The State Council's Resolution on Rural Financial Reform* still affirmed the contribution of RCF to boosting agricultural production and easing the pressure on peasants. At the same time, the document criticised the funds' practice of issuing shares, which was, in fact, a form of deposit. As shareholders were not members of funds, the practice actually violated the law. To counter the practice, the *Resolution* proposed three measures: stop the issuing of shares by co-operative funds to attract deposits, incorporate those funds which have been running like banks into official financial institutions after they have been properly audited, and require those funds which cannot be incorporated to remain co-operative in nature.

Such measures were the outcome of compromises made by different government bodies. Both criticisms and policy measures were mild, and some problems were not addressed. One problem had to do with those funds which were not fit to be incorporated, but the capital was tied by bad loans. Another problem was that of the government's responsibility for agriculture. The document did not discuss the inability of official financial institutions to meet the needs of small farmers.

Since 1994, related departments had issued instructions to rectify co-operative banks. On such directive, Document Number 21 of the Village Economic Development Bureau required officials from village economy departments to fulfill administrative duties, while the supervision of co-operative funds should be left to The People's Bank. Village officials should not intervene in the running of funds; instead, they should help watch if anyone had overstepped the line. In 1995, another directive, *Rules on the Management of RCF*, was circulated.

All these actually reflected the struggles among different government bodies as to who had the actual power over the funds. Hence the work of rectification was put on hold for a long time. Still, some progress was made. During this period, the increase of funds slackened. Attention was directed to the quality of management. One way was to hand out guidelines for lending and borrowing, and to implement rules and procedures for audits. Another way was to enforce the practice of making provisions for bad debts. Further training of personnel was also a way forward.

In Sichuan, where capital accumulated by RCF was comparatively high, the number of funds established since 1996 was small. By the end of 1998, there were 4,052 funds throughout the province, a growth of only 0.5 percent compared to the previous year. The percentage for townships is 82.6 percent, a mere 1.7 percent growth rate over the previous year. In 1998, the total capital of RCF in Sichuan amounted to 21,378 million yuan, while on average each fund held 5.276 million yuan, an increase of 12.3 percent and 11.8 percent respectively.

Merging co-operative funds with official financial institutions is something easier said than done. Bad loans from both credit associations and co-operative funds will not simply go away; and when a run on banks occurs, it becomes a social problem. Another factor is that while agricultural banks and credit associations are monitored by the state, local government departments have been heavily involved in the running of co-operative funds. Both are subject to government interventions, complicating the business of merging.

5. Liquidation and Closure (January 1999 onwards)

In January 1999, the State Council issued Document Number 3 which formally declared the dissolution of RCF. It said, "To prevent and defuse financial risks, to safeguard the security of the rural economy and society, the Party Central and the State Council have decided to carry out complete rectification of RCF... The aim is to halt the formation of any new funds and to stop existing funds accepting deposits or making new loans. At the same time, a thorough auditing of existing funds will be carried out and bad debts written off. Those that meet the necessary requirements will be merged with credit associations. Those that are in debt will be liquidated and dissolved."

a) *Background to the liquidation and closure of RCF*

The running of RCF at the township levels is far from satisfactory. A few years back, in the heat of the rise of village and township enterprises, many township governments were instructed or required to loan directly to or act as guarantor for enterprises. However, in the three years after 1995, depression, changes to the market and poor management resulted in great hardship for small enterprises throughout the country, with some going bankrupt. Many local governments were heavily in debt, with this debt comprised mainly of loans from co-operative funds.

The township of Jianyang in Sichuan had a net debt of 18.3228 million yuan, of which 9.973 million were debts owed by

enterprises – 51 percent of the township's total debt. The enterprises had all ceased functioning, their debts all passed on to the township government, which in turn owed a total of 5.19 million yuan. This figure was, however, only that on the record, and did not include many hidden debts.

Since the tax reforms of the 1990s, local government expenditure grew, and so did the amount of debt. According to the research conducted by the Agricultural Ministry in 1997 in seven provinces, the average debt for a township government was 2 million yuan, while at the village level, it was 0.2 million. In 1999, representative researches made by some provinces showed that the highest debt level reached 40 million yuan. Nationwide, total debts for townships and villages exceeded 30 billion yuan. Some resorted to taking away peasants' production tools to force them to pay all sorts of taxes and levies. Units or individuals with abundant cash took the opportunity to lend out money at usury rates. These loans were forced onto village units. In the end, local government debts were shifted to peasants.

The combined result of the rural financial reforms of the 1980s and the tax reform in 1994 is that the fiscal power of the local government at both the county and the township levels was greatly enhanced, and the related government bodies greatly expanded. The burden put on peasants inevitably increased. With the withdrawal of agricultural banks from the agricultural sector and the decrease of government investment in agriculture (as a proportion of the national budget) to an all time low, peasants struggled to make ends meet, not to mention pay the various taxes and levies imposed by local governments. Peasants were forced to go into debt.

After the dissolution of co-operative funds, one particular problem should be noted. Some peasants whose money was held up by the funds used their share certificates as payments to the collective administrative fees, forming the so-called "empty transfer of capital".

b) *The Work of Rectification*

Judging from the practices of different locales, the work of rectification can be divided into auditing assets, classification, collecting debts and returning deposits.

Working committees were formed by local governments to audit the assets of funds under their jurisdiction. Those that were

financially with or without new injection of capital were integrated into local credit associations. Those that were considered not viable were liquidated, and their debts taken up by local governments.

Every legal means was employed to put pressure on debtors to pay their debts. In case debtors were party members or cadres, administrative measures and party discipline were imposed. To speed up the payment of loans made to shareholders, the funds were held as the first benefactor of all payments.

Returning deposits was the last step. Usually, the government tried its best to raise enough cash to pay the first installment. When it was unable to do so, the government set a date for payment.

c) *The Effectiveness of Rectification*

Although the work of rectification was by no means easy, the combined use of political pressure and administrative measures is enough to meet the target set by the higher authorities. This means that so long as the special interests of government bodies are not affected, mobilisation from top down is still effective. But co-operative funds were initiated by local governments. The fact that it had to be dissolved by orders from above is bound to harm the credibility of local governments, which has wider repercussions in the form of loss of assets.

In Yutian county in Hebei province, the combined assets for its 22 funds amounted to 393.47 million yuan. Total debt was 653.02 million yuan. The deficit totalled 206.46 million. After rectification, nine funds were merged with the local credit association, which in turn had total assets of 206.46 million yuan and total debts of 303.99 million. The township government had to inject capital of 67.13 million, and the county government, 29.8 million. The rest of the funds were dissolved. Their combined assets were 187.01 million yuan, and debt, 283.58 million. It was promised that all deposits would be returned with interest in three years.

In the course of rectification, the government injected large amounts of capital. For instance, in Wenzhou, of 191 funds, 148 were merged with local credit associations. The other 43 were liquidated. The related government bodies injected 266.2 million yuan as capital, and provided 160 million as guarantee for credits. The total was 426 million, of which 329 million were loans from the provincial government.

Even with the completion of rectification, there were lingering problems. In the first place, local governments had to borrow from banks to pay depositors. The funds' debts were thus transferred to local governments, increasing the latter's financial burden. Many local governments were already heavily in debt. They, in turn, transferred the debts to peasants in the form of dues and levies. In certain areas, the pre-1949 practice of "tax paid in advance" was resurrected.

Secondly, although there were still debts to be collected - and hence, on paper there should still be money to pay to depositors - the fact is every means had already been used in the early stages to collect debts, and those that remained uncollected would be very difficult to collect. With local governments already heavily in debt, the question becomes one of maintaining the credibility of local governments, and thus becomes a long-term political question.

PART THREE **Rethinking RCF**

TO STUDY the management system and the functioning mechanism of RCF, it is meaningful to study their nature and ownership rights since these define and control their management system and functioning mechanism.

General understanding of the nature of RCF

If we limit ourselves to past policy studies and government documents, then in the course of our analysis of the emergence and development of the funds, we can see that they are the outcome of the initiative taken by villages to rebuild the system of accumulation for agriculture following the breakup of the People's Communes. The funds are a form of capital-sharing within the community economic framework. They are self-regulated independent accounts. People join them out of their own free will and the funds are run democratically. Everyone involved shares the risks.

Data from the past is enough to support this view. Between 1990 and 1996, RCF throughout the country invested a total of 151.5 billion yuan in farming and livestock-raising. The percentage of investment in agriculture to that of total investment was 43.3 percent. In some areas, the funds not only were lent to peasants, but suggestions and information were also provided. They acted as guides for production activities.

In accordance with instructions from above, the funds also invested in organisations that provided services to rural communities. From 1990 to 1996, 7.3 billion yuan was channeled to such organisations. The figure for 1996 represented 19.9 percent of total investment in that year.

The two above-mentioned investments took up 63.2 percent of total investment, a ratio much higher than that provided by agricultural banks and credit associations. From this, one can see that the funds were marked by the following characteristics: they are co-operative in nature, their function is to provide services, they are run on democratic principles, they combine the features of shareholding economy and cooperative economy, they are not profit-seeking, they are taken from the peasants and used on the peasants, and fairly defend the interests of the money-owners.

The actual ownership of RCF and the differences between funds at township level and funds at village level

Difference between township level and village level funds and policies that are in line with regulations of self-government

Collective assets were the initial source of capital for RCF. Those collective assets that were allocated to co-operative funds should be the collective assets of members who formed the economic body. As such, co-operative funds should be financial organisations collectively owned.

But in actual fact, after the reform of fiscal decentralisation, nothing was done to implement the system of “community share-holding”, which should make the question of ownership of collective assets much clearer. As a result, peasants did not have any say over collective assets even though they were members of the collective. Under the policy of “township overseeing villages”, township governments could channel collective assets by way of their subsidiary “economic management checkpoints” to the designated co-operative funds, and then lend out the money. All these could be done without the prior consent of village collectives. Hence, funds set up at township level or above were not exactly the creation of peasants or village collectives.

While funds set up at township level can be said to be rural financial bodies belonging to local governments, those set up at villages, where the policy of “township overseeing villages” had not been carried out, were collectively owned. If China is a country with a legal system in place, then it is possible to cite the village self-rule laws enacted at the People’s Congress in 1988, and subsequent laws on village committees. Funds that are set up at village level are completely in line with these laws as

they are self-servicing and self-developing. And in accordance with these laws, funds set up at village levels should not be dissolved but should be required to meet certain criteria.

The proto-capital nature of collective assets and increase in collective accumulation

By nature, the existence of collective assets is one of the most general pre-conditions for the setting up of RCF. But in fact, it is not the absolute condition as ownership reforms occurred only at the brigade level or below. Collective assets owned by the top level of the commune had been placed under the control of the township government. Hence, in most townships there were no more collective assets. In the townships, co-operative funds issued shares right from the beginning, or borrowed to finance their everyday functions.

Where there were still collective assets, they could be withdrawn when turned into shares. But in normal circumstances, to maintain the smooth running of co-operative funds, it is necessary to have a certain level of capital. Otherwise, things would easily go wrong as there would be no support from the Central Bank. In practice, most funds did maintain a stable level of capital, and some, even more. From 1990 to 1996, through the funds, 6.05 billion yuan of debts owed to village collectives were successfully collected.

In view of these facts, collected shares should be looked upon as a form of "proto-capital". The initial definition of co-operative funds as a way to utilise collective assets and to promote collective accumulation also means that the collective assets are "proto-capital". Such a definition clearly shows that the funds must rely on the initial investment of the collective to promote further accumulation by the collective.

As "proto-capital", it can be withdrawn. Hence, we can only come to the conclusion that since funds at the township level are effectively held by local governments, and not by the village collectives, the latter can only be regarded as "absentee" share-holders.

Local Financial System that is Innovative and Accessible

Townships and in some places county governments, having got their hands on collective assets and the right to exploit local resources, were bypassing the central government's monopoly on finance by setting up RCF to propel the development of local economies. Given the emphasis on monopolistic arrangement in the 1990s, such a step can be considered as "innovative".

With this innovation, it became possible to solve the problem of

shortage of capital, and to develop the non-agricultural sector in rural areas. The development of village and township enterprises, in turn, ensured more profits that accrue to local governments. Between the years 1990 and 1996, a total of 157.9 billion yuan was invested in village and township enterprises through co-operative funds. In 1996, the amount invested in rural enterprises represented 36.8 percent of total investment. It is evident that in the years before 1996, the booming economies at the county level and below were directly connected with the emergence of local financial institutions.

However, controlled by local governments, the proportion of agricultural investments made by the funds declined, and the proportion of non-agricultural investments increased. In 1999, the total investments made by funds in Sichuan amounted to 21.46 billion yuan. Agricultural investments accounted for 7.88 billion or 36.7 percent of total, while non-agricultural investments took up 13.59 billion or 63.3 percent of total. The proportion taken up by non-agricultural investments almost equaled the proportion of bad assets to total assets. Overdue loans and immobile accounts amounted to 10.84 billion yuan, with peasant households (normally engaging in agriculture) taking up 3.48 billion or 32.1 percent, while loans to enterprises and others accounted for 7.36 billion or 67.9 percent.

Such figures and related researches help clarify the situation. Although the central government had always maintained that RCF was not a formal financial institution but an internal organisation of villages to help members to obtain funds, the fact is, when further reforms of rural areas are not forthcoming, the funds cannot fully realise their potential for co-operation, at least not at township levels.

Once it is clear that control of the funds by local governments is for the sake of local economic development and local government expenditures, then the interventions made by local governments in the daily running of the funds are no different from those made by the central government in its monopoly of the country's financial activities. The only difference is that when such interventions prove to be unwise and costly, local governments do not have the leverages that the central government has in issuing bonds or compensations.

Interventions of local governments are usually in the following forms:

Firstly, the compulsory set up of funds. In some places, the funds were headed by heads of local governments. In most cases, the funds were staffed by people designated by township governments. In some places, funds were set up even when requirements for capital, personnel and management were not met. In others, deposits held by village

collectives at credit associations were forcibly transferred to the funds. The workings of local government (especially at township levels) were such that interventions in the running of the funds were inevitable.

Secondly, heads of local governments always had the final say. It was not uncommon for funds to provide money to meet tax quotas or to buy government bonds allocated for the area. In some places, the funds were forced to take up the burden of infrastructure development or to build schools and hospitals, or to act as guarantor for certain government departments. Some heads of local governments even treated the funds as their own bank account. The funds had to pay for all the expenses incurred by them. Others forced the funds to lend to their relatives and friends. Most of these loans eventually turned into bad debts. For instance, in Sichuan, since 1992, of the 21.46 billion yuan loans made out by the funds, overdue loans and immobile accounts amounted to 10.84 billion yuan or 50.5% of total. Such was the work of government intervention.

Thirdly, in some places, units responsible for the village management treated co-operative funds as their own; and the finances, accounts and assets of the two were all mixed up.

Hence, the dissolution of these funds was necessary if the central government wanted to pursue a policy of tightening expenses. However, if the policy was to encourage growth by raising demand, the required policy measures would be the reform and formal institutionalisation of these funds. This also explains why most local governments were willing to let funds under their control to be incorporated into credit associations.

Three types of RCF

Due to differences in economic development, structures of ownership and economic conditions, there were different types of RCF throughout the country. Classified according to their range of business activities, there were three different types.

1. Community-based RCF

This type of co-operative fund was found both at the township and the village levels. As suggested above, only funds at the village level could be considered as internal co-operative credit associations of a community.

This type of co-operative fund was typically found in areas where agriculture accounted for a large share in national income. It was set up from within the community to serve the community. Such funds had their beginnings in assets audits carried out at the village level.

Their capital mainly came from the savings of the village collective and individual households, as well as assets held by village enterprises. Investment was mainly made in agricultural production of the peasant households and the village collective. Normally, business activities of the funds were confined to the community; and their loans were small and short-term, with low interest rates. Loans went mainly towards small-scale agricultural production. The funds set up in the township of Pingdu in Shandong were typical of such community-based funds.

Pingdu lies in a traditional agricultural area. Agricultural production is the main economic activity, and the majority of the population engages in agriculture. From the beginning, Pingdu's co-operative fund aimed to resolve the problem of ownership at the village level, and to build a new mechanism to utilise the savings of individual households and the village collective. Membership contributions came from the collective and the peasant households. Borrowing from outside sources was avoided. From 1988, when it first began, to 1992 when it was formally established, the total membership contribution amounted to 263.55 million yuan, of which 112.31 came from the village collective, and 66.1 million from peasant households, while 85.14 million was entrusted to the fund. As for investment, of the total investment of 145.37 million yuan, 48 percent was invested in agricultural production. Adding this to the 57 million used in agricultural infrastructure and the 30 million used in agricultural machinery and generating electricity, the proportion was as high as 83 percent. The amount invested in village and township enterprises was a mere 40.36 million yuan, or 16 percent of total. On account of the investment, conditions for agricultural production improved greatly. From 1988 to 1992, machinery power increased by 131.762 million watts, electricity cable lines increased by 2663.9 kilometres, and 23 thousand new or repaired water works were completed. Irrigated area reached 1669 thousand *mu* (1 *mu* equals 0.067 hectare, or 0.165 acre), or 64.3 percent of total cultivated area. Sustained production for agriculture was secured.

Most of the community-based co-operative funds gave priority to agricultural production. In those well-developed test-sites for co-operative funds, one-quarter of the villages received investments from the funds for their capital requirement for agricultural production.

The township of Pingdu in Shandong also serves as a leading example in its distribution of benefits. At first, Pingdu used a proportion of 4:3:2:1, with four portions going to dividend payment, three to further accumulation, two to social functions, and one to

special bonuses. Since 1993, Pingdu transformed the funds into shares, and provisions were made for risks. Every year, 2 percent of share value was to be extracted as provision for risks. If a loss occurred in the year, provisions for risks would be used to plug the gap. If this was still not enough, then the value of the shares would be subtracted to make up for the shortfall. Hence there was profit-sharing as well as risk-sharing. The further development of the fund was guaranteed, and its competitiveness increased.

The county of Meitan in northeast Guizhou is a hilly region where land is relatively abundant. Throughout the province of Guizhou, the per capita cultivated land is 0.7 *mu*; but for Meitan, it is 1.2 *mu* (1.5 *mu* according to the latest cultivation). In 1987, the State Council designated Meitan as among the first batch of test-sites for rural reforms. Peasant households were entitled to work on a fixed area of land regardless of changes to their members, and they only had to surrender roughly 50 kilos of grain per *mu* as payment for all forms of tax. With these reforms, the rural area entered a period of stable growth. The burden placed on peasants was relatively light.

In Meitan, in a village called Jinhua which is six kilometres west of the county capital, in 1999, the average annual income for peasants was 2,700 yuan, and per capita consumption of food was 60 kg. Its economic development lay within the median range. The village was organised into six groups. There were 273 households and 1,145 people. The amount of cultivated land was 1,461 *mu*, with 200 *mu* of tea gardens, half of which was collectively owned. Although there was no village enterprise, the village collective had an annual income of six thousand yuan from the tea garden.

Co-operative savings associations for peasants

As early as 1983, the household responsibility system was put in place in Jinhua village. Since then, titles to land had not been changed. Only 852 people had titles to work on land. In 18 years, the population increased by 300. These did not have land to work on, nor did they have to pay taxes. The increase in landless population put pressure on the village labour force to seek work outside. As a result, incomes as well as expenditures both increased. In recent years, peasants changed their way of farming; and the resulting ownership structure changed as well. The biggest change lay in the need for investment. But the nearest credit association is tens of kilometres away. The amount of capital required was small, and it was difficult to obtain from official financial institutions. Eventually, the village collective

decided to use the 30 thousand yuan accumulated from incomes of the tea garden as starting capital. With further funds from more than 200 peasant households, they got permission in 1998 to form a co-operative savings association for peasants.

Participation in the savings association was voluntary. But to encourage more households to take part, the village party secretary contributed 1,500 yuan, the largest amount. Next came the accountant with 1,000 yuan. The smallest contribution was 20 yuan. In all, 130,000 yuan was collected. In June 1999, after payment of dividends, there still was 2,000 yuan left. It was decided to use 12 percent of the amount to aid poor households.

Savings association would only lend to peasant households within the village. In one and a half years, 500 loans, totaling 100,000 yuan were made. At first, the monthly interest was 10 percent. Afterwards, it was fixed at 7 percent. Most of the loans were for buying seeds and fertilisers. In general, the loans were short-term loans of three to six months, and just for one hundred yuan or less. The money was usually borrowed in spring and paid back in summer. In a few cases, money was borrowed to pay for trips outside to look for work, or for children's school fees. The largest loan involved the purchase of a buffalo and amounted to 1,200 yuan.

Jinhua's savings association functioned well. So far, no bad debt had occurred. At the time of research, there was a spring drought, and overdue loans amounted to 20,000 yuan. But the village cadres were not worried. If things were normal, debts would be returned in June after the summer harvest. Procedures for loans were by no means simple. The borrower must have double guarantees; both collateral and a guarantor were required. Some poor households were unable to meet this requirement, and the cadres must step forward to help.

Handling of the Situation

According to related papers, Jinhua's savings association was to be dissolved too. The local credit association had twice urged the village to stop all business and reimburse all shares. At the moment, 18,000 yuan had been reimbursed. Since the government would not allow them to form savings associations, the village cadres thought it was no use keeping any collective funds. In future, collective funds would be used to construct public facilities.

In the course of our research, we exchanged views with both cadres and peasants. In general, people thought that:

a. Co-operative funds or other forms of spontaneously-formed

savings associations have by nature collective management of the assets

Most community-based co-operative funds and savings associations begin life by turning liquid assets held by collectives into starting capital. Afterwards, members of collectives join in. Hence, they are by nature self-management of collective assets. Loans made out are chiefly for the improvement of the local agricultural set-up. It is entirely in the spirit of using collective assets with benefits and increasing the value of the assets. Moreover, capital is sourced within the village, and so are the loans made out. Judging from the country's constitution, agricultural laws and related regulations on village self-rule, co-operative funds fulfill the three principles of village self-accumulation, self-development and self-governance.

- b. Rectification according to related regulations on management of internal assets of collectives

To live up to the spirit of rural reforms, to face the problem of financing small-scale agricultural production, and to stem the practice of usury, rectification of community-based co-operative funds and other internal collective assets can be done along the lines of "community co-operative shares system". Liquid as well as fixed assets held by the collective can be transformed into shares and issued to households who can decide for themselves whether to pool their resources and form a management committee to manage their collective assets. In this way, the liquid part of the collective assets can be fruitfully utilised.

2. Professional RCF

This type of co-operative funds mainly relies on professional economic organisations of peasant or professional associations. The funds are set up by members of the professional organisations or associations. The main function is to provide financial services within the profession. Some may overlap with community-based funds. Some encompass several communities. But most of them are confined to particular organisations. Typical examples are those in Huanghua township of Hebei, the fishermen's co-operative funds in Shanwei, Guangdong province, the loggers' fund in Sanming, Fujian province, and the beekeepers', drivers', and miners' co-operative funds in Shenzhi, Heilongjiang province.

What should be noted in particular is that co-operative funds are very effective in stemming the practice of usury. Since rural reforms,

lending and borrowing among peasants are widespread. However, due to lack of effective control, usury is common. In an attempt to develop cash crop production, peasants often find themselves burdened with debts and even bankruptcy. Rural professional co-operative funds provide new channels of finances in addition to formal government financial networks. Compared to loans provided by individuals, these funds are well-regulated and cost less to borrow. Hence, they have significant impacts on a rural environment where competition among financial institutions has been previously non-existent. From the viewpoint of peasants, competition will lower the price of capital. In fact, where the RCF is well-managed, usury is contained. Some researches show that as a result of the development of RCF, the interest rate for loans provided by individuals fell by 30 to 50 percent.

In the test-site of Yulin in Guangxi province, there used to be a dozen or so usurers lending at extremely high rates. Among their victims were individual traders and craftsmen. With the development of RCF, more than one hundred poor households were able to obtain loans. The usurers lost their market.

Rural professional co-operative funds stress the interests of shareholders. In their distribution of profits, 40 to 70 percent go to the payment of dividends. Only 20 to 40 percent are retained for accumulation and further development. The rest go to salaries, general welfare and bonuses of employees.

From this, the co-operative nature of professional funds is far from clear. With the dissolution or closure of many co-operative funds in recent years, professional funds also lose many co-operative characteristics they might have had in the past, and regress to private lending companies.

3. Enterprise-based rural share-holding co-operative funds (financial service associations)

This type of RCF is formed by economic groupings within a community or a particular area. It is spontaneously formed, but the members are economic bodies engaged in trade or industry.

Its main function is to help capital flow readily within shareholding companies, township enterprises and private enterprises. This type of funds can only be found in places where economic development has already taken place, and economic activities have branched out into second and third sectors. It is the result of the pooling of resources of different economic bodies to further each other's development.

In the city of Wenzhou, township as well as private enterprises

have boomed. Economic units that are collectively owned are also strong. Since 1992, the year when the experiment for shareholding co-operative funds began, and up till May 2000, 52 such funds have been formed. Capital inflow and outflow are 167.32 million yuan and 186.59 million yuan respectively. Not only was the need for capital from village and township enterprises met, the practice of usury was also stopped. According to research conducted by an enterprise in Wenzhou, in 1993, there was a shortfall of 80 million yuan to upgrade technology. Banks and credit associations could only provide one quarter of the amount. Up to May 2000, the 45 co-operative funds that were in operation had provided capital in the amount of more than 300 million yuan.

The problem is when the economy is in recession or when interest rates are high, as is the case in China in the 1990s, co-operative funds that are without the support of the Central Bank and are involved in enterprises running into difficulties are bound to be adversely affected. To cope with such risks, such private funds tend to work illegally with corrupt officials, and thus give rise to extremely harsh private usury.

The rise and fall of RCF point to the inescapable fact that whether it is at the level of central or local government, the established rural financial institutions are inadequate in many respects.

With the benefit of hindsight of fifteen years, from actual experience, the following should be evident: only those co-operative funds that were established at the village level still had life in them, even though the local form they took appeared incongruent with the orientation of developing modern financial institutions.

Translated by Ma Kwok Ming, John

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Reflections at the Turn of the Century on “Rural Issues in Three Dimensions”¹

WEN TIEJUN

CHINA'S PROBLEM is the peasants' problem. The peasants' problem is that there is no land” – it was an old saying from the last century, utilized by both the Nationalist Party (KMT) and Communist Party of China (CPC) to mobilize peasants. Then the CPC succeeded in the “War of Agrarian Revolution.”

Now the catch-phrase has been changed to: “China's problem is the peasants' problem. Peasants' problem is unemployment.” Who can overcome this problem and gain the upper-hand this time? And how?

With the discussion at the turn of the century, people nowadays begin to think that there is no “agricultural” problem in China. Instead, there are only rural problems in three dimensions: *rural people*, *rural society* and *rural production*.

Academics who were involved in the economic reforms in China all know very well that the main projects I carried out in the “Rural Reform Experimental Zones”² for the past ten years have always been market-oriented. In order to implement the first initiated “Policy Experiments,” I have tried my best to learn from scholars working in different traditions, including those who believe in so-called classical Marxist political economics as well as those who teach trendy theories of “Western Economics,” in order to illuminate the concept of property rights. During these years, I took different theories into consideration, respecting scholars from different traditions as “Masters,” treating all perspectives equally and practicing eclecticism. On several occasions of theoretical discussion,

I have repeatedly emphasized that I am only an “experimenter,” not a theorist, and I consider what I am proposing here merely an intuitive understanding of the experiments in the grassroots.

The meaning and value of the outcomes of “Experiments” serve not merely as a reference for the government leaders whose agricultural policies were detested by peasants. They were therefore forced to review the “rural problem in three dimensions,” which serves as a stimulus for the centenary reflections of scholars on what China has learned from the West.³

I. What is the real problem of China?

THE MANY YEARS of experience in rural grassroots communities have brought about a great deal of confusion in me with regard to the grand theories, but oftentimes, I can resolve the confusion in the fieldwork in which I was engaged.

In my view, in the last century, one most prominent question has been the distorted process of receiving and absorbing Western theories; that is, how to combine or make compatible Western science, including Western philosophy of science, with traditional Chinese thought, including the realities of Chinese culture. Marxist theory of political economics, which has an unshakable grip on Chinese social scientists, and theory of economics of liberalism as well, face the same question of the compatibility between Western epistemology and Chinese practice. Political leaders such as Mao, Deng and all serious scholars, native and abroad alike, all think or have thought that this problem has yet to be solved.

For this reason, the basic hypothesis I can contribute to this century-old problematic in Chinese Studies is the simplest and the most well-known diagnosis: “China’s problem is the tension aroused by an agrarian society, characterized by overpopulation and limited resources, in the process of internal and primitive accumulation of capital for state industrialization.”

This study can be abstracted as an investigation into the “two basic paradoxes and two historical phases.” Our economic development in this century can be summarized as “the four industrializations of a peasant state.” The lesson we learned from this approach is quite easy to understand: any innovation of the existing institution and system we have is only the end-result of, rather than the prerequisite for, the different structural changes under the constraint of macro-environment.

i. An analysis of the “Agrarian Revolution” in modern China.

Let us focus on the similar situation faced by Sun Yat-sen and Mao Zedong:

At the beginning of the Old Democratic Revolution⁴ in the last century, Sun Yat-sen made the peasants’ appeal for equal land distribution, put forward by many peasant revolts in history, into one of the two main goals of his Principle of Livelihood. The question of land ownership immediately provoked the anger of the Royalists.

Even though Sun and his cohorts did not retreat in the theoretical debate with the Royalists, in practice he soon learned a lesson: virtually no common peasants were moved by the call to agrarian revolution. He then understood that the inequality in Chinese agrarian society was only manifested in a distinction between “extreme poverty” and “less extreme poverty.” Therefore, failing to mobilize the peasant, Sun Yat-sen changed his strategy into organizing “Parties’ uprisings.” The so-called bourgeois revolution he initiated, ironically without the support of the national bourgeoisie, finally turned into an internal war of provincial division waged by the warlords controlled by Western colonial powers.

The young Mao Zedong wrote a report called “On the Peasants’ Movement in Hunan” in the 1920s, showing his affirmation of the much berated “Rascals’ Movement.” Building on this work, Mao formulated a primary theory of class division in Chinese society. Later, during the Autumn Harvest Uprising and in the process of establishing a revolution base at Jinggang Mountain, he attempted at “attacking the local ruffian landlord and redistributing land-ownership”; soon after, because the small peasants did not produce enough to feed the Red Army, he changed his agrarian revolution to “attacking the local ruffians to gather provisions for the army.” For this practical policy change, he was severely punished by the CPC Leftist leadership and almost lost his life. Later, although the Red Army had recruited over 300 thousand soldiers from Jinggang Mountain and other bases, without adjusting land policy to the contextual environment, the “Soviet Revolution” in China failed. After that, the Red Army embarked on an arduous expedition – the Long March. To escape military attacks, they changed their destination several times and finally decided to settle in North Shaanxi Province. Taking away the factor of the Sino-Japanese War, what accounted for the final success of the CPC – the fact that the Red Army could gain a foothold in the poor region of North Shaanxi, and that “Marxism can be derived from the village of North Shaanxi” rather than an application of doctrines from Moscow dogmatically upheld by Wang Ming – was precisely the adjustment of reform from “land redistribution” into a reduction of land tax and rent;

from “attacking the local ruffians of landlords” into an acceptance of “Li Dingming as an enlightened local gentry.” Such moves implied a preservation of the tradition of the rural elite’s self-governance. Mao’s article on the Two Theories and on “How to Improve Our Learning” in *The Selections of Mao’s Writings* are products of this struggle between the Chinese Communists and the Soviet doctrinaires.

ii. Opposition of scattered peasants to state industrialization

Having learned from the lesson of blood, the peasant-based Chinese Communist Party gradually started to correct the extreme leftist orientation imported from the Comintern. Meanwhile, in the 1930s, the intellectual circle in China also went through a period of self-reflection. A group of scholars, focusing on the context of the Chinese situation, started a discussion of the Asiatic mode of production. They referred to the self-reflective writings of Marx in his late years concerning his limited knowledge of ancient societies in Asia. He admitted that his theory derived from the tradition of Morgan and Darwin on the five historical epochs in the West was not applicable to the unique character of China. This discussion brought a ray of hope to “localize” the western-based social sciences in China.

In ancient eastern countries, irrigation-intensive agriculture was the primary mode of subsistence. This mode of production required small social groupings such as family or village (clan) to be the basic unit of society. Their historical development therefore differed from Western societies, which consisted primarily of hunter-gatherers and herdsmen, with the individual being their basic social unit. I reached this conclusion by observing the remnants of human civilization at the New York Metropolitan Museum, the Great British Museum in London, and the Louvre in Paris. The evolutions of Eastern and Western civilizations were clearly different. The different modes of production in ancient times gave rise to different social structures. Appropriation of nature – hunting and gathering – required a strong body and physical prowess, which led to the development of individual-based societies. In the East, particularly in China, a gigantic country that until now has never been completely colonized by the West, self-sufficient communities based on social groups emerged when primitive tribesmen irrigated their land together along the continent’s rivers. The Xia Dynasty that emerged 4,000 years ago as the first state in China was a result of Xia Yu’s success in developing an irrigation system preventing the flooding of the Yellow River. Such historical processes were neither related to class oppression nor pillage.

That was the reason why the western institution of slavery never appeared in China.

We also have to pay attention to the result of the discussion in the 1930s: Ever since scholars who emphasized the Chinese context were labeled Trotskyists, the discussion of how historical materialism might be compatible with the context in China was accordingly interrupted. Meanwhile, *The Age of Slavery*, an influential book in the theoretical circle, was acclaimed because it argued that China, like the West, had the “five epochs” of historical development, including slavery. This theory was taken up by some economists who concluded from their rural research that “80% of the land was controlled by 10% of the population – the rich landlords.” Their conclusion was a very influential political judgment, in the sense that it provided the theoretical basis for the nation-wide land reform.

In order to understand the impacts of institution on economic developments, I studied the founding of rural fieldwork in this century chronologically, disregarding the researchers’ political views. Initially my study proved that the “separation of rights in land ownership and land use” is a system derived from the internal structural logic of the rural society: on the one hand, the increase in population, which led to a tension of land-population ratio, had prevented land ownership from falling into the hands of a few. On the other hand, as a result of high rental rate, the right in land use was limited to kulak and middle farmers who had the capability to manage agricultural production. These property rights systems maintained a balanced distribution of land resources and rural labor that supported an extremely stable social structure of Old China for centuries.

How, then, do we explain the frequent social uprisings and class struggle in Old China?

A further structural analysis revealed that the major conflict that led to the collapse of peasant economy in modern Chinese history was the conflict between peasants and landlords who were also usurers, industrialists and merchandisers. The industrial and commercial capital accumulated through the circulation of goods had increased the degree of exploitation of peasants, which became much more severe than the exploitation of land rate; and the profit from usury was even higher than profit from industrial and commercial capital. This conflict reflects that the essential problem yet to be tackled is the developmental path of this agrarian country. In other words, the issue at stake is the means of extracting and accumulating capital, in the process of urbanization and industrialization, from a highly scattered and low surplus agricultural economy. We have developed a scale to measure the effectiveness of the

system in this kind of agrarian country: A system is considered effective, if it may efficiently lower the transaction cost paid by the millions of scattered peasants and complete the primitive accumulation of capital in the inevitable historical process of industrialization.

II. Two Basic Theses

CONSIDERING the imperatives of rural development, one can see that there are two basic theses in the studies of rural economics: First is the constraint for an innovation of land system under the pressure of high population density. The other is the constraint of an agricultural surplus-distribution system under the binary structure between the urban and the rural.

Land Reform under the structural constraint of high population density

(a) The issue of property rights in land reform

The land reform that was launched to redistribute land ownership according to the family size of peasants (including landlords and kulak) was the direct result of the Third Agrarian Revolution War (also known as the War of Liberation). In practice, it was a thorough privatization of farmland (except the right to lease land) including those originally publicly owned farmland in traditional villages.

Afterwards, the interdependent Mutual Aid Teams ensured that the land rights of peasants could remain unchanged; the Primary Cooperatives, which were set up in the 1950s based on pre-existing villages, also allowed the peasants to hold shares of the land property. However, since the Advanced Cooperatives and the People's Commune came into being in 1957 and 1958, respectively, the natural boundaries of traditional villages (clans) were broken and the peasants lost their land rights. This time, it was a complete nationalization of privately owned land. But from 1957 to 1962, a short interval of five years, a nation-wide famine broke out, pressuring the government to readjust its agricultural policy. The production units changed from "people's commune" and "brigade" to "production teams," and natural villages once again became the bases of production and land ownership.⁵ At the same time, in the 1960s, the readjustment gave space to the development of private land, free market and "contract system" which meant that the peasants could keep a small portion of land for their own subsistence. By the end of the 1970s, the government finally gave back most of the land ownership rights to the peasants.

Currently, the so-called Shareholders' Cooperatives in villages, based on "dual structural property rights"⁶, are widely practiced in many regions. The central idea of this system is to protect the peasants' land rights through contracts, while the villages hold shares of "publicly owned land." Many conflicts occurred in the villages, which involved unduly occupation of land and the underestimation of land value by the local government.

(b) The structural constraint of "rural China"

Examining the five thousand years of Chinese agricultural civilization, we can see that the tradition of peasant economy and the tension in land-population ratio actually complemented each other. Under this constraint of "rural China," the major historical events were caused by man-made calamities rather than natural disasters. Very often the problem was that the rich and powerful occupied land by force, bearing witness to the theory that "the real evil is not scarcity but unequal distribution." Or, it was due to the excessive construction of "infrastructure," continuous warfare, and heavy taxation which led to an increase in mobile population and social instability. When coupled with a natural disaster or foreign invasion, the social crisis inevitably led to a "reform," or even a change of dynasties. Then, the very first national policy of the new dynasty usually was land redistribution and tax waiver.

The so-called heydays of Chinese civilization, the Han and Tang Dynasties, were successful because these dynasties increased their agricultural productivity by expanding their territories. Because of the large number of wars, I exclude Jin and Sui in my list of examples. The political instability of the Song and Ming Dynasties both had to do with the imbalance in the ratio between land and agricultural resources on the one hand and their population on the other hand. A most obvious example is the Mongolian invasion of China. Despite the fact that it was foreign domination, and that the Mongolian tyranny implemented most brutal policies, which were unacceptable to the common folk, the Yuan Empire still lasted 87 years. It was related to the unprecedented size of its territory which released the tension of land-population ratio. The situation of the Qing Dynasty was similar to the Yuan Empire. The Manchus, a small ethnic minority, in ruling the vast continent for approximately 280 years, owed their success to their adaptation of central China's culture into its own governmental system. However, more significantly, the vast territory of the Qing Dynasty enabled a reallocation of land and natural resources and reduced the tension derived by population density. Together with the reduction of taxation, the adjustment of land-population ratio led to a long period of social and political stability.

From the late Qing period to Republican China, the continent was first invaded by the foreign powers and then plagued by domestic warlords. With a rapid increase in population, the ratio of available resources to the population went down dramatically, which subsequently resulted in the polarization of the rich and the poor. However, the rural community in traditional villages could still be self-sustaining because of the stabilizing system of property rights, which was characterized by the “dual land ownership,” i.e., “separation of rights in land ownership and land use.” Since the mid 19th century, the Taiping Rebellion, the Sino-Japanese War, and the two Civil Wars greatly decreased the population of China, approximately by 20 to 30 percent. These changes more or less altered the land-population ratio. However, the context did not allow a nationwide readjustment of the land-population ratio, which resulted in a serious regional difference in agricultural production. Despite the fact that in the South tenant peasants outnumbered land-holding peasants, and vice versa in the North, the living standards were considerably higher in the South than in the North. This discrepancy explains why the peasants’ revolts became a dominant revolutionary force in the North.

When the War of Agrarian Revolution won its victory, Mao redistributed land to the peasants in his land reform; Deng Xiaoping’s policy of “15-year contract of rights in land use” was another redistribution of land. The third generation of leaders in China followed the policy of their predecessors, promising that the contract of rights in land use would not be changed in the next thirty years. Under the constraint of the tension caused by the land-population ratio, these three succeeding land reforms, all aiming at the equal distribution of land, could only be implemented by dividing farmland along the natural boundaries of villages. Indeed, the fact that villages in China cannot afford the institutional cost of polarization is also a result of such constraints. This is an important issue we all know but have not adequately articulated.

“Rural problem in three dimensions”: principle of equality versus the market economy

Because of the extreme tension in land-population ratio, arable land in China, as “survival material,” which is to be differentiated from the notion of “production material,” can only be distributed among the village population, which embodies the principle of equality. In our experiments, we have promoted land transactions. In the past ten years, only one percent of the peasants have sold their rights in land use to others. It proved that this kind of property rights system, which grew out of our internal

structural constraint, is not compatible with market economy. The notion of efficiency, a goal set up by agricultural economics, cannot be a guiding principle for land reform in the present context of rural China, unless there is a radical change in land-population ratio. Due to the lack of resources, China throughout history has never had a purely “agricultural” economic problem. The real problem is always “rural problem in three dimensions”.

Under the framework of property rights theory in institutional economics, the restructuring of land property rights, a manifestation of the idea of equality, was a result of transformations in the political system, either through revolutions or by governmental reform. Because the formation of this unique property rights concept is contingent upon the convergence of political forces rather than market forces, in our history, the notion of “private” property never existed. This is an important element of “All land under the sky is the king’s land, and all natural resources are the king’s servants” – the basis for feudalism and centralized authority.

The binary opposition between urban and rural: agricultural surplus-distribution system – Over-exploitation of small farmers’ surplus

An economist pointed out once that, as early as one thousand years ago in China, the commodification rate of agricultural product had already reached 15%. In recent years, China has been industrialized, but out of the total production of grain, the percentage of commodity grain was only increased to 30%. 15% of total yearly grain produce was state-owned. Statistics showed that 50% of rural peasants did not produce any commodity grain, and only 30% of rural peasants could sell more than 30% of their total produce. Therefore, 70% of the small peasants faced the problem of low surplus rate. Industrialization did not solve the problem of rural poverty; indeed, the situation was worse with population increase over time under the rural-urban binary structure.

Under the structural constraint in China, whether it was armed revolution or peaceful reform, the subsequent result could only be an equal redistribution of land. We can see that the core of Chinese society’s “stabilizing structure” is an internal distribution system of property and profit in the peasant economies. In the villages, the economic internalization of property and the mechanism of profit-distribution became a stabilizing force for rural society, and essentially, it rejected the capitalist system that accompanied Western industrialization.

“Four attempts to industrialize China”

There were “four attempts to industrialize China” since the late Qing period. First was the “Westernization Movement” (Yangwu Yundong)

initiated by the Qing government from 1850 to 1895. The second one took place from 1920s to 1940s with the Republican government. Both led to the outbreak of revolutions because the bureaucratic industrial and commercial capital had extracted an excessive amount of surplus from the peasants that intensified social conflicts.

The other two attempts were the so-called two “historical phases” I mentioned at the beginning of this paper: The first phase was from 1950s to 1970s, when the central government launched industrialization in the name of “socialism” and “people’s ownership” and was relatively successful in completing the primitive accumulation of state capital. The second phase took place since the open door policy in the 70s. Under the goal of rapid economic growth set up by the central government, the local governments initiated “local industrialization” on different levels, which successfully accelerated economic growth and national power, but also created serious environmental problems. Institutional innovation was mainly aimed at tackling the problem of transaction cost between government and peasant in the process of capitalizing resources and extracting agricultural surplus.

Primitive accumulation of capital in state industrialization

By the time the People’s Republic of China was established, the West had already partitioned resources through colonization, and the geopolitical structure brought about by the two World Wars was fixed. China had no choice but copy the Russian model of industrialization in order to “stand up.” It had to complete the “primitive accumulation of capital” which could not possibly be done under the conditions of a low-commodity-rate peasant economy.

In the first three years since the establishment of the PRC, its four hundred million peasants were able to provide enough agricultural produce for the fifty million urban population. During the first Five-Year Plan, twenty million rural laborers were recruited into the city to support the construction of industrial infrastructure. The sudden increase of 40-50% of grain-consuming urban population led to a shortage of agricultural produce. Moreover, with the excessive amount of surplus laborers in the village, the mode of accumulation in this peasant economy was indeed investment of labor force rather than capital. Industrial products, therefore, could not enter the rural market and the two sectors could not support each other through the exchange of products.

As a result, China was forced to carry out an unprecedented self-exploitation led by a highly centralized government: In the villages, what was implemented was a symbiotic system of people’s communes and state

monopoly for purchase and marketing, while, in the cities, a system of planned allocation and bureaucratic institution was established. By controlling all surplus value produced by both rural and urban labor, the central government redistributed resources to expand heavy industry-based production.

Meanwhile, the government converted its developmental strategy of the New Democracy that contained elements of private capitalism and state capitalism into a state monopolized property ownership system during the period of the so-called “transition toward socialism.” In the process of developing heavy industrial bases, it required an intense investment of capital and limited labor force and thereby restricted the influx of rural laborers into the city and reconfigured the binary structure of the rural and the urban. Although thousands of peasants perished in the process of capital-accumulation of state industrialization, China finally crossed this threshold in the shortest time and completed the formation of industrial infrastructure for the political and economic autonomy of the country. This unique historical period from the 50s to the 70s, the Age of Mao Zedong, was also called the Heroic Period because everybody was devoted to the betterment of society.

III. Restrictions on Development and Alternative Policies

Rural development under the restriction of the dual system

What do we inherit from this period? It is the gigantic state capital in the name of “people-owned property.” State capital has been gradually redistributed and possessed by recent and future generations, with the various claims that they may stake. But, people also inherit a problematic binary system that divided the urban and the rural into antagonistic positions. Obviously and unfortunately, everybody is eager to take part in the redistribution of capital only, leaving the problem of the binary opposition to others in the future to solve.

An expert on central policy studies, Mr. Du Runsheng, pointed out in the 1980s that China’s agricultural economy would have no future if the situation of “eight hundred million peasants feeding two hundred million citizens” could not improve.

According to Western economics, the flexibility of the demand for agricultural produce in the city would be predictably low because the demand is state-safeguarded and highly centralized. By contrast, the supply from the countryside is self-sufficient, mostly scattered, and very flexible,

which is actually completely different from the case of the West.

Because of the rural-urban binary structure, the flow of information is asymmetrical. Agricultural supply and demand fluctuate. For this reason, the market for agricultural produce and the fluctuations in price do not follow any predictable order. Then peasants typically try to grow a variety of produce, as a result, to cater to different markets in the hope of avoiding risks, unless the government helps them gain financial security. This situation leads to further fragmentation of the scale of agricultural production. This, in turn, intensifies the market fluctuations. From the 80s to 90s, the fact that cyclical “excessive supply” occurred three times is an example of this logic.⁷

In addition, due to the increase in rural population, arable land gradually became a basic prerequisite for peasants’ survival and not merely a factor of productivity, and its surplus accordingly decreases. The theory of “population trap” can partially explain this paradox. If the surplus rural population of a particular place could not move out, the benefits of either modern technology or government’s price policy would not take effect. Quite on the contrary, any effort on the part of the government, which usually involves financial subsidy, would only bring about negative effects. Obviously, none of the governments in the world is able to subsidize such a vast and semi-unemployed rural population as the one in China.

Therefore some have claimed that China has no ranches and the USA has no peasants. European countries and the United States have consistently endeavored to protect the resources that they have accrued in the period of colonization, paying special attention to their agricultural resources, which have an affinity to the ecosystem. For that reason they subsidize the ranchers in the rest period and do not allow the ranchers to maximize their production in order to protect the natural resources. The negotiation between WTO and Uruguay that took place recently was done on terms completely dictated by the West. If we take into consideration the potential competition between our small peasants’ economy and the giant international agricultural economy, we should remember the catastrophic precedent of the bankruptcy of the peasants in Suzhou and Hanzhou – the areas reputed as “worldly paradise” – raided by the international market in the 1930s and 1940s.

Alternative Policies

In the past, China tried to enlarge the “scale of economy” in agricultural production by establishing collectives, and then, the situation worsened. Adding a plow to a scythe—one small peasant to another—the simple

regrouping of individuals would not lead to any progress in productivity. Now the government and its technocrats still have not given up the attempt to enlarge the “scale of economy.” But, since the agrarian population has doubled, and if we take the situation of surplus labor force into consideration, “investment of labor instead of capital” should be our guiding principle in economic development. In any region, no matter how developed it is, any modern and capital-intensive agricultural production cannot achieve a reasonable ratio of investment-production.

I believe policy-makers have two options: one, the primary policy of China should be a “labor intensive development.” The government can direct the plentiful labor force into the building of state infrastructure, even if it implies a slow growth rate and a low level of technological development. Meanwhile, the government can accelerate urbanization by doing away with the dual system at least in small cities, counties and towns to readjust the industrial and employment structure and facilitate the transfer of surplus rural labor to other sectors.

The second option is, if the first proposition is too difficult to carry out, we should then focus on an institutional innovation characterized by a “non-market” system in rural communities that equalizes the internal property and gains of the communities. At the same time, the government needs to dissolve the monopolies in circulation and finance, so that the external economic scale can be enlarged to sustain the small peasant economy.

Short of this, the peasants have no hope, the villages cannot develop, and agriculture can never stand alone as a market-oriented industry. Of course, this would not prevent a few major metropolitans from modernizing themselves with the mushrooming of slums. That would inevitably fall into the Trap of Latin-Americanization.

Translated by Petrus Liu

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NOTES

1. “Rural problem in three dimensions” (*sannong wenti*) meant: the rural problems cannot be simply treated as an agricultural issue, but inter-related with rural people (income/migrant/etc.), society (social capital development and multiple socio-economic and political issues), and production (agricultural vertical

integration/ township and village enterprise development) etc. I have published several papers from 1989 to 1999 to argue that China is not a large agricultural country but a huge rural population country. There is no isolated agricultural problem, but rural problem in three dimensions.

“Rural problem in three dimensions” is nowadays a hot topic in central governmental policy studies. There is a recently founded “State Council Office of Important Economic Issues,” in which “rural problem in three dimensions” has been listed as one of the most significant issues, to be tackled by the so-called “fourth generation leadership.” The ever-worsening situation in rural areas has led the politicians and their technocrats to accept and address the “rural problem in three dimensions” again.

2. The rural reform experimental zones were founded in 1987, by former RCRD (Research Center of Rural Development) which has been one of 5 major policy think tanks in the reform of the 1980s. I was one of the researchers engaged in the rural experiments to insist on the policy studies projects for 11 years, even though RCRD was disbanded in 1989. Otherwise, the government would have signed the “policy letter,” in which the government would acknowledge the “market oriented reform” in the rural area in order to gain \$300 million “World Bank Adjustment Loan”. This policy letter was 5 years earlier than the formal announcement at the 1992 “14th CPC Congress”.
3. The title of this paper is the subtitle of my newly published book *Study on Basic Institution of Rural China*, published by China Economic Publishing House, May 2000. This paper is a summary of my book.
4. Mao defined his Agrarian Revolution not as “Communism” or “Socialism”, but “New Democratic Revolution.” Deriving from his concept, Chinese scholars redefined Sun Yat-sen’s political movement as “Old Democratic Revolution”.
5. The public ownership took place only in the short period of Advanced Cooperatives and People’s Commune, when the so-called rural “collectivization” was caused by the selling of industrial products to the rural. It meant that the success of industrialization in the First Five Year Plan required the government’s intervention in setting up larger rural organizations for creating the demand for urban products.
6. “Dual structural property rights” means that the villagers can hold the membership right of the village resources as share holders. It is different from the individualized property right in the West.
7. These events happened in 1984, 1990 and 1997 as the over-supply of grain and other agricultural products.

Credit for Peasant Households and Private Lending

WEN TIEJUN

Background and Problems

Under the double impact of macro conditions of the 1990s and prevailing internal factors, agricultural efficiency, rural employment, peasant income and investment went through a three-year period of sluggish growth since 1997. The long-standing question of incongruence between the rural economy and the national economy has gradually come into the open, and has become more complicated. There are five aspects to the problem.

I. Rising costs of agriculture

According to the Ministry of Agriculture and the State Statistics Bureau, since the 1990s, as a result of the freeze in growth of arable land and the inability of village labourers to switch to non-agricultural jobs, the cost of agricultural production increased by about 10 percent annually, while the cost of services increasing by 9 percent. The lack of demand for agricultural productions, which in turn is linked to the urban economy, has further aggravated the problem. The index for agricultural products is negative for the years after 1998, and the range of its decline is larger than the national consumer's price index. The decline in the price of agricultural products, in turn, puts limits on demand just as the increase in the price of agricultural products in 1994 pushed up the national consumer's price index.

The present problems cannot be resolved by the usual practice of further readjustment of agricultural structure and increase in agricultural

investment. What needs to be discussed is the effects of the subsidies to 900 million rural population in the form of the state setting the purchasing price of agricultural products – the effects are limited and ephemeral in leveling off the differences in gains within and outside agriculture, but this policy in effect pushes up the price of major agricultural products, rendering it impossible for competition in the international market.

2. *Negative efficiency in agriculture*

Bound by factors that cannot be changed, costs increase while prices go down. The result is a continuing decline in the ratio of agricultural output to input since 1997.

According to research conducted by the Ministry of Agriculture, under the impact of large increases in the prices of agricultural products as set by the state, the rate of increase of household income for peasants and the increase of income in the planting sector in proportion to that of borrowings for production is a factor of 4.83 and 1.05 respectively. Up till now, there is no reliable figure as to the effectiveness of borrowings for production. However, using the concept of marginal utility, one can say that an increase of one yuan in borrowings for production will bring an increase of 4.83 yuan in family income, and 1.05 yuan in the income of the farming sector. That is to say, in 1996, efficiency in agriculture was still positive. But things began to go wrong in 1997 and in 1998, with family income for peasants down by 3.25 percent. In 1999, family income further decreased by 64 yuan, while that of the sector by a staggering 552 yuan. Borrowings for production no longer brought increased income, but decreases. Farmland was abandoned. Since the reform began twenty years ago, per capita income for peasants went through a four-year fall for the first time.

3. *Village and township enterprises tend to depart from agriculture*

Although statistics show that the increase in the value of products in recent years still meets targets, in 1998, the increase in income and taxes was lower by 50 percent than the increase in value. There was a slight increase in 1999. The true picture is that investments in village and township enterprises have been falling since 1997. The problem of cash flow has forced many firms to stop production, or even to close down. Those that are still in production are less and less efficient. With firms having already switched to being capital intensive, it is impossible for them to absorb any increase in labour power. Moreover, the practice of turning village and township enterprises into share-holding companies (or privatised companies) is in itself one more step away from agriculture.

In the first place, the number of workers employed decreases by three to four million annually. Secondly, enterprises no longer commit themselves to subsidise agriculture, and to provide social security in rural areas or other forms of public goods that cannot be provided by the state. The abandonment of these roles, in turn, leads to the cancellation by the state of previous policy concessions. The net result is the quickening of the pace of turning enterprises from being employment-oriented to being profit-oriented. That is the reason why peasants' income is down, and local government debt is up.

4. *The worsening situation of debt in rural areas*

Since the policy of fiscal decentralisation in the mid 1980s and the tax reforms of 1994, local governments at both the village and the township levels were endowed with various fiscal powers, and the number of personnel paid by their budget grew. The burden put on peasants could then only be heavier. In recent years, budget deficits at grassroots-level governments have become widespread, and government investment in agriculture as a ratio of expenditure has fallen sharply to the lowest on record. In most agricultural areas, the transaction cost between government and the 900 million peasants has increased to such an extent that makes any transaction almost impossible. However, not only is agriculture unsustainable; it is also unable to pay taxes to the local government. Hence, the problem facing peasants becomes one of non-tax contribution.

Furthermore, due to the fact that local governments expand and the number of village organisations grows, money is borrowed under the thinnest pretext. The amount of debt begins to mount and to spread at great speed. According to the 1997 research conducted by the Ministry of Agriculture in seven provinces, the average amount of debt for a township level government is roughly two million yuan, and for the village level, 200 thousand. But in 1999, research conducted in some provinces indicated that the highest figure of 40 million was reached. In some places, peasants' means of production were forcibly taken away in order to make them pay various taxes. Cash-rich units and individuals seize the opportunity to lend at usury rates. Village committees are forced to borrow from these loan sharks to pay tax. To make matters worse, there is no reliable account of assets belonging to village collectives, so these assets are easily lost. 89 percent of the rural population has an income below average. The gap between rich and poor is widening. Security and unity are hard to maintain. As public goods are delivered from top down, even community self governance cannot manage internal affairs.

5. *Financial institutions continue to function as channels of rural capital outflows*

Faced with the above situation, official financial institutions are in a dilemma. On the one hand, as official institutions, banks and credit associations should, in principle, provide credit to peasants engaged in both agricultural and non-agricultural activities. But on the other hand, in accordance with the provision to avoid risky loans, small peasant productions do not qualify for loans. As a result, growth in agricultural credit is inevitably slow or even negative, and money flows out of rural areas which are constantly short of capital. This is not only seen from statistics compiled over the years, but also evidenced in the strong demands put forward by villages and the large amount of individual cases.

From observations at selected sites, in 1999, the average annual balance of deposits for the peasant household was 4,956 yuan, while the balance for loans was 1,726 yuan. The balance of deposit was much greater than that of loans. Compared to the 1995 figures, the balance of deposit grew by 80.6 percent while that of loans by 69.2 percent. The growth in the balance of deposit was quicker than that of loans. It is hence clear that there is a net outflow of capital at the present phase.

The Basic Conditions of Case Research

Our research consists of three parts. The first part is survey of the general economic conditions of villages. The second part is of those who have borrowed money, while the third is of those who have lent money. In fifteen provinces altogether, we obtained 57 cases of people who had borrowed money, but only 27 cases of people who had lent money, as some lenders refused to be interviewed.

Seen from our research, private lending, including usury, is both beneficial and harmful to the development of rural economy and the livelihood of peasants.

Villages covered by our research, and the interviewees

Our case research involved 41 villages spread throughout the eastern, central and western parts of China, covering 24 counties in 15 provinces. The villages chosen included those from the relatively well-off eastern part and from city suburbs in the central and western parts. Cases from these villages illustrate the condition of private lending in more developed areas. As the shortage of capital in these areas is less obvious, we do not focus on them in our analysis. As for the less developed villages in the

eastern part as well as the central and western parts, the shortage of capital is quite obvious, and can serve to illustrate the general condition.

As can be seen from our research, the relationship between lack of capital and economic backwardness is quite obvious. Poor resources, low level of economic development, and small-scale production are the pre-conditions for private lending to occur.

Our research shows that when peasant households have to engage in more diverse activities and when the scale is small, per-capita production is comparatively low (in our sample, the annual income for the household varies from 200 yuan to 5,000 yuan, but the majority falls within the 800-2,000 yuan range). For those households planting staple crops in particular, the per capita income is around 1,000 yuan. In most cases, the figure is reached because some members of the household work in the cities. Those with per capita income approaching 2,000 yuan are generally engaged in non-agricultural work such as animal husbandry, or vegetables and cash crops. Some are engaged in forestry with special products.

The widespread nature of private lending and borrowing

Our research is not based on sampling, but on taking statistics from the cases we gathered from 24 different locales in 15 provinces. We found that only in two locales were there private loans that were interest-free. In all other locales, private loans came with high interest rates. We may conclude from this that incidences of private loans are as high as 95 percent, while incidences of loans at high interest rate reach 85 percent. Although the north-east region is not covered in the present research, previous research on the region shows that a similar high transaction cost between official financial institutions and the peasant masses means that the demand of the latter is never met, and loans at usury rates among the peasants are the norm, with monthly interest rates as high as 20-40 percent. It can be concluded that private lending, especially lending at high interest rates, is a country-wide phenomenon; and our research suggests that the widening gap in income is one of the major factors. It is closely connected to the level of economic development, and the level of per capita income among peasants. The gap in income is especially pronounced within the same village. Figures show that incomes for two-thirds of peasant households are below the national average.

Complexity of the problem

From our research, it can be seen that private loans are no longer a simple economic problem.

In the first place, the problem has already affected various organisations at both the township and the village level. Many village cadres have acted as guarantors for loans. Some of them have in this way incurred heavy debts themselves. Some village committees lent to households at interest rates higher than those of banks. The problem is at the very heart of village organisations.

However, there are also cases where poor peasant households received loans from village collectives without any interest. Others borrowed from village co-operative savings associations at minimal rates. Hence, the participation of village organisation in private lending is not completely negative.

Secondly, private lending and borrowing have also affected the non-economic realms; and its influence is growing by the day. It is easy for conflicts to arise out of private loans. In our research, there are five incidents of conflicts, with three of them leading to scuffles, in one of which, people got injured. Another thing is that it leads to lawsuits. We encountered three such incidents, with only one having been resolved. The other two are considered by the court as too trivial since the sums involved are small. Some peasants even try divorce as a way to avoid payment of debts.

The third point to be noted is that borrowing, especially borrowing at usury rates, is often connected to gambling. Some lenders are gamblers. They recruit fellow gamblers to lend to their fellow gamblers. Gambling and usury are often inseparable.

Fourthly, the background of lenders as well as the sources of their capital are by no means simple. Besides rich peasants and relatives of cadres, some retired cadres use their pensions as capital for loans. Some have relatives abroad, and their regular remittances become capital for loans. Some farm equipment companies borrow at rates as high as 4 percent per month; and the sum involved amounts to 300,000 yuan. They also take other not-yet-due loans, and pay extra interest which amounts to 1.5 percent per month.

In some cases, money was first borrowed from private sources and deposited into a peasant household's account, so the household concerned qualifies for loans from the village credit association. When loans from official channels require loans from private sources in the first place, the latter spread further.

There are also cases which are quite troubling. When some borrowers are unable to pay back the loans, they are required to perform, without payment, certain tasks designated by the lenders. Some borrowers have to provide free service on a long-term basis.

Analysis and Recommendations

Whether seen from history, or from concrete research in villages, the conclusion one can come to is that given the fragmented nature of small-scale farming, formal financial institutions operating on a commercial basis cannot meet the diverse needs of peasant households since the transaction cost involved is much too high. With such a view, private loans are inevitable in a setting where capital is in short supply, and where people are tied to forms of subsistence or semi-subsistence farming which must endure long production cycles, low return and high risk.

One-third of private loans is co-operative in nature, and comes with low interest or even no interest. However, in an environment of privatisation in which the profit motive is the overriding factor, private lending at high rates is again inevitable.

Hence the way forward as regards financial policies for rural areas is to maintain and enhance the growth of community-based co-operative funds, which were once established in rural areas.

The function of private loans in maintaining the reproduction of small-scale agriculture

Although the practice of lending at high rates is the norm for private loans and therefore constitutes exploitation of labour by capital, the fact is that the state has neglected to establish a system of social security for peasants; and insurance companies have long since departed from the rural scene, leaving most peasants with nothing to fall back on. Given the fragile nature of small-scale production, a small mishap can turn out to be a major disaster for peasants. In most cases of borrowing at high rates, the decision is taken precisely to forestall a small mishap becoming a major disaster. Despite their dire conditions, peasants do have labour power in abundance; and both the creditors and they themselves know very well that when their abundant labour is harnessed, the payment of interest will be met.

International experience: establishing local credit systems through "market internalisation"

Throughout mainland China, Japan, Korea and Taiwan, agricultural production in rural areas, where blood ties are the single most important factor of social integration, is characterized by small-scale farming. These countries, as well as their local governments, have long realised that such

a method of production, which involves long cycles, high risks and comparatively low returns, is unfit for competition in international markets. If forced to take part, the already scarce capital in rural areas will only be further drained. Such problems can only be resolved by means of market internalisation. With the exception of China, governments of countries in East Asia have all implemented policies to protect peasants, and have exempted them from taxes. There is also a complete overhaul of the system of rural finance, and community financial co-operatives serving the needs of small-scale agricultural production are set up.

In addition, in the developed countries of Europe and America as well as developing countries such as Mexico, India and Thailand, NGOs in the countries have developed a wide range of alternative money and local currency, such as Ithaca Hours and Times Dollar in America, the popular LETS in Great Britain and Canada, and Tlaloc in Mexico. We have also made studies on these.

Although China formally dissolved community co-operative funds in 1997, the ensuing growth of private loans has vindicated its desirability. Precisely in places where such funds still operate, the drain of capital from rural areas is much less acute, and private lending at high rates is held in check. Such funds have achieved the one thing that cannot be achieved under normal market conditions - that is to use capital that comes from peasants for the betterment of peasants.

Transform private finance, develop community cooperation

In traditional rural areas, the subjects of rural economy and investment have changed from that based on the government and banks, to that which is based on peasant households and village organisations. Objectively speaking, peasants are now required to go their own independent way. We should learn from the experience of other countries in East Asia and by means of market internalisation, to transform private financial bodies that have already become quite common into well-regulated community financial co-operatives.

In this regard, the government must pass laws that would legally bind financial co-operatives to operate within a certain community and to model themselves not as banks, but as alternative financial institutions that do not treat profit-seeking as the overriding principle. At the same time, the government can channel funds earmarked for agriculture through these co-operatives or encourage them to work with the agricultural banks. In this way, government funds are guaranteed to reach the grassroots level and at the same time help to quicken the pace of institutionalisation of financial co-operatives.

As regards credit guarantees, it is not necessary for community financial co-operatives to set aside a special precaution fund or to meet the stringent requirement of commercial banks. Instead, what is required will be to carry out a general audit of collective assets, and turn debts still owed to the collective into the form of loans. With the finances of the collective completely transparent, the foundation is laid for transforming collective assets into capital for development. As villagers are closely connected by kinship ties and once everyone becomes a member, to borrow from the co-operative is tantamount to borrowing from the entire village. As everyone in the village has vested interest, non-payment of loans will be something unthinkable. Besides, there is the authority of the village committee and the government.

We think the most pressing problem at the moment is, taking as reference the cooperative principles in international experience, to quicken the promulgation of the cooperative law, and implement a set of comprehensive policies that would address the problems of operation of scale for small-scale farming, so that cooperatives will be instrumental to developing institutions that are external to agriculture, such as institutions of finance, insurance, processing and marketing.

Translated by Ma Kwok Ming, John

This paper appeared in Chinese in the "Forum of 50 Scholars", at website www1.cei.gov.cn/forum50/doc/50cyfx/200107311731.htm. The chief investigator and writer of this project was Wen Tiejun, at the time Research Fellow of Rural Research Centre, Ministry of Agriculture. Co-investigators included Feng Kaiwen from University of Agriculture of China, and others.

ROUNDTABLE DISCUSSION

Rural Development and Local Governance in China

Moderator:

Lau Kin Chi, Chairperson, ARENA Council of Fellows

Speaker participants:

Bai Nansheng, Institute for Restructuring of Rural China

Chen Xin, Institute of Sociology, Chinese Academy of Social Sciences

Huang Ping, Institute of Sociology, Chinese Academy of Social Sciences

Wen Tiejun, Chief Editor, *China Reform*

Jeannie Manipon, Coordinator, ARENA

Lot Felizco, Programme Officer, ARENA

Date: 12 December 2001

Venue: ARENA office in Hong Kong

Lau: In the last three days, we attended the Oxfam International Conference on Globalization and Development in China, and exchanged our views on rural development. Huang Ping critiques the whole notion of developmentalism. He thinks in rural communities, not only natural resources have been damaged, interpersonal relationships especially in terms of trust, sense of security and traditional life-style have also been disrupted. Science, technology and foreign capital investment have changed the original diversity and especially indigenous knowledge and wisdom. He asks the basic question: "development for what?"

Wen Tiejun critiques the monopoly of resources and wealth by different sectors in China. He says we cannot simply impose western

theories on Chinese reality. In China now there is a process of “internal colonization”, for lack of a better term, with exploitation of rural resources. He proposes that at the village level, there should be general election, self-government and cooperative economy, so that the village cooperative committee would be the basic unit of financial management and ownership of local resources.

Chen Xin questions the logic of capitalism, which is pursuit of super profits. He feels we should distance ourselves from the impact of market under globalization.

Bai Nansheng gives us a specific case in Yunnan, of how the government promoted the planting of grass and trees, but the project was quite a disaster. Though in the name of environment protection, the project caused a lot of environmental destruction. He calls for caution on implementing programs by administrative means.

On the basis of such discussions, we can now go further into these issues.

Wen: The exchange in the last three days enables us Chinese scholars to learn a lot from presentations by NGOs. However, I would like to make one comment: some people emphasize the question of participation and human rights without a concept of fieldwork. For example, Green Peace is very popular in developed countries, but this kind of environmental movement is not popular in China, not so much because of political control, but because people are not at the same level of concern for issues of post-modernization. A large number of people still live in the rural area, and issues like genetically modified food, which have become critical issues in western countries, are not of much concern to peasants in China because land is scarce and peasants want to find ways to increase output. Similarly, poor urban consumers need cheap food rather than care if the food is organic.

So there is a conflict between the need of poor people and opposition to GM food. If you take the poor’s need into consideration, how can you stand against GM food? Last October I was in Shaanxi province, in a town famous for biotechnology. The University of Northwest Agricultural Technology has a BT center and produced a sheep “Youngyoung” using the same technology as the British Dolly cloning. I was in the town to give a speech on the local people’s demand on hi-tech. I said maybe there is not such strong demand for hi-tech from the rural people. The technology system is strictly controlled by the administration. Scattered farmers do not have the scale of economy and capacity to absorb hi-tech. But they may need some applied

technique for their small farmland in increasing output. So our problem in agriculture is not similar to countries like Japan or Europe. I think thorough discussion is needed to compare data from different countries and different periods.

The reason why I strongly criticize some micro finance projects practiced among a lot of NGOs with high cost and high interest, but instead talk about alternative currency, is because that is a very important factor for social capital and social economy in the rural area.

Lau: Could we also go into the question of alternatives, such as election of village chiefs, and the question of self-governance at the village level?

Chen: Village self-governance depends on the condition of the villages. Self-governance will be better than intervention by officials from outside if peasants can decide their own resources, land, property, community relations and the development of the village. A good example is Xinrenzhuang Village in Hebei Province. But if the village chief is supported by hooligans or triads, the nature of village self-governance is changed, since there is no monitoring from higher authorities. Authority from above sometimes can be a restraining factor in preventing control by the local mafia. I am not saying village self-governance is not the way out, but its effect varies in different situations.

Wen: In some cases in Guangdong and Guizhou provinces, there is a strong relationship between local governance and local property rights. Last year I was in Guangdong Province to carry out fieldwork in several villages. I found out that if the village has carried out reform in giving property right to the villagers, especially the land right, or even property right of the village's factories, the villagers, as shareholders, are very careful on election of village representatives. However, often, the central government, in order to get access to the village, turns the rural organizations and village committees, which are supposed to assist village agricultural production, into tax collectors for the central government. Then gradually these rural organizations lose their function in helping agricultural production, and only perform the function of collecting tax. If the staff of these organizations are elected by the shareholders of the village, then those who can defend the interest of the villagers will be chosen. Different structures of property

right distribution would bring different authority and different measures of local governance.

Chen: I agree with you, but what you said is only one of many possible situations. In some cases, the villages have their own committees, but the question is who will supervise this committee's power when the committee only represents minority interest in the village. I think in this case, the central government should supervise the village committee.

Wen: If the village distributes property to every household equally, the villagers will be serious about exercising their right. But if the government carries out a privatization program on property right distribution, and much of the village land falls under the control of a few entrepreneurs, then the villagers will not care about public affairs which is under the control of the entrepreneurs. I think the resources of authority are affected by the structure of property right, therefore we should distribute property right equally.

Chen: Yes, that is quite reasonable. But when we talk about the committee at the village level, in trying to equalize power by distributing property right equally in terms of shares, we have to face the reality that power distribution is not equal in a village. At the village level, the distribution of right and interest is very differentiated. So-called equal distribution may not easily reach women and children who are supposed to share the property right. In this case, one solution is to invite government intervention at the beginning.

Manipon: On the question of village governance, relationship between the village and higher levels of authority, it is very hard to talk based only on principle, to say whether it should be more centralized or decentralized. We need to talk of which area we are referring to in a certain experience. I want to use Kerala as a starting point to ask the question further. Two things struck me of how they describe several processes in Kerala. One is how they look into the direction of devolution of power from above to below. What has been devolved? The other direction is what could be done at the village level, and the pre-conditions of social reform before that can actually happen. I don't know if Chen Xin was also referring to certain pre-conditions in the village?

Huang: There is a danger of simply arguing on abstract principles, like should we have an equal starting point, or should it be bottom up. Some people may even come up with a neo-liberal approach to development, that is, let it go. Let the government do nothing. Let the people live under the rule of the jungle and compete with each other. That is definitely neither Wen's nor my point. When we talk about such issues or argue for self-governance, it is not just a question of theory or principle, but rather a question of where to start. We have to recognize we don't start from zero. The interest groups already exist. There is already unequal distribution of wealth and power. Look at the land reform in the early 50s and the rural reform in the early 80s, the reason why they were quite popular is because they offered equal opportunity for everyone in accessing resources. Of course we should go further, and consider not only equality at the start, but also equality of the process. For instance, we may have a quite equal program on re-distribution of land, but what happens after three months or three years? Sometime it turns out the land is monopolized by a few persons. We have to look at the starting-point, the process as well as the end-results.

Even if we have mechanisms in monitoring, evaluating and controlling these kinds of unequal distribution, we still have to face the problem of the weak. It is more a question about the whole process, rather than simply saying decentralization, privatization, letting go. Today, when NGOs talk about alternatives, they all talk about participation and bottom-up approach. I think that is too simplistic and idealistic. That's why we always emphasize how complicated things are.

Lau: Can Chen Xin give an example of the need for intervention from senior levels?

Chen: I will talk of what I saw in a village election. There was conflict in the village, no agreement could be reached, and in the end some people resorted to violence. The government had to come to help with mediation and form a new committee, and suppressed some people in the process of mediation. Later the village committee became somewhat like a shadow of the government. This is one case with the government helping to resolve internal conflicts and then influencing the village committee.

In another case, an entrepreneur who had started his enterprise for a few years said, "Vote for me and I will do this and that for the

village, I have money.” The entrepreneur made a lot of promises, and told people that “my uncle is the county chief, if I am elected I will do this and that”. Sometimes they even bully the villagers. The official told the villagers, “If you vote for him, I will give funds to your village so that you can build a new road. If you don’t, you get nothing.” So there is outsider influence. What I just mentioned are some worse cases. The more ideal cases that Wen mentioned do exist, for example in Shangdong Province.

Huang: The question is: who can guarantee that the initial distribution of property right is just? Even if we have villagers’ self-rule, the self governing team may be hijacked by the village chief or the officials.

Chen: There already exists a structure of conflicting interests, but some re-distribution of land still retains a revolutionary nature.

Wen: Jeannie asked the question of comparing Kerala with China. In Kerala, the Kerala People’s Science Movement has started a very long-term social movement. Let me talk a little bit on what I think China can learn from Kerala. There should be some small capital, or resources, such as a piece of farmland, to be given to the local people by the government. In China, people do want property right, but in actuality the property right is controlled by the village elite in the name of the Party, the village committee, etc. So the question is how you can enable the villagers, in the name of shareholders, to have a share in the property right that used to be monopolized by the village elite. How can we make the elite share this right with the villagers? I emphasize that equalized property right is an important base to people’s right.

During the 1990s, there were new conflicts because of the appearance of industrial zones or development zones. Especially in the Pearl Delta region, which is near Hong Kong, the village elite wanted to increase the village collective land for industrialization and to attract investors. But all the land had already been taken by the common villagers during the rural reform of the early 1980s. So the village elite had to re-collect the land in the name of the village collective. But the villagers said: “you have already occupied the interest of the village industries, and now you want to rob my land? No way!” So there were so many conflicts in Guangdong province. According to the statistics, 46-49% of local conflicts were caused by the land problem. The central government had to settle this situation, and started to intervene by trying to find solutions. This gave a chance for

the common villagers to bargain with the village elite. Otherwise the village elite will never agree to sharing power with the common villagers. Since we were working in one of these experimental zones as instructors, we were able to propose a solution of equalized distribution of industrial property right combined with ownership of land, where farmland can be converted into industrial land. Every share-holder can benefit from the village industry.

Huang: This case suggests that sometimes there should be intervention from either people like Wen or the higher authorities to ensure there is equal distribution. My feeling is if we simply let it go, it would turn into disaster. In reality, it is impossible to have equal starting point, because resources are already unequally distributed. I also understand why today people are calling for private ownership of land and even urging for modification of the Constitution; it is because twenty years after the last re-distribution of resources in the early 1980s, distribution of resources has again become unequal, and a minority has put most of the village resources into their own pocket. For instance the conversion of township and village enterprises into private shareholders system has privatized a lot of common property. Some may feel there is no problem in principle, but in reality the situation is complicated. One speaker in the conference did not realize there are such privatized systems in rural China, and argued for common property and village cooperatives. In terms of alternatives, I don't think alternative should simply mean bottom-up because we have been suffering from top-down. We should rather find something in between, to work with different agencies and groups to see if there is any solution.

Chen: The Xinrenzhuang Village that I mentioned has a very good local governance committee. They also have a better economic situation based on a larger proportion of collective economy compared with other villages. But such cases are rare in the rural area. In some villages with collective enterprises, because the ownership of property is not clear, the management is chaotic and inefficient. In some cases, it begins with collective economy but turns into monopoly by individuals.

Felizco: There is much stress on resources in terms of physical resources, property, but that is just one of the factors that exist in the community. There are so many variables and hierarchy of power that impact on

whether a governance is democratic or not. For example, social and cultural hierarchy. I think it is important to make those linkages because democratizing access to resources does not prevent the possibility of power captured by a local elite. Who is powerless is not simply on physical resources but also on other terms.

Huang: Yes, definitely so. Even when we had quite equalized re-distribution of land in the 50s and early 80s, we did not have that kind of consideration or institutional arrangement of opportunities or rights. It would be impossible to imagine how women could participate in all these kinds of social life and economic life, the so-called liberation of Chinese women. I think we still cannot surpass the early 50s, when at least there were big changes, despite all the failures. The first was land reform and the second was women's status as the first marriage law was passed. And that is exactly what you said, we need to consider both physical and non-physical resources. Today we already talk a lot about equal opportunity, equal access, but in terms of institutional arrangement, there is still a serious lack of implementation, even from NGOs. Both NGOs and industry developers can be a big help on this. How NGOs think not only for themselves but for the people is important. Usually NGOs don't realize this: they bring new ideas to the community, but without sustainable effort.

Bai: In the eighties and nineties, I did some historical research on the countryside, and I have been looking for chances to continue this research. My research shows that in China, in the past, rural villages were basically self-governed. In modern historical writings, there is a trendy saying that the rural is "a tray of dispersed sand", without organization, difficult for organization. But I have many examples of self-governed organizations actually existing in the countryside in economy, social security, disaster relief, financing, and other aspects. If we are to seriously study this, we can categorize them by their functions, and see what functions they had taken in the past, and how they came to take up such functions.

Of course, today, the village is required to take up very different functions compared with the past. Now we ask the village to take up a lot of work, almost like controlling all aspects of society, from land to birth control, education, housing, and even burial of the dead. That is one major difference. The other is, historically, the village had strong Confucian thinking. Even though the government did not go directly into the village to work on people's mind, Confucian thinking

maintained basic control. In a village, there were literate people who studied in order to get into the officialdom, so they acquired Confucian thinking, and the village thus had a rather homogeneous ideology.

Lau: When was it?

Bai: The records can be traced back to Ming and Qing periods, but the situation did not change much until liberation. Before liberation in 1949, the Nationalist Party government set up district offices under the county in only a few provinces, but there was not any township or village level governing bodies. When I was conducting interviews in some villages in North China, I came upon a very interesting story: the villagers in one village were discontented about their leaders. Why? Well, from today's point of view, we will say that the village leaders then were too honest and clean. The discontent was: each leader collected the villagers' money as fund for village affairs, post the budget balance on a wall, but the villagers were not satisfied because the accounts for the whole year was a neat balance, not one cent more, not one cent less. The villagers thus thought that was not possible, it must be a scam. The villagers complained to the district office and the village leader was removed from office.

At that time, "cadres" in the village, for performing certain tasks throughout the year, would collect money from the villagers. The tasks could be giving provisions to an army unit that came by, for example. Every expenditure item must be shown in the balance report posted on the wall. This village had a neat balance.

Huang: Luo Hongguang did a research in North Shaanxi Province. There was a temple where people came from different villages, and shared the social space as well as symbolic space. The argument of his research is basically that among the villagers, power and authority did not necessarily all the time remain held by the same group of people. The authority for community integration, community identification and community development must be an authority with identification by the villagers. For instance, the village chief may have certain political power, but he may not really be the authority in the village. It may be the elderly people who have the authority. Luo's research shows that there are a lot of "exchanges" taking place among villagers. The exchange may not necessarily be of equivalence in price or value, but rather, the equivalence is in terms of meaning. For such physical or non-physical exchange of meaning, people cultivate a kind of authority

structure. That is something we should consider when we try to reconstruct the community.

Chen mentioned Confucian culture in the village; the village Luo Hongguang studied was of Daoist culture. Actually, it does not matter which culture it is, because the people in the village has dialogue with Zhang Fei the legendary general in folk stories, or with Confucius, or with Mao Zedong. The activities held in the temple are not just religious or ritual; they are also practical. When the village authority and the political power structure go into conflict, a lot of resources and time in the village are wasted.

Lau: I would like to ask Bai, how do you link your research of the historical past to possible alternatives for the present?

Bai: Before 1949, the self-governing bodies took up different functions, so the situation was relatively stable, and even if there were problems with one self-governing mechanism, other mechanisms were there, so there was no total collapse. The integrated system built up since 1949 is highly unified and monolithic, and includes ideology and rigorous social control. However, when problems arise in this monolithic leadership system, the system becomes the least stable. That means all the self-governing mechanisms playing various integrative functions that the village originally had have been done away with.

Now our institute is working on a new research project. It is to study what are the things that the peasant families cannot resolve by themselves, and who takes up these social functions. There are lots of differences among villages, and we try to see whether the institutions that take up these functions are centralized or diversified. For instance, about elections, I would like to know how village committees in various places hold elections; they must be very different, for example between a poor village where the village government knows nothing but collecting tax, and a well-to-do village where the village government provides lots of social benefits; in some places, people don't have to pay for medical fee, and the livelihood of the elderly is taken care of. Through analyzing these I hope I can see, among the functions that the village government has taken up, what are the needs of the villagers, what are the tasks imposed by the higher authorities, and what are the different conditions of the villages taking up these social functions. I think we have to compare that, to see what is the real situation, so that we can make more meaningful recommendations.

Why am I interested in this research? Firstly, this idea came up from studies on the rural village in the collective phase. At that time, we believed that the managing cost in the collective phase was too high, while the surplus of agricultural production, after deducting the necessary production cost, was very little. Could such a small surplus sustain such a huge monitoring, control system? I therefore went to look at control and management in the past. In the past, productivity was lower, surplus should be less, so at that time, for example, economic cooperation or disaster relief, which could not be taken up by one single family, had to be accomplished with very low costs. There are many stories but we do not have the time to go into them.

The second reason is, according to class analysis, those who controlled the village and had authority all seemed to be rich men. Why? Was it because of class consciousness or other factors? From some interviews, I find out that it is because of actual need. The rich men provided something, some services unavailable from others. Take one example. The troops arrived in the village, and demanded that the village gave them a certain amount of provisions in two days. These were not part of the usual tax collecting activities. To collect these, only the rich men could do. In the north, rich men were called 'big hay households, because they had more crops and more hay. In the process of collecting provisions, if one person could not pay, another person would have to stand in, otherwise the troops would set fire to the whole village. The local gentry might allow the poor to pay back after the autumn harvest, or might ask for high interest.

We paid special attention to those who were originally the authority of the community, helping to integrate the community. In those days, the local gentry would not have taken direct wages or remunerations. So, when did the wage-receiving functionaries come to be professionalized? From our studies, this basically started after collectivization in the 50s, after the implementation of labour credits. Such professionalized people came to be a bit too many.

Huang: My view is slightly different. In analyzing the structure or the problems of the village, I think analysis of the functions cannot solve one problem. Specifically, why did I mention the structure of authority? A friend of mine studies the ancient history and post Warring States period, through Qin to Han dynasties. Qin was a time when the rule of law was more dominant, but why was it that they went back to Confucianism after the Han period? Because that would keep the management cost low.

Using class analysis in economic terms to apply to a village would of course be too simplistic. But I think there is a structural problem here, which is not so much between the rich and the poor, but the question of moral authority. When the self-governance of the village is largely based on authority within the village, little intervention is required and the management cost is low.

Bai: I think the most meaningful thing about studying rural integration is, if you look at the problem only from the economic perspective, the problem is difficult to be resolved. The economy of the rural village is basically a problem of income. In actuality, the criteria a peasant uses to judge a person are, besides the person's income, his character, then his clan – which big kinship group he belongs to. These different dimensions do not necessarily overlap with each other. The less they overlap, the more the community's diversity and stability; the more they overlap, the more rigid and oppressive the structure may be.

Huang: The authority structure is often like this: the one with the highest authority is not the wealthiest one. (Bai: Right.) For instance, the physician in the village, the elderly. It is because the structure of a village is usually centred around a clan, the family is given higher value. The higher the position in the kinship hierarchy, the higher the authority. Often the structure of authority has nothing to do with income. On the other hand, the elite and the upper class will sit down to decide village affairs. They represent different clans, blood lineages and interest groups, and sometimes not the people with the highest authority can make the decision alone; at least the physician, the head of the big family, the old farmer with the best farming technique, etc., had to participate, (Bai: The most ferocious people also.) All sorts of authority are included, despite their difference in nature. (Bai: The butchers are the most ferocious people.) In the past we asked: why was it that political authority reached only the county level, and below county level it was self-governance? In this analysis, we can see self-governance includes a very important power structure, but it is not a power structure of administration, because once it becomes an administrative power structure, the villagers have to support the village chief's livelihood, the central government cannot afford that, the substantial cost will be very high. So the good thing about Luo's study is, I think, when there is a power structure, what is its relation with the original authority structure? If they are in conflict, the cost will be higher, most of the resources will be consumed in confrontation.

I know of a village, when in the fifties, the captain of the production brigade was not appointed by the government, but was the head of the clan. He had authority because he was an old farmer, and knew farm work, when to sow seeds, etc. In another village, two brothers were the seniors in the clan, the elder brother was the production brigade head while the younger brother was the landlord. They were supposed to be politically on different sides. But actually, when the elder brother went out for meetings, the younger brother would take charge of the affairs of the village. Thus, in the village, there was a very complicated mix of relationship and most important is the one who has authority in the village, the one who has the capacity to mediate, so that conflict, argument and fight could be avoided or compromised. It is not simply top-down administrative control from the government. The top-down process also involves local authority. In addition, even if we say power should be devolved to the village level, it will not induce a sudden political vacuum and only the local mafia will be dominant. There are still many existing relationships.

Thirdly, the usual talk about “decentralization” has much to do with the administrative system. I would like to stress that we should consider not only how authority functions, but also how it constructs rural community life, how it relates to traditional authority and moral structures. Today, many NGOs try to work closely with the community by simply repeating the World Bank’s approach of money, technology, top-down or governmental approach, enforcing the administrative means or power, rather than looking into the kind of authority that can be shared or established by the villagers, so that the village may find out its own way to self-governance.

Chen: The style of management in the village that Huang Ping mentioned can still be found today, and can be an important background reference. Today’s rural village has changed a lot compared with the past. Before 1949, villages were basically isolated from the outside world, with internal diversity, and a relatively simple and primitive economic structure. The relation between a village and the state was, during the war time, that the village provided supplies for the army, paid tax, gave provisions, and depended on the state in carrying out disaster relief work; there were no other relations. Self-governance was under the influence of Confucianism, and existed under the interlocking relations of functions and structure. Apart from the functions Bai pointed out, there were functions for marriage, defence against bandits, and other simple functions. After 1949, there was a major change, the

state industrialized and modernized the townships and villages, and economic targets became the dominant language. The natural village is no longer natural, and it is still called that way because of the geographical meaning. It has been closely tied with the political agenda of the state. Through the Party and the people's commune, the rural villages were organized into the state agenda. After the reform policy, the people's commune do not exist anymore but the townships and villages are still drawn into the development target of the state: family planning, roads, electricity to every village....

Now, the relation between the village and the state is not that the village can self-govern itself. The state sets requirements for the village, and seeks to uniformly construct the township and the village. Especially in the 70s, the economic structure at the village level was highly complex. There are more than 20 occupations at the village level. Some are based on actual need, some bring individuals away from his land but not his home village. These occupations have complicated the political and economic relations in the village. In addition is the state's demand for all villages to aim towards the same goal, so rural villages cannot remain natural villages.

For the time being, it is not easy for NGOs to start from village self-governance, to discuss from the outside what pattern of self-construction the villages can choose. Not only because it may arouse suspicion from the government, it is also difficult to mobilize people to participate in it. The experience I got in projects is, whether it is a township or a village, one should choose a place where the village committee is more just so that the villagers can be convinced. If the village head is a local tyrant, the relations in the village are tense, the conflict of interests serious, and it is not easy to come to consensus on anything, then a project should not be launched there.

Huang: I agree. The most important thing is that the village now is part of the state building process, be it to modernize or industrialize. One problem is, when things go wrong in the village, there is only one solution: to resolve the problem within the administrative system, such as giving more funds, more manpower, or add a special official post. The village reconstruction and community reconstruction I think of does not go this direction. It doesn't mean one more bridge or one more woman representative in the village committee. It is to find a genuine authority that everyone recognizes in the village. This person with authority may be a village committee member, a teacher, a physician, an old man, or an educated person. Without this authority,

more money, technology, bridges or electricity lines mean nothing.

The rural village in China is seriously declining, not just financially in terms of indebtedness, or decrease of agricultural income, or marginalization of the village because young people run away. Of course these are problems, but most important of all, if a village loses its authority, and there is no reconstruction, no rediscovery, then it is not the community we talk about, it is just a place in the geographical sense, with a group of people living there, on guard against each other, trying to stab the back of each other. The agenda of the state or of the NGOs are all from the outside, like what Wen said, imposed by the west, or imposed by the state. It may not be useful for a village to go after production of profit.

I find the definition of poverty problematic, not only because it imposes on the village a marginal position once and for all, thus diminishing its self confidence, but it also mixes up a good village with a bad one. For instance, even if the average income per capita is 500 yuan, some village may be in a barren mountain with unruly rivers, bandits, local scoundrels, diseases, and some village may have very good relations, blue sky, clean water, trust among villagers. Yet, if one looks only in terms of per capita income, the two villages are of the same level.

I have previously talked about a remote mountain area where the villages are not indebted, and there was no suicide for some years. Rather than pushing for an increased income, it is more preferable to seek identification with the community, consolidation of authority, trust and security. The income may remain 300 yuan a year, but the relations between man and nature is excellent, there is sense of identity with the community and the authority. They do not need a lot of administrative control. A village like that is a village with high quality of life, which even urban people will envy. I think it is the most important thing in the reconstruction of the rural community.

Translated by Siu Wing Yip

Transcribed by Lau Kin Chi and Yeung Oi Mei, Amy

Ecological Civilization, Indigenous Culture, and Rural Reconstruction in China

WEN TIEJUN, LAU KINCHI, CHENG CUNWANG,
HE HUILI, AND QIU JIANSHENG

The governments of almost all developing countries are facing the long-term twin problems of capital shortages and high fiscal debts, resulting from their attempts to modernize the state forms and economic and financial relations left by colonialism or copied from western political culture. Whether they claimed to be of the left or the right ideologically, they almost invariably undertook policies to attract foreign investment and encourage domestic private investors to join the global industrialization competition during the twentieth century.

When one looks across many countries, there is a general pattern that seems clear—the greater the reliance on agriculture as the main source of employment, the poorer they are. But such a causal relationship gives a false impression. Up to the present the heavy institutional costs of industrialization with a modernized political superstructure, occurring together with a backward economic infrastructure, have not been recognized. Most developing countries have traveled down this one-way path, and sooner or later they have fallen into the trap of “modernizing” while leaving the institutional cost to the people and the environment.

Continental China, the biggest developing country, with the largest population (but also with significant natural resource constraints) has close to 20 percent of the world’s population, but only 9 percent of its arable land and a mere 6 percent of its fresh water.¹ Over the centuries,

WEN TIEJUN (wentj@ruc.edu.cn) is Dean of the School of Agronomics & Rural Development and Executive Director of the Institute of Advanced Studies for Sustainability, at Renmin University of China. **LAU KINCHI** is associate professor in the Department of Cultural Studies at Lingnan University, Hong Kong. **CHENG CUNWANG** is assistant to Professor Wen. **HE HUILI** is associate professor of the Sociology Department, Humanities and Development College, at China Agriculture University. **QIU JIANSHENG** is assistant to Professor Wen. This article is sponsored by China National Social Science Foundation (07&ZD048) and the 3rd phase of 985 project at Renmin University of China, and revised from the authors’ presentation to the Crossroads International Conference at Lingnan University, Hong Kong, June 17–21, 2010.

China had its share of drought- or flood-induced famines. But if not for a 6,000-year history of irrigated agriculture, with its related “village rationality” based on traditional indigenous knowledge—which internalizes risks by its multifunctional rural cultures of sustainable self-reliance—China would have been a land of perpetual hunger.

China has in large part accomplished the historical process of transition from primitive capital accumulation for the formation of high-risk urban industry—although at an extremely heavy internal cost to rural society. It is unique in being the only emerging industrialized nation among the “underdeveloped” countries that has been able to pass through an industrial revolution while retaining an “indigenous” population larger than 100 million. (Here we use the term “indigenous” to refer to the retention of indigenous knowledge and culture among a considerable part of Chinese society, the 99%, as differentiated from Hong Kong or Shanghai which were transformed by western colonial culture.) But China has continued to suffer after entering the period of industrial expansion. Its problems were not just caused by the severe crisis of the mid-1990s, when government debt to GDP was 140 percent, and 30 million urban workers were made jobless, hence stirring up a big noise about “China collapse” from the Western media. These problems were also related to the impact of the East Asian financial turmoil in the late 1990s, at the same time as China was in the process of joining the World Trade Organization, and thus becoming increasingly integrated into the world competition of financial capital.

The political and ideological efforts of global capitalism have caused a century of conflicts. They are manifested in chronic overaccumulation (excess capital and excess capacity), reflecting a shortage of profitable investment outlets relative to investment-seeking surplus. Such contradictions are evident at the global level and in China itself. China entered the World Trade Organization with a significant industrial capital surplus and, this, according to orthodox economic views (particularly in the West), worsened the global industrial capital competition in the mid-2000s. It also changed the international view of China from one of encouragement and applause for its new direction, to the one concerned with the so-called “China Threat” to the capitalist world-economy.

However, the real question with regard to the future of China, we would argue, is more ecological than economic. Under the pressure to accumulate sufficient capital to begin a major self-propelling forward push (what Marx called the primitive accumulation of capital), and to participate in global competition, national capital commodified the

natural and human resources on which people's livelihood depended, taking land, labor, and money out of villages while leaving aged men, and women with children, at home. This historical process not only destroys nature and family, but also homogenizes diversified rural indigenous traditional knowledge.

Eurocentric Knowledge Systems Exclude Local Knowledge and Seek to Standardize Human Beings

The substance of modern Eurocentric education, duplicated by developing countries in the twentieth century and continuing today, mainly serves capital's drive to turn human beings into a factor of production in order to obtain surplus labor value. Modern education is also a part of superstructure that strengthens governments' power based on urban culture to implement pro-capital policies, whatever "ism" is claimed by the country. It requires that knowledge be standardized and homogenized for convenient dissemination.

Such education benefits mainstream scholars and turns so-called intellectual circles into interest groups allied with capital. Institutional education controlled by mainstream scholars has also commercialized itself as worldwide business. The globalization of such institutional education shares the enormous profits from human resources and, in the process, naturally and necessarily excludes the local and diversified indigenous knowledge contained in rural cultures—because it is this knowledge which inherently blocks the commodification of human beings and their subsequent transformation into factors of production.

In China there have been a number of alternative experiences very different from the mainstream approach. From the 1970s to the '90s, the country's fast growth was driven by the domestic demands of rural industrialization, mainly dependent on "village rationality." Following the 1949 revolution, all arable land in villages was distributed in the form of use rights to all households according to the number of people in the family. Since there was no private ownership of land and water in rural China, no one could be laid off in the course of the village's economic development, and no one wanted to leave the village because, without private land rights, they would also be leaving their economic security behind. Periodic redistribution of land use rights by village collectives guaranteed the rights for those who had not transferred their residence away from the village. Such a kind of multi-functional right naturally created a rationality that could absorb the cost of external risks through mechanisms within the villages.

Village rationality was originally derived from traditional rural culture that stressed resource sharing, income parity, cooperative solidarity, social justice, and the morality of village elites. Although it is true that village elites and large landholders were not always moral and human relations in villages were frequently far from ideal, these indigenous cultural features were originally created in response to extreme constraints of limited natural resources during the thousands of years of rural China's history of irrigated agriculture.

However the rural institutions based on the historical cultural elements mentioned above, in addition to the equity of village members' use rights to the land, created by the land revolution in the Maoist period, assisted in village resiliency and helped overcome natural disasters. More than eight thousand villages in rural China underwent successful primitive capital accumulation for rural industrialization in the name of a socialist collective system, during the period of the rapid growth of Township and Village Enterprises (TVEs). They benefited from village rationality based on traditional culture, with much lower institutional cost than urban industry.

After the global capital-oriented radical reforms following the urban economic crisis of the mid-1990s, external economic influences increasingly affected villages and presented insuperable transaction costs, and the TVEs were weakened. Commodification of rural resources could occur only by destroying village rationality in the name of both "public rights" and "market oriented reform." Such radical changes have incurred immense institutional costs and shifted the sacrifice to society. This induced huge numbers of mass conflicts as people struggled against the commodification of their land and labor.

The expansion of industrial capital during the mid-1990s has impacted the radical reform of marketization in education and culture. As capital expanded its influence and government investments were withdrawn, only a few applied agriculture technical schools and rural cultural centers avoided bankruptcy.

Environmental Protection is Naturally Maintained by Local Indigenous Cultures

In 2007 the Chinese central government issued a national strategic document to transform the industrial capital-oriented economic mode, with its heavy pollution burden, into a new historical period of "Ecological Civilization." The government's long-term agricultural

policy in 2008 also followed suit; the new sustainable target became “resource conservation and environmentally friendly agriculture.”

The developed countries with agriculture based on small farms (European Union) or households (Japan and Korea) have given up on capital-intensive agriculture based on big farms (United States). They have gradually reformed their policies and now promote both multifunctional agriculture and comprehensive agrarian regional development. There is some emphasis on organic production (for both food quality and safety), as well as rural ecological environmental protections combined with traditional rural cultural regeneration.

Increasingly people understand that traditional agriculture and indigenous knowledge, developed before the domination of modern chemical-intensive agriculture, were derived from experiences in different climatic zones and environments, and were maintained by the rural households. Although most of these traditional systems have minimal economic returns, they frequently have optimal positive effects in protecting the environment and providing for sustainable livelihoods.

Over thousands of years traditional multifunctional agriculture, originally maintained by village and small household farming, was able to develop and apply what are essentially systems of eco-environmental sustainability. This has been gradually recognized as important, not because of modern education or mainstream institutions, but because of the challenges of global warming in adversely affecting yields and incidents of low food safety and quality.

China is now the number one emitter of carbon dioxide in the world (although still far behind the United States in per capita carbon emissions). Internally, 47 percent of its area-sourced (also called non-point sources) pollutants come from agriculture.² There is no universal model for rural development and agricultural modernization that can deal with these issues. However, rural China, similar to other Asian developing countries, is rich with indigenous knowledge in its rural communities that encompass 240 million small household farmers. It cannot duplicate large-scale farming of Anglo-Saxon patterns. Only a very small number of countries can follow the U.S. industrial agricultural model with its anti-human and anti-environment crimes, including those imposed on poor countries through neo-colonialism. Such a system relies on importing natural resources such as oil and phosphate fertilizers to enable standardized agricultural production with highly capitalized large-scale farms. It also means displacing vast numbers of people from the land. Most developing countries and

regions in Asia, like rural China, have regional agriculture that can be congruent with the characteristics of nature of heterogeneity and diversity that will be essential for an ecological civilization.

The Three Principles of Rural Reconstruction Movements in China

During the policy debates inside China in the 1990s some researchers created the concept of *san nong wen ti* (three-dimensional agrarian issues) to replace the concept of “agricultural issue,” which was an import from western culture. The central authorities finally accepted this new approach in 2001. The New Rural Reconstruction (RR) program of the twenty-first century has mobilized thousands of rural people to join movements of local education carried out by rural reconstruction institutes and community colleges. The program has assisted applied projects in many villages—utilizing grassroots human resources for building self-organization, self-empowerment, and self-governance for rural regeneration. Five years later the central government announced that the top priority program “New Socialist Countryside Construction” would be part of the 11th Five-Year Plan. It included an investment of trillions of yuan into rural education, medical services, and infrastructure construction.

The purpose of the RR movement is to promote innovation and evolution for rebuilding a positive social and economic structure for rural sustainability. It is now becoming the most popular active cultural regeneration movement with peasants and citizens in China, despite many difficulties from conservatives and mainstream interest-group intellectuals. The volunteers working for the Rural Reconstruction Center at Renmin University of China are committed to the Three Ps (the three Peoples’ Principles): people’s livelihood, people’s solidarity, and people’s cultural diversity. They emphasize peasants’ organizational and institutional renewal—the implementation of local comprehensive experiments with the application of grassroots knowledge.

In the ten years of its practice, the RR movement has helped advance ecological civilization as a people’s endeavor to promote village cooperatives, organic farming, and eco-architecture. The effort also encourages migrant laborers’ organizational renewal by strengthening their basic rights in the coastal regions. In addition, it promotes fair trade and consumer participation in urban areas, drawing on the integrated efforts of rural villagers and urban citizens, including women and the aged, as well as input from intellectuals and urban youth.

This echoes a social movement of progressive intellectuals of the 1920s and '30s that worked with peasants in the countryside to deal with the same problem of natural and human resources being converted into commodities by the government's pro-capital policy, which was aimed at accelerating industrialization and its related urbanization. Like today, it also occurred during a time of suffering caused by the impacts of an overseas crisis.

Although the problems of transforming natural and human resources into commodities in rural China of the 1920s and again in the '90s were essentially the same—as were the imported economic and political ideologies—different interest groups have made the changes. Aware of the values of rural China's historical culture, many teachers from hundreds of universities, both at the central and local levels, have now joined the rural reconstruction movements and taken fresh experiences into their classes and textbooks. The emerging new alternative education system may become a meaningful counterforce to the globalization of capital, and its corresponding institutional education.

Today's problems require different ways of thinking, and the abandonment of rigid modernization schemes for forms of thought that respect local, indigenous culture. The economic and social problems that China faces today were created, and in a sense recreated, first by the rush to participate in the system of global capital, and then by the use of procedures developed for capital and resource intensive agriculture. But as Albert Einstein is reported to have said, "We can't solve problems by using the same kind of thinking we used when we created them."

Notes

1. Official Chinese data in 2005 indicated that the China's share of the world's arable land was as little as 7 percent, even lower than the 9 percent indicated in the text here.—*The Editors*. See "Arable Land Decreases to 102.4 Million Hectares," *People's Daily Online*, October 24, 2005, <http://english.peopledaily.com.cn>.

2. January 2010, China's Pollution Census. See also Jonathan Watts, "Chinese farms cause more pollution than factories, says official survey," *Guardian*, February 9, 2010, <http://guardian.co.uk>.

WEN TIEJUN

Chinese Strategic Transformation and Its Relationship to Industrialization and Capitalization

I am very grateful to be scheduled to speak this afternoon. Many of the scholars attending the meeting are my superiors—for example, Du Runsheng, Zhu Houze, and Gao Wenbin; many others are famous scholars and professors. I stand as a student before these leaders and teachers, and regard them with reverence. I do not know if my speech will be satisfactory to them.

I believe it is more useful to review what China did than to discuss what China said or what comments the world made about China. I believe that China only actually underwent industrialization. This industrialization necessarily required transforming the system. The transformation took place as China had to deal with two restrictive environments: the domestic environment and the international one.

Capital Accumulation for the State's Industrialization Under the Two Restrictive Conditions

We can begin by discussing domestic restrictions. These restrictions fall into two categories.

The first category is resources. China is a country whose ratio of population to resources is extreme. In other words, the relation between population and resources is very strained. The Chinese population is 20 percent

of the world's population, but its cultivated land is only 7 percent of the cultivated land in the world. Furthermore, China faces restrictions of water resources. In the southern part of China, there is more available water, but land is very limited. In the northern areas, there is more land, but water is limited. Under these conditions, the restriction of resources is the first major difficulty China faces in the process of industrialization.

The second category involves restrictions relating to the system. Compared with the largest developing countries, China seems to be the only one that completed its land revolution through nationwide war. Everyone knows that China underwent three civil wars in the first half of the twentieth century. But few stress that these three civil wars were revolutions over land distribution, and that peasants were the main participants. The outcome of the wars was to distribute land evenly among peasants nationwide according to household. When the new China was established in 1949, 100 million peasant households and a total of 400 million peasants occupied the land evenly in more than 4 million natural villages. This meant that when China began the process of industrialization, the cost of capital accumulation for industrialization would be very high in conditions of a small-peasant economy and even distribution of land.

Primitive accumulation of capital in its earliest stage has to handle trade between industries and agriculture, between urban and rural areas. The more scattered the small peasant economy, the higher the cost. Consequently, in the mid-1950s, the government established the collective system in rural areas in order to conduct capital accumulation for urban industries.

Although people called the centralized and unified organization system "socialism," its real function was to enable the early stages of primitive accumulation of capital for the early stages of industrialization. The essential socialist characteristics of collectivization were mainly demonstrated in the areas involving necessary social security: education, medical care, retirement, and so forth.

There have been numerous studies conducted abroad on the Chinese rural system, but because the beginning of the 1950s was also the start of the cold war, foreign scholars had little access to Chinese materials. They tried to learn about China from ideological perspectives and they referred to that stage of collectivization as the stage of Chinese socialism.

After completing the capital accumulation for the state's industries through collectivization, China naturally entered a new stage of industrialization, which Marxists consider the "stage of industrialized large-scale production."

Two Similar Phenomena in the Socialist Camp

I want to remind everyone to pay attention to two very similar phenomena. The first occurred in the Soviet Union. After that country completed its fifth Five-year Plan in the 1950s, the Communist Party of the Soviet Union introduced a policy of “peaceful coexistence, peaceful competition, and peaceful transition.” The government participated in international division of labor abroad, and abandoned Stalin’s policies at home. At this time, China was going through the stage of capital accumulation of industrialization and could not adapt to the Soviet strategic transformation. Countries besides China that were conducting industrial capital accumulation, such as Vietnam, North Korea, Romania, and others, also could not keep up with the Soviets. Because of this, there were debates among the socialist countries, and a distinction was made between Marxism and revisionism.

This demonstrates an irresistible economic law. The Soviet Union had completed its capital accumulation for industrialization and had met the requirements for socialized “great production” to participate in the international division of labor; on the other hand, countries that had not completed capital accumulation for industries were unable to adapt to the Soviet strategic transformation.

The same phenomenon occurred in China after the 1970s. Around 1975, China began to implement its own fifth Five-year Plan. It had completed the initial capital accumulation for industrialization, and needed to open to the world. Other countries that had not yet completed their capital accumulation for industrialization, such as Vietnam, Laos, Albania, and so on, could not follow in China’s direction, and debated with China over the transformation.

On the issue of the transformation of domestic policies, China gradually abandoned agricultural collectivization and the policies of Mao Zedong from the 1970s.

Strategic Transformation Under Changing International Conditions

In analyzing the historical material, we can see that as early as 1952 the discussions of the Central Committee of the Chinese Communist Party show that Party officials were already clearly aware that China should engage in the industrialization of state capitalism. The ideological pro-

paganda reflects this as well. What was clearly proposed at that time was entry into the “transition stage of socialism.” The transition stage was defined as the new democracy, that is, national capitalism. Later, China entered the stage of state capitalism; the essential trigger of this important change was the outbreak of the Korean War in 1950. In order to support the Korean War, the Soviet Union invested in the military industry in the 1950s. In a short period of time, military factories and heavy industries were built in the northeast area of China. This would have been impossible under normal conditions.

Normally, China would have needed several decades of exchange between agriculture and light industries in order to accumulate capital for heavy industry, but because of the Korean War, it took only three years for China to build its military industry. Thus, the state had to choose whether it wanted the heavy industry or not. If it wanted it, the state had to regard heavy industry as the foundation of its economic lifeline. If it did not want it, the state needed to return to the stage of the new democracy.

Because of this, the Chinese strategic transformation occurred after China had built its heavy industry in the war, and not before.

This was related to the restrictions stemming from the international environment and the struggle for China as a middle ground between the two big camps formed after World War II. The strategic defense of the United States had not yet been set up on the Korean peninsula, but it was already in place in the Japanese islands. The United States wanted to leave China as the middle ground and make China a “neutral” force. At the time, the Chinese attitude itself could be called “neutral,” because China did not announce that it was a socialist country and did not intend to join the Soviet camp.

If historical material brought to light during the past three years were made available, one could study details of the background of the relations between China and the Soviet Union that were declassified after the Soviet Union collapsed. Chinese scholars have bought some of the material and have conducted new research on this issue.

In this international situation, the Chinese strategy of the new democracy put forward in 1949 was adapted to the reality in China. The important strategic change in 1953 was adapted to the change of the international environment, where China had to join the Soviet camp because of the Korean War.

The Chinese strategic change in the special stage was mainly due to the requirements of national industrialization: the implementation of

the new democracy—that is, the choice of national capitalism under the leadership of the Communist Party—was due to the initial restriction of resources. But because of the Korean War, China had to implement the industrialization of state capitalism. After the Korean War, it was impossible for China to engage in international trade. China had to conduct mandatory trade domestically and gain capital accumulation from agriculture over a long period of time; therefore, the gap between prices of agricultural and industrial products emerged. When the disputes between China and the Soviet Union started up in 1957, the Soviets stopped investing in Chinese industries and stopped providing technological assistance. Thus, the process of gaining capital accumulation from agriculture through collectivization and the price gap between agricultural and industrial products both lasted for more than twenty years.

We have discussed above what we did in the socialist stage before the reform.

The Cause of the Reform in Rural Areas Was the Withdrawal of the Government

After China completed the initial capital accumulation for its industries in the 1970s and started to open up to Europe, the United States, and Japan, the collective system in rural areas could not be managed. This was a very interesting change that is worth studying.

President Richard Nixon visited China in 1972. China opened its doors to Europe, the United States, and Japan, and won much investment from the West to change the structure of its heavy industries. The industries produced more products to support agriculture. Many products such as chemical fertilizer, tractors, and so on were introduced into agriculture, and the cost of farming rose very quickly. At the same time, because of the price gap between industrial and agricultural products, the price of agricultural products was fixed. The price of agricultural products could not be raised, while the price of industrial products for agriculture was very high. Communes and large and small production teams in the countryside fell heavily in debt. In the later part of the 1970s, agriculture had become the industry whose input-output data showed negative value.

In this situation, the system started to change, and the government, as a main body of the economy, withdrew from agriculture. (In the past, people thought that it was the peasants who withdrew from the collective economy.) This was the essential cause of the rural reform.

In the past, the government was the only main player in the economy. Neither enterprises nor peasants withdrew from agriculture. However, the government withdrew because of the losses in agriculture. The government also abandoned its social responsibilities for peasants, including education, medical care, social security, and the rest. In fact, in the system where farming operations were based on household farms, peasants essentially returned to the mode of production of the small peasant economy. Once the government was no longer responsible for the basic security of the peasants, the socialist system peasants depended on could hardly be managed in rural areas.

Because of the changes in the system, a duality between urban and rural areas developed in China. From the all-around contract system to the 1990s, the dichotomy between urban and rural areas became so obvious that peasants did not have the status of citizens at all, as Du Runsheng and Qin Hui have said.

Three Important Changes of the System

Let us review the following to see what we have done during the reform and open-door practice of the past twenty years.

The current situation actually is very clear. The Chinese economy has become the third largest in the world, according to a calculation of the World Bank. But based on the amount per capita, China comes in at number 100, or even lower. What people see is the remarkable change in China, and the status of its economy is widely promoted in the world. But based on the calculation of the amount per capita, the Chinese economy has not grown much.

The important changes in China's economic system are as follows: first, the main economic body has become a multisystem structure. Because the state implemented reforms of the investment and financial systems, such as "transforming financial allocations into loans," "taxation instead of profit delivery to the state," and "contracting according to levels," state capital was gradually transformed into the monopolistic capital of departments, while multi-interests emerged in the state economy, and power was decentralized between the central and local governments.

The second point to note is that Chinese resources have become capitalized. In 1978, the monetization of the Chinese economy was very low. Compared with the 1 trillion yuan of the gross value of industries and agriculture, the deposits within society were only 22.6 billion yuan.

The state implemented the policy of “one account for finance, unified income, and expenditure,” took complete responsibility for the investment of expanded reproduction, and bore the long-term pressure of deficits. Therefore, the bank system had to provide loans to the state enterprises. The size of the loans was only 138 billion yuan in 1978. But in ten years, GDP grew to 10 trillion yuan, and the broad measure of money had grown to 12 trillion yuan. The growth rate of the former followed an arithmetic progression, but the growth rate of the latter followed a geometric progression. The ratio between M2 and gross domestic product (GDP) was up to 135 percent (that of the United States was 67 percent). The 1995 World Bank report on development pointed out that China’s ratio between M2 and GDP was 105 percent, the highest among countries that were undergoing a time of transition; by 2001, our country’s ratio between M2 and GDP was 160 percent, the highest in the world, which demonstrated that China had become a country with surplus capital. The growth rate of currency in twenty years was much higher than the growth rate of GDP. The acceleration of the process of monetization actually means that the growth of the currency economy is faster than the growth of the physical economy. The monetization of the economy is the external form of the capitalization of resources, and an important factor of economic growth over the past twenty years.

I should further point out that the monetization of the economy itself is a main source of the government’s income. The central government promoted the monetization of the economy and the capitalization of resources through the continuous increase of the supply of currency. In this way it could collect seigniorage directly through the issue of currency, earn income from the economic growth caused by the issue of currency, relieve the pressure of bad assets of the financial system through inflation, and transfer losses to the society. Thus, the interests among the government, finance, and financial assets, or financial capital, are the same. This economic law is the same throughout the world, and nobody can violate it.

The third point is the globalization of capital. As long as people respect facts, regardless of what opinions they might hold, they cannot deny that the main reason for the globalization in the 1990s was the requirement of the free flow of capital. China was also included, despite its differing ideology. Especially since the mid-1990s, foreign capital has entered China on a large scale. In academic fields at home and abroad, people believe that the interests among foreign capital and domestic

capital, especially financial capital, are beginning to be connected. In other words, Chinese capital will naturally follow the regular rules of international capital to do business.

As discussed above, before the 1970s, the state was at a stage of capital accumulation; after the 1970s, however, it moved to the stage of the growth and development of the capital itself. If this point of view and the related explanations make sense, all of the issues can be explained scientifically.

Is There a Third Path for China to Follow?

Let us review China's prospects for the future and see if China can follow a "third path."

The path China is following in the current situation, according to the requirements of Western industrialization, is actually the model of traditional industrialization. We have to consider that if we continue on that path, we probably cannot go much further.

Based on published studies, the gross value of GDP each unit of energy created in China was much lower than that in Japan. Each Japanese consumed two tons of petroleum oil, on average. If the Chinese saved on energy and consumed one ton of petroleum oil per person, and if China's urbanization grew 50 percent, within ten years 700 million people would be living in urban areas, and the urban population alone, not including the rural population, would need at least 700 million tons of petroleum each year. The total output of domestic production of petroleum oil in China is 200 million tons at the most. China would need to import at least 70 percent of the petroleum oil it consumes in order to meet the demands of the model of its industrialization. Even if our calculations were based on half the amount of the Japanese consumption rate, China would still need to import petroleum on a large scale, which would inevitably cause shortages in the world oil market and raise the price of oil.

Therefore, although we hope that we can realize industrialization and urbanization, because of the shortage of domestic resources, China cannot follow the path of traditional Western industrialization. Using the same reasoning, if, as we hope, China accelerates the process of its urbanization, the amount of water consumption per person in urban areas will be more than twenty times that per person in rural areas. China is a country with very limited water resources. Right now we have more than 100 cities seriously lacking water and more than 300 cities with water shortages.

Just in these two resource areas, the disadvantages now facing China with limitation of domestic resources and foreign competition have not yet been resolved. Even if 50 percent of the population becomes urbanized, there will be still 700 to 800 million people living in rural areas. The broadly scattered small peasant economy will still exist, and the restrictions of the system will be unchanged.

Thus, China must probably choose another path to follow. Yet in the current situation, it seems that China has no other choice, because the third path put forward by Europe and the United States is still a Western concept, and it would be difficult for China to follow it.

Discussion

Samir Amin:

I want to ask about the issue of the price gap between industrial and agricultural products. I tried before to review the data of different materials from 1949 to the end of the 1970s (the later part of Mao's era). For the past twenty-five years, different Chinese have used different data. I want to figure out the logic of this strange phenomenon. I am very grateful that you mentioned the importance of the strategic elements; it is easy for people to forget this. I think that Mao Zedong's political economic policies were based on the concept of the law of value, on the concept that income per capita between peasants and urban workers should be equal. In other words, the price of industrial products should be connected to the price of agricultural products. The equality of monthly salary workers was guaranteed. I calculated the data of Mao's era again on that basis. But I discovered some differences. The income per capita between peasants and workers was actually not equal. The achievements in the first stage of the reform seemed to greatly reduce the price gap between industrial and agricultural products, but in the second stage of the reform, it seemed that the price gap increased, and it was bigger than in Mao's era. Is this correct? If not, can you explain it?

Wen Tiejun:

I want to repeat again that we should review what we did, not what we said. I am not qualified to discuss theory with people here; I only study

facts and reality. Next, I want to answer your questions. No matter how the calculations are made, the price gap between industrial and agricultural products exists. It existed even twenty years ago. In the early part of the 1980s, from 1979 to 1982, we implemented the system of contracting production to households and greatly raised the purchase price of agricultural products; therefore, relatively speaking, the price gap did not exist. But after the 1990s, the price gap in fact increased. The phenomenon you just mentioned did exist from the 1980s to the 1990s.

Samir Amin:

But was the price gap during the initial stage of the revolution from 1952 to 1957 smaller?

Wen Tiejun:

Actually, from the beginning of 1954, the price gap was quite large. Before 1954, the government purchased agricultural products on the basis of market price. The price gap was relatively small between 1949 and 1953, and it started to grow after 1954.

Samir Amin:

The third question I want to ask is this. From your answers, I conclude that the price gap between 1980 and 1984 and between 1949 and 1954 was relatively small. Was the price gap smaller during the Cultural Revolution?

Wen Tiejun:

I cannot remember. If you are interested in this, you can review the book I wrote, *Studies of the Essential Economic System in Rural Areas of China*. There are data about the price gap in the book.

Samir Amin:

Am I correct in concluding that the price gap can be reduced through the balance among social forces in the initial stages of revolution or state policy and so on?

Wen Tiejun:

Yes, of course. From 1949 to 1953, the government basically purchased agricultural products on the basis of market price. When natural disasters occurred in 1954, peasants did not want to sell their products, preferring to store them. Therefore, the state implemented mandatory state purchase and marketing, and the price gap started to emerge. From 1979 to 1982, the government took an initiative and raised the price of agricultural products. Therefore, relatively speaking, the price gap between industrial and agricultural products was reduced. But the difficulty of selling grain in 1984 caused the reduction of grain production. After that, the state implemented mandatory purchase, and the price gap increased again.

Question:

I want to ask two simple questions about facts. First, what is the percentage of tax of the income of peasants? Second, what basic benefits and securities do peasants receive from the central government?

Wen Tiejun:

I wrote a special report in English that might answer the first question. If you are interested, I can give you the report. If I tried to answer the question properly here, it would take up a lot of time. On the second issue, until now, what Chinese agriculture gets is negative protection. Although the government has some investment in agriculture, compared with income the government collects from agriculture, the subsidy the government provides to agriculture is very small. Here, I want to point out one thing if the government were to provide the subsidies that are necessary to peasants: China has 234 million peasant households, a rural population of 817 million scattered over a vast area. The government cannot afford the transaction costs. The government does not know who should get the subsidy or how to distribute the subsidy. Therefore, the ratio of the funding for poor peasants that was distributed to households was quite low. The high transaction cost between the government and peasants is a difficult and unresolved issue of the system right now.

WEN TIEJUN

Deconstructing Modernization

Abstract: This article is a reflection on and deconstruction of modernization based on extensive research. While analyzing the concept of modernization, the article also explores the path, approach, and objective of modernization in China. Through the examination of the historical development of Western European countries, the author points out that modernization in the West was in fact a process of capital formation and expansion by way of colonization. Under the current international political and economic circumstances, this path of development cannot be replicated. By examining the reality of developing countries, the author discovers that the "modernization" path of development represented by a high national income and a fast rate of urbanization cannot solve the widespread problem of "the three big disparities" (between incomes, urban and rural areas, and regions). The author points out that the vulgar (cufangshi) economic growth caused by the capitalization of resources is not the only objective we strive to achieve. Modernization in China should instead ground itself in the basic situation of a country with a large population and a severe shortage of resources, and it should adopt a scientific approach in striving to realize "the five overall considerations" (tongchou).

I am not a scholar of the study or the library, but a traveling research worker whose research mainly yields perceptual knowledge (*ganxing renshi*). It may be true that such knowledge lacks theoretical depth, so it may be difficult to translate it into policy recommendations, and even more difficult to raise it to the level of so-called theory; at least, to do so would require the accumulation of large amounts of research. The reason we cannot stop at the phenomenal level of perceptual knowledge, however, is that, in contrast with those who hastily propose panaceas adopted indiscriminately from theories in books, we find it necessary to undertake serious reflection based on extensive research.

Reflection is actually a rather painful process. Especially when, after years of research and practice, we find we must rethink the established and widely accepted concepts in the existing literature. This process is even more difficult than when we learned those concepts in the first place. I, for example, was also a radical advocate of the market reforms in the 1980s. At that time, radical marketists like me insisted that past problems lay mainly in the system's flaws, that economic growth would be promoted as long as marketization reforms could be carried out quickly, and that China's problems could be easily solved and modernization easily achieved as long as new distributable wealth could be produced. By the 1990s, however, these problems no longer looked so simple.

This article is a result of my reflections on and deconstruction of modernization based on research I have conducted over the years. I must point out that the term "deconstruction" is not a simplistic negation. Here I want to indicate that, when we use the concept of modernization, we must first make sure we understand how this concept took shape and what it actually means in relation to the history and current situation of China.

Historical Observation

Colonization and the Modernization of Western Countries

Contrary to explanations proffered by certain theories and ideologies from the developed world, the backward state of developing countries is not due to their cultures, systems, or even races. History taught us long ago that the West's modernization was actually the result of over three hundred years of colonization. On the one hand, the transfer of Europeans to the colonies alleviated tensions between population and resources

in Europe and provided an appropriate environment for the primitive accumulation of capital. On the other hand, the appropriation of abundant resources in the colonies allowed Western countries to rapidly complete the primitive accumulation of capital by converting this appropriated wealth into capital. The West's modernization, therefore, was actually a process of capital formation and expansion achieved by way of colonization.

Let us first examine the demographic transformation. In Latin American academia, it is commonly understood that there were about a hundred million indigenous people living in North America over three hundred years ago. When the European colonists arrived, they found the native inhabitants of North America unsuitable for slave labor. Since these tribes were in essence a nation living in harmony with nature, their subsistence philosophy for thousands of years had been to take only what they needed from nature, to hunt only those animals they needed to eat. This nation, therefore, was sustainable. Capitalist industrialization, however, required primitive accumulation, so it inevitably came into conflict with the sustainable philosophy of these indigenous people. When the Europeans arrived in the New World and forced the natives to work, the latter naturally fought for freedom and "sustainable livelihood," a concept that modern people are only now beginning to appreciate, although the Native Americans had known it all along. When they refused to work in the colonists' mines, according to capitalist logic this meant that they were lazy and had to be controlled by force, and as a result, much of the native population died in revolt. Today, Native Americans can hardly be said to constitute a nation. According to statistics provided by the first Bush administration, only 420,000 Native Americans lived in the United States in 1992. The colonists badly needed labor power for the extraction of resources, so they had to transfer labor power from colonial Africa to North and South America. During this process, the native population of North and South America combined fell by a hundred million, and of a hundred million people captured in Africa, a third were killed in the act of capture and another third died in the course of transfer; only about one third made it to the Americas.

During three hundred years of colonization, a fourth of the European population moved out. Great Britain, known as "the empire where the sun never sets," occupied the most colonial territory and had the most people transferred out at about a third of its population. In Scotland, which was the most impoverished and most skilled in fighting, half of

its population moved out. As a result, Europeans occupied four other continents, tensions between population and resources were thoroughly ameliorated, and Europe's resource environment became unprecedentedly comfortable and flexible.

Another thing that is well known and yet easily forgotten is: What would Europe's population be today if we included the descendents of all the people transferred to colonies in Africa, Australia, and the Americas? The total would be about one billion. If we also included the offspring of marriages between Europeans and indigenous people of the colonized lands, the number would exceed the current population of China. If all these people had remained part of the same capitalist Europe that advocated the full development of individuality and the maximization of individual interests, the tensions between resources and population would probably have resulted in conflicts more devastating than the two world wars combined, and modernization would have remained a distant dream.

This colonization process, therefore, was really the result of a primitive accumulation of capital at the expense of tens of millions of indigenous American and African lives, as well as large-scale environmental destruction. Of course this process went hand in hand with a set of experiences in the formation and expansion of capital, and the theory derived from these experiences is the social science of the "modernization" that we take for granted today.

In fact, the European models of socialism and the welfare state that many are talking about today are also related to this background. Europe's establishment of colonies in the other four continents and the expansion of industrial capital brought about the need for the development of socialized mass production, the massive migration of populations, and a shortage in the supply of labor (especially at a time when there was as yet no mechanized mass production). This gave laborers the leeway to negotiate in a labor market where supply fell short of demand, and soon there emerged the workers' movement, socialist parties, and eventually the proposal of state welfare policies, welfare socialism, and welfare states. The history of the workers' movement at that time could also be traced back to colonization. In his *Conditions of the Working Class in England*, Friedrich Engels analyzed that the reason why English workers did not launch a violent revolt was that there were huge amounts of capital transferred from the English colonies back to the native land for the people there to share.

Let us suppose that the three hundred years of colonization were necessary for the West's modernization, and that, objectively, this was also the empirical process of which "modernization" consisted in the Western discursive environment. Then, when we discuss development in China, we cannot simply transplant this discourse without carefully considering how it was formed. We must ask: Is this "modernization" a scientific concept?

From the perspective of methodology, modern social science cannot be called scientific because social science cannot be tested. Strictly speaking, only results that can be duplicated by others under given conditions and through given techniques can be called "scientific."

If we adopt "modernization" as a scientific concept, then we must regard the West's three hundred years of colonization as a process that can be tested. Can this process be duplicated by other countries? If not, how can this concept be directly adopted by developing countries that are trying to catch up with those industrialized countries?

Reexamining the history of Western countries' modernization, and considering the essence of modernization and whether it is scientific or not, we discover that we must rethink some widely accepted and established ideas and that we cannot simply adopt this discourse as our guiding ideology. The "modernization" that has been discussed in so many books and conferences, and the empirical process of which it consisted, cannot, in fact, be duplicated.

Looking back from today's vantage point, there were indeed several pioneers among Asian countries that attempted to modernize according to the Western model. Japan, for example, was the first to propose "shedding Asia and joining Europe" (*tuo ya ru ou*), but when it tried to retrace the Western steps of colonial expansion, the Western states fiercely taught it a lesson. The Japanese may have felt wronged because of this; they still have not admitted their guilt, and they feel uneasy and indignant: "How come you Westerners were able to achieve modernization through colonization and we may not? What you did in the Americas and Africa was much crueller. All we did was occupy Korea, Taiwan, Northeastern China, and Mongolia. We have almost no resources in our own land, so what's wrong with colonization according to Western precedents?" Japan wanted to shed Asia and join Europe, but its teacher beat it back and taught it its proper place in the world order, and many Japanese progressives feel that Japan is still a semicolonial land under American military occupation.

Even if we wanted to retrace the West's steps of colonial expansion, therefore, we lack the necessary conditions. Moreover, Japan already tried this and failed, so what should China do?

At the turn of the century, China already ranks high among world precedents in the output of major industrial products. It ranks first in the production of iron, steel, color TVs, coal, textiles, and cement, and in many industries it ranks second. This high ranking is possible because China enjoys a vast domestic market. Also, the formation and expansion of industries in China themselves form a process about which questions need to be asked.

Wherever you go, no matter whether it is in Asia, Africa, Latin America, or the developed countries, you hear people talking about the "China threat." Why is that? It is because China's demand is too great. In 2003, China's economy grew 9.4 percent and accounted for 10 percent of the total oil, 24.9 percent of the total iron and steel, and 50 percent of the cement consumed in the world that year. In the case of iron and steel, for example, China's purchase of iron ore accounted for over half of the iron ore exported from Australia. China's huge demand helped increase Australia's gross domestic product (GDP) as well as the exchange rate for the Australian dollar. If this trend continues, a considerable portion of the world's energy resources and raw material will soon be supplied to China. Would the world allow this to happen?

We should have already learned our lesson in this respect. From 1995 to 1996, for example, China imported thirty million tons of wheat for eighteen months in a row, resulting in an approximately 100 percent increase in international wheat prices. This led many developing countries to complain: "Now you Chinese have money so you can import everything, but we can't afford that. Do we deserve to go hungry?"

China, under the spell of marketist ideology, pays no heed to such warnings, but all other countries see problems in the way China does things. There are many theories about China's impending collapse and accounts of the "China threat." The former hold that China lacks sufficient resources to sustain its current model of growth and cannot continue consuming the world's resources like this forever, whereas the latter go on to predict that China will strip the world's resource markets bare.

Researchers at the Fairbanks Center at Harvard University once predicted that, just as the rise of Germany and Japan in the twentieth century triggered two world wars by attempting to transform the world's

economic-political order, so the rise of China in the twenty-first century will lead to conflicts that pose a challenge to the human race. In my opinion, however, China's so-called rapid growth poses a challenge first and foremost to China itself.

Realistic Observation

Modernization in Developing Countries

In order to comprehensively deconstruct modernization and explore its lessons vis-à-vis China's past and present, we should examine the experiences of modernization in developing countries.

In the past few years I have had the opportunity to visit a few developing countries under the auspices of international nongovernmental organizations.¹ These experiences were completely different from those I had when I visited Europe and the United States in the late 1980s and early 1990s. I discovered that we Chinese were facing problems that many developing countries had already experienced and thought about. Communicating with intellectuals from developing countries would therefore yield completely different ideas. Especially in South Asia, Southeast Asia, and South America, I discovered that the problems they thought about were almost totally beyond our field of vision. In fact, many of the goals that China planned to achieve have probably already been achieved in these countries.

For example, by 2020, China is proposing to construct a society in which everyone is comfortably well-off (*xiaokang shehui*), the goal being to triple the current per capita GDP of US\$1,000. China's current urbanization level is about 36 percent. According to estimates by the National Development and Reform Commission, the urbanization level by 2020 will be about 55 percent. Apparently, the "three rural issues" will be settled if the above per capita income and urbanization objectives are achieved. However, by carefully examining the development processes of some developing countries, we find that these objectives have already been achieved there. But have the problems been solved at the same time? Based on my personal experience doing comparison and research in developing countries, I find that China is not alone in facing the issue of "three big disparities" under a market economy.

Let us take Mexico, for example. Mexico is far ahead of China in terms of degree of privatization, liberalization, democratization, and

marketization. Prior to the financial crisis, its per capita GDP was close to US\$6,000 and the urbanization level was almost 80 percent. In other words, Mexico long ago achieved the expected objectives that China is now setting for itself. However, with such a degree of privatization, liberalization, democratization, and marketization, Mexican society is still very much polarized with huge disparities between urban and rural areas. The problems in rural areas are still very complicated and at times conflicts can be very intense.² In fact, destitution in rural areas and impoverishment among peasants are not solved by privatization, marketization, liberalization, and globalization, nor do they disappear naturally with increases in GDP or the achievement of urbanization.

Take Brazil as another example. The size of the country is slightly smaller than that of China, but the population is just over 100 million. There are not so many deserts and mountains. A Chinese person who flies over Brazil will be very envious of the vast green underneath. Brazil also boasts a very high level of economic development with a national per capita income of US\$7,000 and an urbanization level as high as 82 percent. However, the nationwide "landless workers' movement" (MST) and various intense social conflicts still exist there.

Millions of people in Mexico live in the slums. In Brazil, there are also large areas of slums in major urban areas and a great number of marginalized people live there. Prostitution, gambling, and drug use run rampant in the slums and there is a severe problem with gang control. It is very difficult for the government to exercise regular governance.

India is also facing a very serious poverty problem in its northern areas. It is the kind of poverty that is almost too horrible to look at. Large numbers of peasants are without land and thatched sheds are everywhere to be seen. Being utterly destitute, the impoverished peasants often launch unimaginably violent revolts. In the judgment of the Indian intelligence department, a guerrilla corridor has been formed from Nepal to Bhutan and from northwestern India to Sri Lanka, with armed peasants controlling extensive rural areas.

Similar examples are too numerous to list. From Thailand to the Philippines, from Mexico to Brazil, all these developing countries enjoy relatively higher income and urbanization levels and better resource conditions than China. These countries are far ahead of China in terms of the systemic reform that China is striving to achieve at present: marketization, liberalization, democratization, and globalization. These phenomena set us pondering over the following questions: Why do such

phenomena still exist now that these developing countries have already achieved what we are striving for in economic terms? Why is it that they have progressed so far in systemic reform and have achieved better economic statistics than the ones we publicize, yet the three major categories of social disparity that are our focus have still not been fundamentally resolved there? Is it in fact not the case that social conflicts in these countries are now even more complicated and intense?

What Kind of Modernization Do We Want?

When I consider the actual experiences of the past in the West, I no longer discuss the problems using well-worn concepts. Instead, I contemplate the choice for China based on the objective state of affairs. At all those seminars and conferences that are held one after another, the speakers just earnestly and tirelessly present their opinions. However, after numerous rounds of discussion, there is still no definite understanding of the fundamental problem we currently face. Sometimes, the common doubts that people have arouse very charged emotions in me.

For example, some ask, "Is China really competent enough to achieve the objective of tripling its per capita GDP?" In my opinion, we should have enough confidence. Tripling GDP is not the problem. We might even quadruple or quintuple it. The precondition is that China should not open its currency market or capital market. Why is that?

First, we should note that the most important foundation for the issuance of currency is a stable political regime. Since the world gold standard was abandoned in 1944, economic growth has played an important, but not absolute, role in the issuance of currency. What is really absolute, or the only irreplaceable source of currency credit, is the powerful political credit of the government. Therefore, we can say that the single most important foundation for the issuance of currency is a powerful political regime.

We can demonstrate this using the examples of the United States and the Soviet Union. If it had not established global hegemony through its military power which is several times greater than that of other countries, the United States could not possibly maintain its dollar as the hard currency of the world. Although the Soviet Union actually had an enormous economic aggregate, the main reason for its eventual economic collapse was nothing other than the collapse of its currency system. The main reason for the collapse of the currency system was that political

reform started off before other reforms and the powerful political regime no longer existed. The absence of a powerful political regime led to an absence of the currency credit that was based on it. As a result, there was a drastic depreciation in the ruble and the wealth of the country and the general public also shrank considerably.

Relatively speaking, China is the one country with the most stable political regime at present. No matter how much currency the country issues, credit comes from the government. Although the rate of nonperforming assets is pretty high among state-owned banks, the general public still makes deposits and no one ever doubts that these deposits will not depreciate. The reason for this is that the degree of credit of state-owned banks is not based on the rate of capital sufficiency in accordance with the regulations of the Basel Accords. It is dependent upon an enormous centralized government. In other words, China is a country with a unitary system and therefore China is not only powerful in its political regime, but also continues to deepen its self-reform. If such a stable and increasingly improving political regime can basically guarantee the stability of the country, then we should not be overanxious to open up the currency market. That way the government can print and issue currency that will increase the investment into GDP.

Why is it, then, that I suggest not opening up the capital market? In my opinion, the capital market is mainly a tool that produces added value through "capitalizing" resources and assets. The simple example below will suffice to explain this point:

In the past, China had a public housing distribution system. At that time homes were resources for living consumption instead of assets. Later in 1998, the government implemented reforms in the housing system and the public had no choice but to purchase housing. Homes thus became assets for the owners, not consumption resources that would have been obtained through distribution as in the past. If the real estate construction and operation enterprises go public, that means further capitalization of the real estate assets. If people want to purchase a home, they first of all need to acquire currency. For a home price of RMB100,000 (RMB1 = US\$0.12 at the time of writing), the government needs to issue another RMB100,000 in currency. If homes are transacted in the second-hand housing market and real estate enterprises go public, then the stockholders need more currency to participate in the transactions. If various "financial derivatives" are created, the government must issue still more currency. Therefore, when housing was distributed in the past,

although homes were actually consumed by the public, they were not reflected in the increase in GDP, whereas now the GDP doubles again and again whenever homes move from the distribution to the purchasing system, and again when they are converted into capital and enter the stock market.

This is why I have never doubted China's ability to have tripled its GDP in the past and triple it again by 2020. What is more, in a country like China, most of its prairies, forests, water, soil, and minerals are still natural resources. As long as these resources can enter the transaction market and become capitalized in the capital market, the GDP will be sure to skyrocket. An elevenfold increase will be possible, let alone tripling.

Therefore, the question is not whether the GDP can continue to double. The question is whether this is what we really want.

What do we want, in the end? When the GDP doubles ten times, we will have tens of trillions of renminbi and confront the virtual economy of the developed countries with our own virtual economy. China will be able to participate in the new round of competition against major countries with virtual capital. But is this what we really want?

If it is, then we should continue along this path, following mainstream development as at present. Can we go far along this path? Of course we can. But what are some of the conditions involved? These include the rapid development of science and technology so that sunshine can be turned into energy, seawater turned into raw material, and the resources of the earth and outer space infinitely developed. If we assume that such Western-oriented modernization can be realized, this means an infinite expansion of human capacities and an infinite appropriation of resources.

Some people feel that this path of development will not lead us anywhere and that we should, at least in our lifetime, consider the sustainable development of human beings, resources, and society. We need to reflect on the fact that China is a country where the population keeps expanding and resources are seriously lacking.

Let us suppose that China is able to achieve the objective of US\$3,000 per capita GDP by 2020, with 55 percent of the population living in cities. That means about 800 million people will live in cities, but there will still be 700 million people living in the countryside. Based on current statistics, the rural population is estimated to be 780 million. By 2020 the absolute number of the rural population would decrease by only by a few million. In other words, the highly tense relations between

people and land in the vast countryside will not be significantly changed. On the other hand, however, urbanization will inevitably require acquisition of more cultivated land. Based on the current urbanization rate, the area of cultivated land decreases by an average of 10 million *mu* (667,000 ha) every year. By 2020 there will be a decrease of more than 200 million *mu* (13 million ha) of cultivated land, so instead of improving, people-land relations in the countryside will be even worse.

If we accept this reality of development, we will find out that, even though we hope to realize integrated and coordinated urban-rural development, the current pattern of the modern economic system in the cities is still not appropriate for the rural areas with their highly tense people-land relations and highly dispersed small-scale peasant economy. The modern legal system that legal scholars advocate may also be inappropriate for a rural society based on a small-scale peasant economy. The small-scale peasant economy is highly dispersed and nonspecialized, so it would be difficult to achieve so-called modernization with a superstructure built on such an economic foundation.

Looking into 2020 with the long-term objective as it is at present, we will find that, when our population reaches more than 1.5 billion, there will still be a system with an urban-rural dual structure and a large number of people will still live in the countryside. The complete system of modernized governance that people identify with now will not be fully applicable to the rural areas. As for government, governance based on the so-called modern legal system still may not occur. So long as the urban-rural dual structure exists, the gap in income and living standard between urban and rural residents will also exist. What about the gaps between the poor and the rich and among different regions? Those, I am afraid, will also continue to exist. This will probably be the situation that we will face.

Deeper and further reflection will lead us to discover that the existence of the urban-rural dual structure in China and the even distribution of land per farming head in the current farmland system are the very reasons why there are no large-scale slums like those in the major cities of other developing countries. If peasants really leave the countryside for good, then the piece of land that they have the right to use will be gone. It has been more than ten years since peasants were first allowed to work in cities, and more than 4 million migrant workers from the rural areas have been engaged in large-scale mobile employment since the food-coupon system was abandoned in 1992. After more than ten

years, however, mobile employment remains unchanged and very few migrant workers have settled down in the cities. If we want to expedite the urbanization rate and encourage these people to settle down, we should at least first take a look at how much of the urbanization level realized in other developing countries actually occurs in and applies to the slums. Is this over-urbanization really something we want? We aspire to realizing benevolent social governance and providing these people with social welfare, but China still lacks the financial resources for this in the foreseeable future.

In view of various complicated and entangled situations, we must further reflect whether the direction based on the established discourse of modernization is really the objective we want to achieve.

A Major Change in Strategy and a Scientific Approach to Development

As we all know, the major objective we hoped to achieve in the past was called the “four modernizations,” namely modernization in industry, agriculture, national defense, and science and technology. Proposed and set at the beginning of the reform and opening-up policy, realization of this objective was set for 2000. But 2000 passed by without much concern about whether modernization was actually achieved.

If we pay closer attention, however, we will notice that there have been changes in the way the phrase is used. From 1998 to 1999, the state leaders changed their manner of presentation from that of twenty years before. “Agricultural modernization” was then least likely to be realized in China’s current situation, so therefore the proposal became an “attempt to realize agricultural modernization first in well-developed coastal areas.” The Chinese language is interesting—people may interpret such a change in the proposal in different ways: (1) only developed areas may realize modernization in the future and other areas can be left alone for the time being; (2) even developed coastal areas cannot realize modernization without much-needed effort; and (3) modernization may be realized across the country, but with developed coastal areas taking the lead.

By 2002, for the first time in history, the “urban-rural dual structure” as a basic systemic conflict in China was set down in the political document of the Sixteenth National Congress of the Chinese Communist Party (CCP). At the same time this basic systemic conflict was mentioned, “urban-rural integrated and coordinated development” was also

proposed. This can be interpreted in this way: due to conditions now, it is hard to realize this integrated development between urban and rural areas. In addition, what deserves our particular attention in view of the increasingly serious three conflicts in China is that the document stressed that the major objective to be achieved by 2020 was "the construction of a society in which everyone is comfortably well-off." Thus, the proposal of the "four modernizations" not realized was actually significantly amended using a realistic approach.

During the Third Plenary Session of the Sixteenth CCP Central Committee in 2003, the central government further stressed the "integrated approach to development" (*zonghe fazhan guan*). This can be understood to mean that "GDP will not be the only criterion" in the future. At the same time, the central government also stressed the importance of realizing the "five integrated developments," namely urban-rural, region-region, economic-social, human-nature, and domestic-international.

The outlook from the central government also underwent major changes during the first years of the new century. At the turn of the century, the central government specifically stressed that the guiding principle of the tenth five-year plan was "people-centeredness" (*yi ren wei ben*). During the Third Plenary Session of the Sixteenth CCP Central Committee, "people-centeredness" was once again stressed as the premise of the scientific approach to development. By December 2004, the central government specifically organized a workshop for senior leaders on the transformation of strategic thought from "integrated development" to "scientific approaches to development." Not only was "people-centeredness" stressed again as a major guiding principle in the "scientific approach to development," but also the concept of "sustainability" was introduced. Therefore, the new trend became "people-centeredness," integrated and coordinated development, and sustainable development.

During the National People's Congress in March 2004, Premier Wen Jiabao fully expounded the main contents of the significant strategic change in his government work report. From the Sixteenth National Congress of the CCP in 2002 to the Third Plenary Session of the Sixteenth CCP Central Committee in 2003 and to the reports of this year's National People's Congress and Chinese People's Political Consultative Conference, the strategic change has been basically specified and interpreted and has gradually become government policy.

For this reason, we highly praise the people-centered scientific ap-

proach to development put forward at the Third Plenary Session of the Sixteenth CCP Central Committee. The “new industrialization path” and “circular economy” emphasized in the 2004 government work report indicate that the central government is wary of vulgar economic growth: unreasonable consumption must be curtailed, unrestricted consumption must be avoided, and laissez-faire attitudes in the blind expansion of industrial capital should be stopped. In the government work report, the economic growth target for 2004 is set at 7 percent and other economic indexes for 2004 are also drastically lowered. For example, import-export growth in 2003 was 37 percent and the ratio for 2004 is set at 8 percent. Many people do not understand this: Why should we set the index so low at a stage of high growth? The fundamental reason for this is that the central government has realized that this vulgar growth is not sustainable.

We highly praise the guiding principles of “people-centeredness” and sustainable development put forward by the central government. What we would like to have are an effective economy and a circular economy instead of the blind advocacy of consumerism. Our reflections on the issues in modernization also tally with the policy considerations of the central government. Therefore, my deconstruction of modernization is not simply the personal perspective of an ordinary researcher, but also should be related to a series of discussions on policies.

Epilogue

Reflection as a Stepping Stone

The deconstruction of modernization that I explore in this article is the result of my own reflections over the past years. It contains my reconsiderations of many problems we face today based on my observation of the world from a wider perspective, based especially on my study tours and comparative study of developing countries. No doubt these thoughts may seem unilateral and simplistic. I am aware that my research is not thorough enough, but I will continue such research during my lifetime and deepen my own knowledge and perception. What I am doing here is to present some of this possibly disordered perceptual knowledge that I have accumulated over the years. I often feel ashamed and uneasy that my understanding of modernization at this moment is only at this early stage. However, even this perceptual knowledge leads me to doubt much of the established discourse.

It is my opinion that, as members of the generation growing up together with the country, we should provide a stepping stone for younger generations so that their progress can be steady and sure. What can we provide as stepping stones? We can provide our reflection, deconstruction, and serious rethinking of the established discourse. Young people absorb much knowledge from books and universities, but they may lack the necessary spirit of reflection. Once they have accumulated a certain amount of experience, what they perceive may be different from what they learned in books. Such being the case, why do we not present these young people with the results of our own experience and reflection? In this way, they can go ahead and begin their discussions before it is too late and too difficult to make changes.

Notes

1. Visiting these places always inspires me to do some serious reflection and discussion. Many of these discussions have been published in magazines such as *Zhongguo gaige* (China reform). For example, my reflections on Mexico were published as "Xianchang muji Moxige mengmian jun" (An eye-witness report on Mexico's masked army), *China Reform* 9 (2003); my reflections on India were published as "Wu di ze fan" (Revolt due to landlessness), *China Reform* 2 (2004), and "Dang zheng ze luan" (Chaos due to party struggle), *Gaige neican* (internal publication of the China Institute for Reform and Development); and in "Mengjiala zhushi" (Notes on Bangladesh) I attempted to interpret the phenomena I had observed there in 2003.

2. In 1994 there was a peasant uprising in the Mexican state of Chiapas, and it has carried on for ten years now. It was an armed uprising launched by indigenous people in the mountains, and now they are gradually developing forms of local self-governance.

Four Stories in One: Environmental Protection and Rural Reconstruction in China

Wen Tiejun

With China's economy growing at an average rate of over 10 percent in the last ten years, and with China becoming the third largest economy in the world in 2007, international society has marveled at the "Chinese experience," which is presumed different from Western paradigms; it is thought that the Chinese have changed the irreversible law postulated by the Washington Consensus, that only 20 percent of the world's population would succeed in modernization.

Within China, the question of experiences and lessons of the three decades of China's reform since 1978 is a hot topic among intellectuals; there are also discussions among economists about economic laws. The embarrassment in academia is conspicuous, because the most influential economists in China have pragmatically pointed out that "there is no economics in China!" The economic theories in today's China are almost all imports

from abroad. These theories from outside cannot adequately explain China's economic development. Still, the very fact that the economists in China have presented such a view is itself a sign of progress.¹

If, indeed, China's economists feel that China has not yet produced theories grounded on China's experience in development, then, for a person like me long engaged in grassroots research work, there is no need to refer to too many theories, and I will hence confine myself to telling four cautionary stories, in order to expound on the question of the institutional cost induced by the "rural-urban dichotomy," the fundamental systemic contradiction in China, as well as to discuss the rural reconstruction efforts that we have embarked on to resolve such systemic contradictions.²

Four Cautionary Stories

Story 1: The Story of the Zapatistas, the Masked Army

This came from a study we conducted in 2003 in Mexico.³

In August 2003, I was on academic exchange in Mexico and happened to run into an event. Mainstream global society now seems generally agreed on the question of combating terrorism, and the image terrorists evoke is a masked face with only the eyes revealed. When I was in Mexico, it so happened that the Zapatista National Liberation Army (EZLN), a group with precisely such an image, was holding a public event to proclaim local good governance of the indigenous people. So, I took a trip to the hills that were under EZLN control. However, when I came to a face-to-face encounter with thousands of Zapatista militants in black ski masks revealing only their eyes, and tens of thousands of indigenous Indian people with their faces covered by colorful scarves, I did not feel scared. Not only myself, but also hundreds of foreigners present were also without any sense of fear.⁴

Later, I was taken by a local indigenous guide to the Lacandon Jungle near the border between Mexico and Guatemala. Staggering on muddy trails, we went into Zapatista-controlled remote areas inhabited by the indigenous Indians. Along the way, I saw slash-and-burn farming, which, from the mainstream concept of the society where I am from, I would have unthinkingly regarded as seriously detrimental to the environment.

Yet, when I was indeed among them, sleeping in the same type of shed and unable to get a wink of sleep due to mosquito and flea bites, I was obliged to think: Why would they want to ruin their environment? Why have the indigenous Indians changed their ancient tradition of thousands of years, though they have always been considered the humans who had lived most harmoniously with nature, not killing more animals than they need to, taking from nature only what is minimal for their most basic needs? They did not destroy the environment and, before the Westerners came with their savage colonialism, they had kept using stone tools from the New Stone Age.

To be in harmony with nature had been a tradition of the Indians for thousands of years. Then why is it that they are now cutting trees on steep mountain slopes? All this is quite incomprehensible for me as a so-called economist. Why? I think this involves a major systemic problem of “Latin-Americanization” in the period of postcolonialism. I have undertaken quite a few trips to Latin America, including four times to Mexico, in order to figure out the question of so-called Latin-Americanization. I have insisted on the mode of research I use in China, which is, I would go to rural areas and interview people in their rural homes. Only when one has been with the local folks and the farmers can one claim to have done research.

One anecdote from my visit to Mexico could be of interest. I met a tall and sturdy farm owner, and I asked, “Which state is your farm in?” He replied, “You have asked the wrong question. You should have asked me which states are in my farm!” He told me with pride that his farm crossed state borders and was simply huge. So, with farms of such scales, what could be the problems?

According to general economics, it is believed that land privatization could resolve the question of marketization and industrialization of agriculture. It follows that farm owners must enlarge the scale of their farms in order to cope with the ever-increasing costs for capital-intensive technological input. This is what happens in the developing countries in Latin America where the state cannot afford huge subsidies. In Europe, the United States, and Japan, the state increases subsidies when the farm owners cannot afford such costs. Anyway, in competitive agriculture on a global scale, the necessary logic is to go after scale expansion in order to stay competitive. Under

privatized land ownership, larger farms inevitably destroy small farmers in the pursuit of expansion.

What deserves our in-depth analysis is: almost all big-farm agriculture of scale in the world is in former colonizer countries, fed by plunder in the early period of colonization. Up to now, there has rarely been any experience of big farms depending entirely on privatization or marketization to achieve their scale, which could be used to prove this so-called general law of agricultural development.

In Mexico, who are the big farmers? They are the European appropriators during the colonial period and their descendents. And who are the small farmers? They are the indigenous Indians who had lived in harmony with nature for thousands of years. Thus, this is still a question of Latin Americanization in the postcolonial period. In a “normal” operation of the law of the market under globalization and dependent on scale for competition, small peasant economies would, as a “norm,” fall victim to big farms. They are then left with no other means of livelihood but to cut trees and slash and farm in the remote jungles. While they are forced to resort to a primitive mode of life resembling their ancestors, they also need cash to meet medical, educational, and other expenses indispensable in a modern society. This necessarily leads to damage of the ecological system and of the natural environment.

But can you allow them to not survive? According to Latin American researchers, during the three hundred years of colonization, about 100 million native Indians in Latin America were wiped out. The situation was even worse in North America. In 1992, the United States declared that Native Americans had ceased to exist as a race, because there were only 420,000 left of them. In Mexico, however, especially in states like Chiapas where the Zapatista insurgency has taken place, indigenous Indians still account for an overwhelming majority of the population.

This story I personally witnessed tells us that if one hopes to protect the ecology and the environment, one should, at the very least, guard against the “negative externality” induced by the privatization of agricultural land. In recent years, mainstream economists within and outside China have been advising the leadership in China that only through land privatization can China’s agriculture participate in international competition. Yet, as I see it,

even if the agricultural land in China were privatized ten thousand times, we still would not be a player in international competition.

When China's officials and researchers go to the United States to look at the farms, they usually visit big modern farms, and admire their GPS (Global Positioning System) technology and large-scale mechanized operations. Nobody seriously looks into the reasons for bankruptcy of medium and small farms. Why? One reason is that the farmers receive only 5 percent of the dollars that the consumers pay for food; the income at the very end of the chain of industrialized agriculture is very low; hence, large numbers of farmers who cannot afford to go on scale are forced into bankruptcy. Only farms with an average 300 hectares can generate a steady income. In China, the average farmland of a rural household is only 0.5 hectares, so when will we ever reach the scale attained by U.S. farms for breaking even?

It is now apparently absolutely "politically correct" in contemporary China to be unthinkingly identified with globalization and, without discrimination, turn market economy into an ideology, then approach the superstructure of market economy in a fundamentalist manner. To facilitate a discussion without heated sentiments, I would phrase the question of the Chinese blindly copying from the scale agricultural system of the United States to China, without attending to the differences, as "an error in translation" — they have erroneously translated the term *farmers* used in the United States for *peasants* in China. The difference that we need to grasp, to state the case in explicit opposition, for the sake of argument, is this: there is no farm in China, there is no peasant in the United States. But since the translation of the subject itself is erroneous, there is no more need for further debate. What I would like to emphasize is this: it is only a daydream if one just brags about environmental protection or about sustainability of resources and does not go to the grassroots or go among the masses.

Story 2: The Story of the "Straw-Hat Plot of Land"

This happened in the mountain areas in Guizhou Province, in southwest China.

The mountain regions of Guizhou Province are carst regions plagued with severe soil erosion problems. The importance of the sustainability of

resources and of the environment has been emphasized for two decades. In recent years, the erosion problem has been aggravated. What has happened in the last thirty years is that the peasants in the mountain regions, due to lack of other means of livelihood, have been forced by a growing population to go up the steep slopes for farming and have eventually used up whatever little topsoil there was left on the slopes. International groups, including many NGOs (nongovernmental organizations), have been deeply concerned about poverty alleviation in Guizhou. When they are there, they are perplexed: why do the poor peasants have to farm on the steep slopes, which are so steep that they are inaccessible even by the oxen and only human beings can climb up to plant some corn in the crevices of the rocks.

Guizhou people would, in self-ridicule, tell you a story about a “straw-hat plot of land.” A peasant household was given twenty-eight plots of land through the household responsibility contract scheme. The peasant climbed up the slopes to till the land and finished the work with twenty-seven plots. One was missing; he looked here and there, but in vain. When he picked up his straw hat, ah-ha, there it was, covered up entirely underneath! This epitomizes the fragmentation of plots of farmland, due to soil erosion and environmental destruction. Later, I was told that twenty-eight plots of land would not count as fragmented, because some people had fifty-six plots of land!

Before the year 2000, when the government started implementing the policy of offering grain and cash subsidies to peasants who converted cropland into forest and grassland, however much the government discouraged farming on steep slopes, peasants had no other choice but to farm them.⁵ Is it because they preferred such arduous labor? No! Guizhou was the first province to implement the policy of offering a thirty-year term for land contracts. Farmland resources in Guizhou had always been scarce—in 1978, when land in Guizhou was contracted to households, cultivated land averaged only 0.78 *mu* per capita, lower than the 0.8 *mu* laid down by the United Nations as the minimum subsistence level. Twenty years being one generation, those born in 1978 now have children. With an additional one-and-a-half generations in thirty years, what are these people supposed to eat? Across the country, it was not until the end of the 1990s that the thirty-year policy was emphasized. Amid public opinion overwhelmingly in favor of

this policy, voluminous research findings came out, and in 2003 the policy was enacted into law. However, has anyone done any research and analysis on the conditions and the lessons of Guizhou, which was the first to implement the policy of the thirty-year contract term?

Relating the second story to my first story about the indigenous people of Mexico, one may come to a conclusion of the question of “negative externality.” But if one further ponders these two stories from Mexico and China, one may find out what the underlying institutional factors are. This is because, when it is generally hoped that an accelerated urbanization can help increase peasant income and resolve China’s Three Rurals,⁶ one should look globally and see that Mexico is about 70 percent urbanized, whereas China is only about 40 percent urbanized; Mexico’s per capita income once reached US\$4,000, whereas that is a target for the Chinese for some time after 2020. Mexico is still troubled with the problem of bankruptcy of large numbers of poor farmers, and the Mexican government reported that about 30 percent of its population is below the poverty line (which is ten times China’s 2.7 percent poverty rate), with some scholars estimating that the actual poor population is over 50 percent. There are still peasant uprisings in Mexico, there is still farming on steep slopes, and the indigenous Indians have been compelled to give up their thousands of years of traditional civilization of harmony with nature.

Is this an evil of the system? More urgent is the question: how can China avoid such an evil of the system?

Here we need to relate this story to the story of the Guizhou mountain areas: Why are there straw-hat plots of land? Why do peasants have to farm on steep slopes? What this illustrates is that some of our current piecemeal policies are detrimental to an overall strategy that would take care of the nation’s environmental protection and create sustainable development.

Story 3: The Story of “Enclosures”

This happens right here in Beijing, but is seldom noticed.

People complain about the grave traffic jams in Beijing and the aggravating everyday air pollution. Some personnel posted to Beijing by Western developed countries even receive a pollution stipend. Some people say the

problem is due to car emissions; some say it is due to substandard domestically produced cars; some say it is due to inadequate roads and highways, or lack of public transport. I had lived in Manhattan for about six months and I did some driving there. At that time, I wondered why there was only one highway ring around Manhattan. Could it be that there are more cars in Beijing than in Manhattan? Yet in Beijing, we already have as many as six rings, but the traffic jams and the pollution continue.

Why? If the problem is still attributed to the system, then what sort of problem of the system is this?

It is widely known that one of the problems of the system is the monopoly of the requisition of peasants' land by specific government departments. But has anyone probed into the question of the effect on the structure of urban construction as a consequence of such an institutional departmental monopoly of capital? Precisely because of such a monopoly over the requisition of land, capital dependent on departmental authority can for long years resort to their power to access opportunities of "land allocation" at very low prices. Hence there is the system of "land enclosures" and its dependent path. In Beijing, we have "local enclosures" resembling those under a feudal system in the hands of almost all departments of authority, big or small. Hence, estate developers also adhere to the custom of "local landlords" to make enclosures, and thousands of buildings are clustered into all sorts of enclosures. Almost all departments and units make the piece of land in front of the buildings into their own parking lot and manage to realize the idiom: "the wind can come in, the rain can come in, but the emperor cannot step in!" In a word, this is only bringing conventional landlord practice into the cities and is in no way urbanization in the modern sense. One of the systemic costs from this is pollution. Since cars cannot drive through, they are all forced onto a limited number of roads, and when they are all crammed on the roads and highways, there cannot be radical treatment of the aggravating air pollution. This is one of the adverse effects of enclosures. Peking University once declared that it would open up its campus and allow cars to go through, but before it really opened up, the gates were closed. Maybe this is what we see often in systems, that the good is normally displaced by the bad.

In Manhattan, there is no low-cost land requisition by departmental

monopoly capital protected by government authority, so you do not see such government enclosures, and cars can go through Central Park. And because land in the cosmopolitan city is scarce, no estate developer can get a lion's share of the land. There, cars go by roads interspersed among clusters of buildings.

Story 4: The Story of Disease from Food

This has to do with the family life of every urban resident, rich or poor.

A man working on agricultural research went to the vegetable market to buy food for the new year. He saw alluring, lush green vegetables, but he dared not buy for his family, because as an insider, he knew the vegetables carried much nitrous acid, a carcinogen. So he bought only root plants such as turnip, onion, potato. This was the winter food for the new year for ordinary families thirty years ago; was he intentionally reverting to a living standard of thirty years ago for his own family?

It is not a bad idea for urban people, especially the burgeoning middle class, to be daily talking about ecology. Yet, do people know how much harmful food they and their families are taking in everyday? Many parents are worried about the future of their children, but do they know how many handicapped babies are born everyday in the children's hospitals? Why is it that China's handicapped population has reached more than 60 million? The damage to the resource environment is one reason. Why is it that the pharmaceutical industries are prospering so much? Because we fall ill too often! Why is it that the pollution index every year is on the rise? Why is it that, despite all the emphasis on tracking the origin of production, the problem of food safety is getting more serious? One important reason is the excessive use of pesticides, chemical fertilizers, and herbicides in agriculture, and the excessive use of steroids, heavy metals, and antibiotics in animal husbandry. How many of us are taking in all these agricultural products with high residues?

The question is: do the peasants not know that this is harmful?

The root of the question is that the system is more and more endangering both the city and the countryside, but this has not come into people's awareness!

Urban residents should not think that, because they have long enjoyed the advantages of the urban-rural dualism, they will be exempt from being affected by the cost of the system. Do not think that since systemic costs have always been borne by the peasants, it makes no difference to you what type of life the peasants are leading. We all know that if peasants use excessive pesticides, chemical fertilizers, and heavy metal, life for urban residents will not be good. We have not had time to reflect on the question: why is it that for six thousand years in China, agriculture has nurtured the population, but in the last three decades, peasants seem to have become selfish and vicious? When the urban middle class becomes complacent that they have a huge advantage over peasants who come to work in the cities for extremely low pay and remuneration, they have at the same time sown the seed of their own victimization.

Thus, urban folk should be more concerned about the 900 million peasants, in order to ensure a better and faster sustainable development. The peasants of most developing countries are the most vulnerable sector, and if the peasants are driven to a desperate dead end, the urban folk also will bear the consequences. The big upsurges and disasters will definitely take place in the cities.

Furthermore, more and more migrant workers coming from the countryside to the cities have learned to use their urban income as a reference point for their income from arduous labor input on the farmland. The contrast, of course, reveals a huge disadvantage for the peasants. Under the law of “rise of opportunity cost of input of agricultural labor,” peasants would drastically reduce their labor input in agriculture and seek more use of chemical fertilizers, pesticides, and herbicides. Creating a vicious circle, more city folk are victimized.

Rural Reconstruction and Environmental Protection

I have told these four cautionary stories, from which is derived the story of what we have been engaged in.

In the last few years, together with many volunteers, we have been working on rural reconstruction, which is why the title of the essay is “environmental protection and rural reconstruction.” I would like to argue for

the integration of environmental protection and the reconstruction of rural culture.

The mainstream theories, cultures, and public opinion of our society have reiterated to peasants the primacy of getting rich: that those who get rich are heroes, those who do not are failures. But, on our part, we would want peasants to know that the so-called modernization and globalization ideology can offer them only a piece of cake painted on the wall. It is out of reach, and if they try to sink their teeth into it, they will only end up with broken teeth and ridicule from others.

The problem facing us is basically the same as thirty years ago, which is, how we can be pragmatic and truthful.

We have in China 900 million peasants — that is, 230 million small peasant households; the farmland per household is about 0.5 hectares. These are the realities and the laws on which we should base ourselves. When we emphasize environmental protection and building a culture congruent with the environmental resources, we should see what all of this entails for the peasants.

The environmental culture in the global context is itself a nonmainstream culture and is probably incomprehensible to the wealthy whose concern is more for the stock market. I have become involved in this in order to warn our Chinese peasants and Chinese people that Western-style modernization is not for us, that we cannot possibly follow the same path. Our country is a superpopulous country with extremely scarce resources. Hence, the Chinese need to be realistic. Over half of the petrol and the nonferrous metal we use comes from imports. The consequence of following such a trend of Western modernization will be excessive, intensive industrialization along the coastal regions, and, coupled with the industrialization of agriculture, heavy pollution is inevitable. So we have SARS (Severe Acute Respiratory Syndrome) today, avian flu tomorrow, all sorts of inexplicable diseases, and even pathological genetic mutations. Our future generations will be having very hard times.

The problem is that the urban folk have already accepted such a pattern of Western modernization for almost a century, and very rarely do we have people aware of the problems and willing to reflect on them. What I present today will surely be rejected or reprimanded by those not inclined to these

types of reflections. But being a researcher long engaged in rural studies, rather than wait for the urban folk to take time to reflect, I have chosen to take up rural reconstruction in the countryside.

When we are in the countryside, what do we say to the peasants at the grassroots level?

First, Peasants Should Refrain from Inorganic Farming or Accelerated Growth of Pigs

For farming, try to use less pesticide or chemical fertilizer and maximize the use of farm manure. Thirty years ago, when I listened to lectures by peasants of the people's communes, they said that the cabbage in Beijing was delicious because it was grown with farm manure. In those days, people's communes in the suburbs would collect the manure from the cities. Now, the city manure is discharged into the rivers and seas, polluting the environment, and peasants use chemical fertilizer instead. So how can vegetables be any more delicious? Only when peasants can revive their agricultural tradition that is thousands of years old can the agricultural products be edible. Only then can urban folk not become victims. Look! Can you bear seeing all the obese children in Beijing? Can you not see that little girls are growing hair on the face? Is that not a result of taking in all the American junk food? We should be encouraging our peasants to engage in organic agriculture, using natural manure and biological pest control mechanisms; we should be reiterating to our peasants that reviving the traditional patterns of small peasantry in growing grain and raising pigs is organic agriculture, because organic agriculture had long been the tradition of Chinese peasants. Furthermore, growing grain and raising pigs at the same time helps the defense against cyclical price risks. Scholars who attempt to develop Chinese economic theories should theorize the law from the experience of how small peasants offset risks through a balance in farming and husbandry within the household. In fact, in the past, the Asian small peasant economies can be said to be harming the environment only in such acts as burning hay or wood; the peasants never used the high-cost energy of modern cities. Traditional agriculture was not at all wasteful of resources and was a classical agriculture of circularity. From today's point of view, they have created "pos-

itive externality” and ecological social effects. Only this mode corresponds to ecological economy and ecological culture.

At the same time, as much as possible, natural energy conducive to environmental protection should be promoted. For example, use of biogas, hydropower, wind and solar energy — these are all innovations in the field of rural reconstruction; we should help peasants understand the contamination of mineral energy and the damage to the ecology, so that we would not think comprehensive electrification is a perfect thing, so that we would not pursue in blindness the wasteful ways of the West.

Second, Peasants Should Organize Themselves

In the parlance of the World Bank development report, this means transforming human resources into social capital. Since many scholars have courageously acknowledged that there is no economics in China, we should make a special effort to construct an economics of development with Chinese characteristics, which means taking into account China’s dilemma of scarce resources and population explosion in developing a rural economics that corresponds to the special systemic conditions of internal-oriented industrial accumulation. There should also be a study of ecological culture that is congruent with such a system.

We must frankly tell our peasants that, first, China’s resources will always be scarce, and even if our urbanization goes over 55 percent, there will still be 700 million people living in the countryside, and most peasants will not be able to change the constraint of resources on basic livelihood; this will still be a stringent constraint that is fundamental and long-standing. Second, the 500 million people in the agricultural labor force must not be regarded as a burden and driven into the labor market in a race to the bottom. Under conditions of an absolute surplus and an infinite supply of labor force, the laborers will not earn much after a whole year of work. The government and the NGOs should be helping peasants to organize themselves and, through collective effort and cooperative labor, transform human resources into social capital, so that the surplus rural labor can be used for changing the conditions of the rural families and the villages.

At the time of the SARS outbreak, many journalists came to me. I said, do

you know how the problem of schistosomiasis in the 1960s was resolved? If not for the coordinated efforts of 600 million peasants in irrigation infrastructure, digging ditches, filling pits, do you think the problem could have been resolved at that time? Now, relying only on medical workers giving out medicine, can there be any resolution of the problem? Nobody in the whole world can resolve the problem of environmental protection for 900 million peasants by relying on external forces. We need to revive our agricultural civilization, with its legacy of thousands of years, and alleviate the dilemma of the Three Rurals through the regeneration of communal and collective civilization. We have set up rural reconstruction centers in order to organize volunteers and rural people who share such ideas to fill in the gaps in rural organizations and rural institutions and to inform peasants how they could self-organize, self-develop, self-accumulate, and live their lives in a pragmatic manner.

We have joined forces with several NGOs and, in cooperation with local peasants, established the James Yen Rural Reconstruction Institute (YIRR) in a village in Hebei Province, the same village where Dr. James Yen was engaged in rural development in the 1930s. We put together among ourselves RMB 90,000 yuan as a start-up fund and virtually started from scratch; we have counted on self-reliant ways of development through the contribution of volunteers and villagers. The volunteers from outside and the local peasants interact and communicate in the process of laboring together and learn of the strength of collectivity and cooperation. Furthermore, their production and daily life in the institute have been environmentally friendly, ecologically sound, and organically cyclical, in pursuit of sustainability.

Since 2007, China has put its emphasis on ecological civilization. The primary difference between the concept of ecological civilization and the former linear, monolithic way of thinking and acting modeled on the West is that its central substance is diversity and carries a lot of elements of our traditional cultures of Taoism and Confucianism, which have, of course, come from a small-peasant society with thousands of years of history. Hence, what I have been engaged in for the last couple of years is rural reconstruction, and this story, derived from the four cautionary stories I narrated, may be termed “rural reconstruction and environmental protection.”

Thank you.

Translated by Lau Kin Chi

Notes

This essay is based on a speech delivered by the author at the First Green China Forum, on October 25, 2003, in Beijing. Before its translation into English in January 2008, the author made some revisions based on the developments of the last four years.

1. Yan Zhijie of the Department of Economics, Peking University, and Lin Yifu of the China Center for Economic Research, had expressed such views on different occasions. Yen Zhijie, “A Brief Talk on the Building of Economics with Chinese Characteristics,” in *Guangming Newspaper*, October 11, 2005; Lin Yifu, *On Economic Development Strategies* (Beijing: Beijing University Press, 2005).
2. The ruling party in China formally put forward the term “New Countryside Construction” in October 2005 and formulated it as the state’s major strategy.
3. The author wrote an essay titled “Witnessing On-Site the Masked Army,” published in *China Reform*, no. 9 (2003).
4. For more information and analyses on the Zapatistas, see *The Masked Knight: Collection of Writings of Sub Commander Marcos*, ed. Dai Jinhua and Lau Kin-chi (Shanghai: People’s Press, 2006).
5. In 1998, affected by the East Asian financial crisis, China started to implement a “proactive fiscal policy” and sustained a gross domestic product (GDP) growth rate through large-scale state bond investments from the government. The same period saw successive increases in output of grain and, hence, starting from 1999–2000, the policy of conversion of cropland to forest and grassland for steep slopes over 25 degrees was implemented with financial subsidies. So long as the subsidies are there, the effect will be assured.
6. The term *Three Rurals* refers to rural population (the peasants), rural production (agriculture), and rural site (the countryside).

Within China, evaluating the experiences of the reform since 1978 is a hot topic among intellectuals. However, the economic theories in today's China are almost all imported from abroad and cannot adequately explain China's economic development. The author, having been long engaged in grassroots research work, tells four cautionary stories in order to expound on the question of the institutional cost induced by the "rural-urban dichotomy" and the fundamental systemic contradictions in China, as well as to discuss the rural reconstruction efforts that he has embarked on as an endeavor to resolve the systemic contradictions.

Story 1. The Story of the Zapatistas, the Masked Army: how the indigenous Indians have changed their ancient tradition of living in harmony with nature and are now "destroying" nature in order to farm and subsist.

Story 2. The Story of the "Straw-Hat Plot of Land": how the poor peasants in Guizhou Province in southwest China are compelled to farm on steep slopes, showing that China does not have an overall strategy that takes care of the nation's environmental protection and sustainable development.

Story 3. The Story of "Enclosures": how the grave traffic jams and air pollution in Beijing partly stem from a monopoly by the authorities over land and capital.

Story 4. The Story of Disease from Food: how food security is compromised with the excessive use of pesticide, chemical fertilizer, and heavy metal in farming and husbandry.

From the four cautionary stories is derived the Story of Rural Reconstruction, which the author has been engaged in, together with many volunteers, and which works for the integration of environmental protection and the reconstruction of rural culture. As Western-style modernization is not appropriate for China, which is superpopulous with extremely scarce resources, Chinese peasants should revive traditional patterns of small peasantry in growing grain and raising pigs at the same time and use natural energy conducive to environmental protection. Peasants should also organize themselves and, through collective effort and cooperative labor, transform human resources into social capital and use the surplus rural labor for changing the conditions of the villages. The James Yen Rural Reconstruction Institute (YIRR), set up in a village in Hebei Province, of which the author is the director, has been an experiment on self-reliant ways of development through the contribution of volunteers and villagers. Their production and daily life have been environmentally friendly, ecologically sound, and organically cyclical, in pursuit of sustainability.

Should China Develop Small Cities and Towns?

WEN Tiejun¹ (温铁军) and WEN Li² (温厉)

^{1,2}Agricultural and Rural Development College of Renmin University, Beijing

I. Background: why China plans to develop small cities and towns

The policy of “developing small cities and towns” came about through a process of compromise and reconciliation among different opinions. This process has demonstrated that independent innovation in policy making amongst Chinese academia is a long-term and complex task.

China’s concept of “urbanization”, as defined according to western experiences of modernization, is no different with regard to the urban-rural population ratio. China has made its own choice in realizing urbanization according to its national conditions. Specifically, China aims to develop small cities and towns as its own way of addressing the “Three Rural Problems” (agriculture, the countryside and farmers) and averting the emergence of slums and social imbalances that have been witnessed in other developing countries during the urbanization process.

Since China’s declared transition to a market economy in 1992, urbanization has been a topic of continued discussion in academic circles. In particular,

various opinions were put forward in 1998, when the strategy to develop small cities and towns was adopted at the Third Plenary Session of the 15th CPC Congress.

But the policy decision is not an endorsement of widely discussed efficiency of scale or other economic rationale, but more a recognition of the rapid growth of towns at and below county level. Small towns have thrived even without investment from the government. In 2002, while adopting a new strategy of building a “comprehensively well-off society”, the 16th CPC Congress emphasized the principle of balanced development to address the problem of dual urban and rural structure. This principle was incorporated as a major element of the “scientific outlook on development” at the Third Plenary Session of the 16th CPC Central Committee in 2003. Later in 2005, the policy to build a “new countryside” was issued to invigorate the local economies of towns at and below county level, thereby balancing out urban and rural development. In 2007, Chengdu City and Chongqing Municipality were approved as the two

pilot program sites for this comprehensive reform.

Nevertheless, debates are still going on despite the issuance of new policies.

(I) Mainstream opinions under debate

In general, there are two factions in favour of “big city” and “small town” development. These two factions can be broken down into at least six areas of identification: 1) “Metropolitan region”: drawing on the urbanization experience of Japan and Latin America; 2) “Large cities”: modeling analysis proves that maximum cost effectiveness can be achieved when a city’s population falls into the range of between one million and four million; 3) “Prioritize the growth of medium and small cities with populations of less than 300,000”; 4) “Prioritize growth of county-level towns”. This is because such county-level towns are the economic, political and cultural centres of the countryside and have a favourable influence on the development of surrounding rural areas; 5) “Small town strategy”. Since reform and opening-up, statutory towns have enjoyed the highest speed of growth, as they are the least restrained by old systems and a high proportion of their economies are privately run. The government should regulate and encourage, rather than discourage, their growth. Other debates include “centralized large and medium-sized cities versus scattered small towns” and “county seats versus statutory towns”. In addition, some scholars advocate the diversified pattern of large, medium and small-sized cities and towns.

(II) Debates on developing large cities

Most scholars who support efficiency of scale consider that China should expand large and medium-sized cities for the following reasons: efficiency of infrastructure investment, potential of attracting rural surplus labour, and significantly positive effects of driving up economic growth. A thriving urban economy and high employment rate is occurring during a time of high influx of rural migrants. Thus

not only do large and medium-sized cities have considerable potential for expansion, constraints for the growth of small towns can also be overcome to some extent. In recent years, some scholars have proposed that China is coming to the “Lewis” turning point, which means that urbanization has entered a stage of acceleration. Therefore, they argue, we need to speed up the reform and development of cities and totally eliminate barriers to the migration of the rural populace.

Some scholars hold that development of “small towns” is only the outcome of special historical circumstances and the division of rural and urban areas. Similar to scattered township enterprises, small towns are widely dispersed as well and cannot solely take on the mission of urbanizing hundreds of millions of farmers. The development of small towns cannot provide a fundamental solution to rural reform and development. Furthermore, over-emphasis on small towns will only lead to a “countryside syndrome”, which could be more threatening than urban problems.

The opposition to the expansion of large and medium-sized cities holds: due to the formidable dual structure between urban and rural areas, many obstacles to the free flow of factors cannot be removed on a short-term basis. Existing cities in China still have many drawbacks in terms of management mechanism and mode, infrastructure development, social security, and provision of public service. Therefore, under such conditions, the expansion of existing cities will only lead to a deterioration of the urban environment.

In particular, as more and more officials and scholars have learned during their overseas visits to developing countries, the random expansion of large cities there has already given rise to numerous slums and shanty areas that breed serious social instabilities such as mafia groups and crime. China should draw

lessons from them and avoid similar problems. Increasingly, people have realized that it is more realistic for China to develop small cities and towns at and under the county level at the present stage of building "a new countryside".

(III) Debates on small city and town development

Compared with large and medium-sized cities, China's small cities and towns enjoy three distinctive advantages:

First, the synchronization between employment growth of township enterprises and the increase of statutory towns has been an internal impetus to the "golden growth" driven by internal demand that began to appear in the 1980s.

Most annual statistics dated after 1949 indicate that China's urbanization lags behind economic growth. But following the initiation of reform in the countryside, township enterprises enjoyed very favourable conditions for development in 1985 and

1996. Industrialization in the countryside broke the iron wall that once separated urban and rural areas. By 1998, when China adopted a strategy to develop small towns, the added value of township enterprises accounted for as much as 27.9% of China's GDP. Township enterprises employed a total of 125 million labourers, or 35.7% of non-agricultural employment nationwide that year, of which 50% of new non-agricultural jobs in the countryside were created in and around county towns, statutory towns and market towns. Thus a rural township population of 170 million people appeared (including a standard urban population of 100 million).

These towns prospered primarily due to private investments. Each year, these towns received private investments worth 70-100 billion yuan, which means that 37% of China's urban population (using the same statistics as above) lived in small cities and towns with only 4%-6% of total investment for capital construction in the country. Small cities

and towns undeniably shouldered the pressures of large and medium-sized cities, compensating for the shortages of state finance, expanding the urban and rural commodities market, and pushing up demand for urbanization.

In the 1980s, the number of small cities and towns increased by a total of 8,192, but the rate of growth differed greatly over time. Between 1983 and 1986, township enterprises absorbed 13 million labourers a year, and at the same time, 1,600 towns were created annually. Between 1987 and 1991, township enterprises absorbed only 7 million labourers a year, and at the same time, a mere 350 towns were created annually. In the late 1990s, many township enterprises went bankrupt, and each year, fewer jobs were created than the level of the newborn population. The same period saw flagging domestic demand and rising public debts in the countryside.

The above situation tells us that the growth of small cities and towns is positively correlated with rural industrialization, and many experiences and lessons can be drawn from the township economic pattern that mainly comprise private investments. Correct guidance to promote small cities and town development is institutionally supported and will be helpful to fashion a long-term demand to expand investment, which will also alleviate financial capital surplus that is becoming increasingly serious.

Second, it takes lower opportunity cost for farmers to enter and leave small cities and towns. Small cities and towns are located much nearer to the countryside; therefore it is cheaper and easier to return home if necessary. Farmers will be less likely to form slums or cause social instability when they move to small cities and towns rather than large cities.

Therefore, the development of small cities and towns will have fewer negative impacts on urbanization than the development of large cities. According to a survey conducted by 11 ministries and

commissions in 1997, townships had a much higher employment rate than large cities. On average, each surveyed township had an employment rate of 71.6%, which was 23 percentage points higher than the average level of cities. Fifty percent of non-agricultural new jobs in the countryside are created in and around county seats, statutory towns and market towns.

Third, towns are more able to connect urban and rural markets and stimulate the growth of secondary and tertiary industries and SMEs (small and medium-sized enterprises) in the countryside. Driven by state support and long term investments, they may not only achieve the above-mentioned results but also absorb surplus rural labour and expand domestic demand by increasing farmers' income and consumption. In addition, the demands of local SME's can bring comprehensive benefits to county level economic development and have a positive impact on the cycle of the local economy. This is helpful in alleviating the pressures of population surge in large and medium-sized cities and according to the experiences of northeast Asian countries, is also favourable to maintaining stability against potential economic crisis arising from the impact of international hot money.

The opposition to the economic rationale of developing small cities and towns primarily come from scholars who have proven certain economic hypotheses with individual cases. For instance, some views hold that considering the low population level and scattered locations of small towns, the development of infrastructure is not a worthwhile task.

II. Challenges facing China's strategy of "developing small cities and towns"

Discussions on urban and rural dual structure started as early as the 1980s. This currently unbreakable obstacle stems from our national fate: for China, a country with a small-scale peasant economy, the rapid industrialization of cities is realized at the

cost of institutional imbalance. Despite the fact that China's economic achievements are unparalleled and many Chinese people are now enjoying modern consumption-led lifestyles, once incomes are divided on a per capita basis, China's high-ranking economy falls back to the status of a developing country. Moreover, due to the persistent institutional problem, 60% of the rural population still remain at a subsistence or semi-subsistence level and cannot enter the modern market. No matter how hard people try to westernize themselves, they do it in vain.

Since the adoption of the strategy "developing small cities and towns" in 1998, urban and rural disparities have continued to widen rather than narrow. As the strategy was intended to be a favourable policy for rural development, this is something more distressing than persistent academic debates. The compromise of different interest groups may not be an outcome of Pareto improvement.

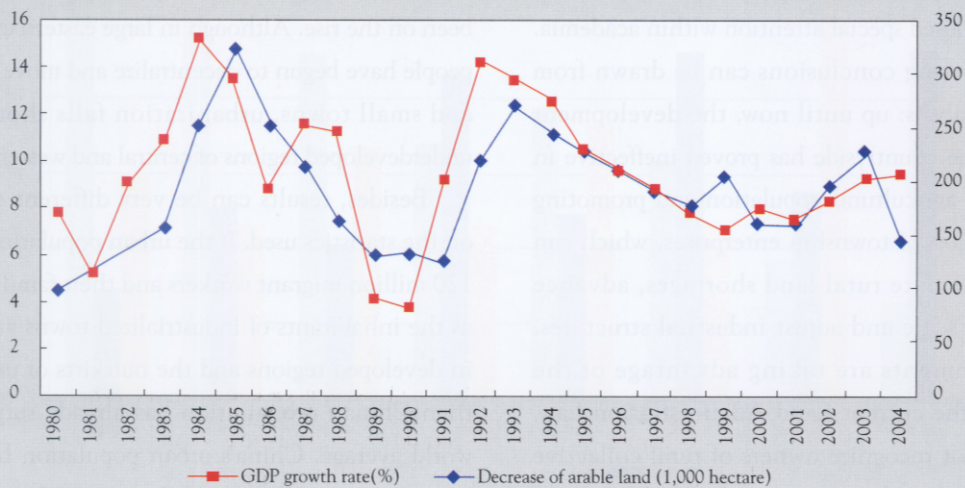
In discussions of recent years, I have stressed the following points on many occasions: firstly, there are no successful models of agricultural modernization in developed countries; secondly, there isn't a successful model of urbanization in large developing countries.

Hence, no matter which method is applied in the research of China's urbanization problems, the following constraints need to be taken into account:

First, China's urban and rural dual structure is a long-term antagonistic institutional contradiction. This is not only because China's population will not stop growing until after 2020, but also due to the fact that China is home to one third of the world's farmers, and no less than 500 million farmers will still be left in the countryside after 2020. More importantly, urban interest structures are deeply entrenched in cities and are rejective of farmers. Common experiences of urbanization (which in the context of this article means to create or expand medium and large cities) suggest that this is a radical approach for resource capitalization that excludes the welfare of agriculture, the countryside and farmers.

The last two decades have witnessed a greater outflow of net land, labourers and capital-three factors essential to agricultural development under a market economy-from the countryside. In addition, almost every cycle of economic boom caused the decrease of arable land at a faster pace than population urbanization, making it almost impossible for land

Figure 1. Economic growth and arable land decrease (1980-2004)



Source: China Statistical Yearbook, 2005

shortages in the countryside to be fundamentally resolved with reform and development.

Figure 1 indicates that over 25 years after reform and opening-up, each cycle of high GDP growth had witnessed a decrease of arable land.

We came to realize that during the rapid urbanization of the late 20th century, primary capital accumulation of local governments had led to the irreversible conversion of arable land on a large scale. Under current institutional mechanisms of constraint, governments at all levels have a high desire to reap huge revenues from the conversion of arable land for non-agricultural purposes. After the central government reclaimed financial rights, "land for cash" dealings between local governments and monopolistic capitalists continued to go unchecked. Moreover, under the effects of the internal mechanism of capital deepening and privatization reform, township enterprises became more capital intensive and less labour intensive. As a result, local non-agricultural employment of rural labour continued to decline year by year. In spite of ownership reform, enterprises originally located in the countryside didn't make the natural move into towns. Both the "land for cash" dealings of local governments and labour exclusion have cast a shadow over small town development but have rarely aroused special attention within academia.

The following conclusions can be drawn from the above analysis: up until now, the development of towns in the countryside has proved ineffective in absorbing the agricultural population and promoting the congregation of township enterprises, which can otherwise alleviate rural land shortages, advance economies of scale and adjust industrial structures. Local governments are taking advantage of the drawback of the current Land Administration Law, which does not recognize owners of rural collective land as having equal economic rights and interests. Specifically, rural land is appropriated at a low cost and

then sold at a high price, with all revenues going to local government. At the same time, high land prices in towns have discouraged farmers from moving there.

Second, China's urbanization is not backward. In academia, those who claim that China's urbanization lags behind industrialization cite the fact that the country's urban population still makes up a smaller proportion of the total population than the world average. Even though China's overall urbanization, which is recorded in the hukou system (household registration system), is below the world average, an objective view needs to be taken.

Many research articles simply ascribe the low urbanization level to the planned economy system of China's past. This correlation tends to mislead people into thinking that the market economy and the abolition of the hukou system are the answers to all these problems. But rather than being a hindrance to urbanization, the hukou system only aims to control the population size of large cities and prevent an urban population explosion. Due to significant regional disparities in large countries like China, urbanization levels vary greatly from region to region. A serious "big city syndrome" has already occurred in some parts of east China, where the tendency for counter urbanization that is typical of developed countries has been on the rise. Although in large eastern cities where people have begun to decentralize and move to suburbs and small towns, urbanization falls short in most underdeveloped regions of central and western China.

Besides, results can be very different depending on the statistics used. If the urban population includes 120 million migrant workers and their families, as well as the inhabitants of industrialized towns and villages in developed regions and the outskirts of urban areas, then China's urbanization has already surpassed the world average. China's urban population has already exceeded twice that of old Europe, or the total urban population of developed countries in the Pacific

Rim, and has become the largest urban population in the world. However, it is not feasible to expand the shouldering capability of cities in the face of increasingly limited domestic resources and an a high-consuming urban population.

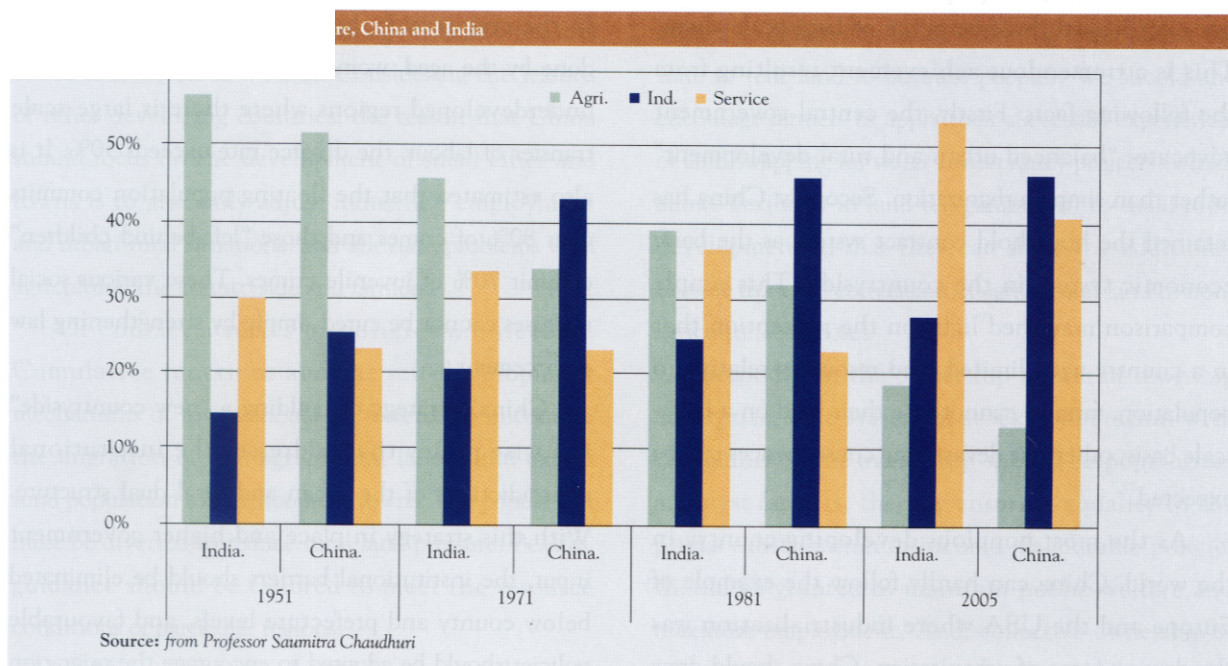
III. Lessons from other developing countries in urbanization

China's "three rural issues"(agriculture, the countryside and farmers) are shared worldwide. Solutions of universal applicability should have been found in relevant research. Whether in Asian countries like India, Bangladesh and Indonesia, or Latin American countries like Mexico and Brazil, similar problems are found in countries with a population of more than 100 million. This can be explained by the fact that regardless of the type of system, developing countries have to rely on gains in agriculture to complete industrialization. Labour, land and capital flow out from the countryside, making small-scale farming unsustainable. This cycle coincides with urban-rural polarization and

the widening income gap, which is the result of urbanization and industrialization. In some serious cases, these problems even halted the above countrie's modernization process.

Through site visits in many developing countries, I realized peasant uprisings and even "red regimes" controlled by guerrilla forces still exist in some developing countries. Admittedly, these countries are more privatized, democratized, liberalized and westernised than China. But of those developing countries with populations over 100 million, although most are not as restrained in terms of national resourees like China, and their per capita resource levels are much higher, no country has realized industrialization by relying on internal accumulation like China has. China has not only become an industrialized country with a manufacturing output ranking first in the world, but has also increased per capita output of main agricultural products to world average or above.

According to the changes of industrial structure in China and India over the past 55 years, India still



has a low proportion of industries and has not yet met all the conditions required for industrialization.

For most developing countries with a population over 100 million, rapid urbanization often goes hand in hand with the transfer of the rural impoverished population and the subsequent emergence of social problems. What's more, whether in India where urbanization is merely 30% or in Mexico where urbanization is as high as 70%, the problems are similar.

Mexico and Bangladesh both have a population of around 130 million, and according to various estimates in 2006, China had transferred some 180-250 million of the floating population from the countryside into non-agricultural sectors. In other words, in more than a decade, China has transferred a rural population larger in size than the total population of Mexico and Bangladesh or Brazil (180 million).

So far, China has not seen any guerrilla uprisings, mafia unrest or nationwide starvation as occurred in some parts of Latin America and the sub-continent of south Asia. In addition, China is the only country with a floating population of some 200 million that has not experienced the emergence of large-scale slums. This is a tremendous achievement resulting from the following facts: Firstly, the central government advocates "balanced urban and rural development" rather than simply urbanization. Secondly, China has retained the household contract system as the basic economic system in the countryside. This simple comparison may shed light on the perception that in a country with limited land resources relative to population, farmers cannot lose their land on a large-scale basis; otherwise devastating consequences can be expected.

As the most populous developing country in the world, China can hardly follow the example of Europe and the USA where industrialization was the driving force of urbanization. China should draw

experiences and lessons from the urbanization of large developing countries with populations of over 100 million. Indeed, positive changes are already taking place in China's documentary language with "Chinese characteristics" such as "emphasis on developing small cities and towns" and a "diversified path of development". Research on China's urbanization methodology should not only objectively view the selection of urbanization paths much discussed in academia, but also draw on the experiences and lessons of developing countries as well.

China is free from large slums partly due to the pendulum-like movement of the floating population, where rural labourers migrate between the countryside and cities on a seasonable basis. But China also has a huge institutional cost born by its people: firstly, there have been early signs of large slums. In Beijing, the reason that "Henan village" in Chaoyang District and "Wenzhou village" were forcefully resettled was because they were similar to, or starting to evolve into slums like those of other developing countries. Secondly, rural migrants and their families and communities have shouldered tremendous costs. In the countryside, heavy manual work has to be done by the aged, women and children, and in some underdeveloped regions where there is large-scale transfer of labour, the divorce rate exceeds 50%. It is also estimated that the floating population commits over 80% of crimes and those "left-behind children" commit 70% of juvenile crimes. These various social malaises cannot be cured simply by strengthening law enforcement.

China's strategy of building a "new countryside" is a wise policy that addresses the institutional contradictions of the urban and rural dual structure. With this strategy in place and higher government input, the institutional barriers should be eliminated below county and prefecture levels, and favourable policies should be adopted to encourage the migration

of the rural population to central towns including county seats. Through low-cost town development and with self-governing village administrations, our vision is to alleviate the problems with agriculture, the countryside and farmers in a step-by-step fashion. In this way, guided by the “scientific outlook on development”, conditions will be created to enable the sustainable development of agriculture.

IV. Policy recommendations

(I) Purpose of the strategy of developing small cities and towns

Urbanization is not an end in itself. As far as resources, institutional and environmental constraints are concerned urbanization focusing on small cities and towns is a means to an end. Considering the lessons of other developing countries, the reason that China should focus on the development of small cities and towns is to gradually adjust industrial, employment and urban-rural situations, and alleviate problems with agriculture, the countryside and farmers.

Of course, a series of policies are needed. Cumulative functions and the self-development mechanisms of towns should be fostered to encourage the migration of non-agricultural labour and excess rural population to neighbouring towns. The population must be diverted to reduce rural land pressure. Besides, guidance should be tailored to meet the resource conditions of particular regions.

(II) Address property rights issues related to

urbanization

The key of the small city and town strategy is to intensify reform on the ownership of rural land and township enterprises.

Firstly, small-town land ownership must respect the rights and interests of community members as property owners. For rural land allocation at and below county level for purposes including small town development, more flexible ways of land use must be

allowed under the precondition of unified planning. We should introduce stock cooperation of land for capital infrastructure construction and lease land for commercial and industrial projects (the former allows owners to obtain dividends, while the latter allows the state to rent land to business people). We should and encourage farmers to apply their successful experiences of land swapping for water conservancy projects (which allows flexibility in land reorganization) to small town development so that they can share the additional income from the conversion of agricultural land to non-agricultural purposes.

Secondly, in the ownership reform of township enterprises, the system of stock cooperation with community joint ownership should be popularized amongst farmers, thereby ensuring equality in the primary distribution of income. Favourable policies should be granted to maintain public welfare and maximize employment. And, collective ownership of assets occupied by town governments below county

level should be redefined through asset liquidation, audit and stock cooperation.

(III) Central towns are key to building a “new countryside”

In recent years, most towns have been created through the combining of townships (townships are of lower level than towns), resulting in quantitative rather than qualitative growth. Thus more emphasis should be given to the actual development of central towns, including county seats, in undeveloped regions. In fact, more than half of all townships across China have already been combined. The number of townships, which reached 90,000 in 1984, has been reduced to less than 40,000. Suppose 10,000 central towns are created in the coming 13 years, which would mean an average of three to five central towns for each county or prefecture, then 200 to 300 million of the rural population could be transferred to towns before 2020. By the investment standard of 100 to 200 million yuan for the construction of each square kilometre of town area, it would take an investment of one to two trillion yuan to build all these central towns. Taking the impetus

effect into account, a minimum total investment of 300 billion yuan per year would be necessary to stimulate the market consumption of tens of millions of the urban population. This may make small town development a long-term factor of economic growth driven by domestic demand.

(IV) Reform local governance structure and balance the relationship between statutory towns and village self-governance

Innovation should be allowed in the administrative systems of small towns according to their local conditions. The self-governing principle may be experimented with in statutory towns below county level. Sharing financial rights with higher-level government, statutory towns should also be entitled to reduce or merge their own agencies and formulate their own staff quota. Regardless of institutional procedures, the jurisdiction of statutory towns must be integrated with the villagers self-governing system and must not interfere in village affairs or go against the laws of self-governing villages, nor raise funds for town construction in any way that may exploit farmers or rural areas.

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Abstract:

Given its national conditions, China cannot simply copy the European and American model of modernization, which was driven by industrialization. The Communist Party of China adopted a “small city and town” strategy in 1998 in recognition of the success of towns that thrived even without state investment. However, this development strategy also faces a series of challenges.

China should draw on international experiences and prevent the emergence of social malaises such as slums, mafia groups and crimes that occurred in some other large developing countries with a population of above 100 million. The key to developing small cities and towns in China is to reform the ownership of rural community land and township enterprises, reform local governance structure, and balance the relationship between statutory towns and village self-governance.

Key words:

Small town strategy; Urbanization; International comparison; Slums.

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Sit Tsui

Du Jie

Lan Yonghai

Dong Xiaodan

Erebus Wong

Wen Tiejun

Abstract

On the basis of an understanding that the crises of core nations are being transferred to developing countries and thus globalized, this article highlights two issues, the 'sovereignty externalities' borne by developing countries and the 'currency-strategy' of the superpower in financial capitalism. These are the causes of the predicament with which

Sit Tsui is Associate Professor at the Institute of Rural Reconstruction of China, Southwest University. Email: sittsui@gmail.com; xuecui@swu.edu.cn

Du Jie is Lecturer at the Institute of Rural Reconstruction of China, Southwest University.

Lan Yonghai is a PhD Candidate at the School of Agricultural Economics and Rural Development, Renmin University of China.

Dong Xiaodan is Lecturer at the School of Agricultural Economics and Rural Development, Renmin University of China.

Erebus Wong is Senior Researcher at Lingnan University.

Wen Tiejun is Professor and Executive Dean of the Institute of Advanced Studies for Sustainability, Renmin University of China, and Executive Dean of the Institute of Rural Reconstruction of China, Southwest University.

developing countries are faced today. Furthermore, to illustrate how manufacturing countries bear the international institutional costs of global financialization, we further elaborate the 'international competition smiling curve'. This article elaborates these theoretical issues with reference to China, South Africa and Venezuela.

Keywords

Sovereignty externalities, currency–strategy, 'international competition smiling curve', development trap

Introduction

On the basis of an understanding that the crises of core nations are being transferred to developing countries and thus globalized (Wen 2012), this article highlights two issues which are at the heart of the development trap today: the 'sovereignty externalities' borne by developing countries and the 'currency–strategy' of the superpower in financial capitalism.

By 'sovereignty externality' we mean the innate institutional defect in sovereignty which results from the international political 'transaction', through non-violent negotiation, by which 'legitimate' independence is obtained. During the negotiation for political sovereignty, a developing country not born of violent revolution often concedes part of its economic or resource sovereignty to its former suzerain, or to transnational capital. A nation–state formed at the price of economic concession suffers an intrinsic institutional defect in its economic sovereignty, or 'sovereignty externality', in terms of its resources or currency. The more a developing country strives to satisfy the requirements of the West in building its institutions, the more likely it is to get caught in the 'development trap', in its economic base, for sovereignty externalities are difficult to resolve.

In this article, we will illustrate how sovereignty externalities have varied between three countries, China, South Africa and Venezuela. Among these, China is the country which obtained complete sovereignty by revolutionary means and a full land redistribution programme which installed a peasant path of development. This has reinforced national sovereignty, and protected it in period of crisis. Venezuela and

South Africa have suffered negative sovereignty externalities, but the Bolivarian Revolution in Venezuela has recuperated national sovereignty by means of restoring control over energy resources and revenues. By contrast, South Africa has conceded its natural resources to transnational capital and compromised its sovereignty in its transition to black majority rule.

By 'currency-strategy' we mean the transfer of mammoth sovereignty debts by the superpower to the global economy. This 'soft power' manoeuvring by the superpower releases excess liquidity into the world's energy and staple foods markets in order to secure its currency as the world's reserve currency. This inevitably results in global inflation and the accompanying crisis. Furthermore, to illustrate how developing countries bear the international institutional costs of global financialization, we elaborate the 'international competition smiling curve'. This represents the contemporary scenario of financial capitalism, which distributes costs differentially to financial, industrial, and resource extraction activities. In this scenario, China, as a manufacturing country, has been prejudiced by financial capital and rising energy prices, which, in turn, benefit countries such as Venezuela that have restored their control over oil revenues. South Africa is the case which continues to suffer the most by conceding control of its natural resources to transnational capital.

Sovereignty externalities and currency-strategic issues are the major reasons why developing countries find it hard to get out of the development trap. Dealing with these issues is the pre-condition of overcoming the historical conjuncture represented by the 'international competition smiling curve' in the stage of financial globalization. China, especially, has to make use of its internal advantages to forge a new eco-friendly development path and also promote development in peripheral regions, which in turn will restore its own currency-strategic security.

China's Land Revolution Bonus

In the contemporary history of national independent movements or civil resistance, China's experience is quite exceptional. It is rare to find a country that has achieved a nearly complete sovereignty through the

mobilization of the peasantry—the majority of the population—for a revolutionary war. A new government built by people through revolution can have the legitimacy to smash the old regime and overthrow the institutions and laws of the alliance between bureaucrat-capitalists and foreign capitalists who have appropriated a major portion of the gains, while transferring the costs to society. The new regime can confiscate all properties and directly control all economic resources to appropriate the gains. These institutional gains of compulsory institutional transition achieved by countless sacrifice by the peasants can be termed as ‘revolution bonus’, free of negative sovereignty externality. This bonus is to be enjoyed by the majority of the people and its future generations, without compensating the original property owners.

After the success of the land revolution in 1949, China launched an agrarian reform which benefitted 85 per cent of the country’s peasants. Every household received a small patch of arable land, although the per capita cultivated land was less than one mu (0.067 hectares). In reality, a majority of the population owned a small amount of property. That is why when Mao Zedong was interviewed by the American journalist Edgar Snow in 1970, he remarked: ‘China is an ocean of small bourgeois’. The small plot of arable land has become the last safety net for the peasants. Accordingly, China has become the world’s largest petty bourgeois country established through agrarian revolution.

The agrarian reform of 1949 was not the only occasion. Whenever China was confronted with economic crisis during its primitive accumulation for industrialization in the urban sector, the government would undertake the political measure of equally distributing land to the peasants. For instance, when the Soviet Union withdrew its investment and technological aid in 1960, the crisis of urban industrial capital broke out. Thus, in 1961, the government proposed the People’s Commune Ordinances, which recognized the peasantry’s entitlement to arable land in various forms. Similarly, the foreign debt crisis that occurred in 1980, due to the large-scale introduction of capital from the advanced countries, was resolved in 1981 by the ‘household contract responsibility system’, by which arable land was once again equally distributed to the peasants. And when the Asian financial crisis burst in 1997, the government once again undertook similar measures to ameliorate the situation: the ‘second household contract responsibility’ in 1998 redistributed arable land according to household size. Thus,

the peasantry's entitlement to land has been formally assured to be permanent (Wen 2010).

After having accomplished its primitive accumulation for industrial capital and formed a complete industrial structure, China moved toward capital expansion. The so-called high growth rate China has achieved is to some extent still based on the revolution bonus of 1949, which is the institutional foundation of the world's largest petty bourgeois society, forged through an agrarian revolution. On the other hand, a dual rural-urban structure has taken shape during the primitive accumulation for industrialization. In this structure, the urban sector constitutes the capital pool, whereas the rural sector is its labour pool. This dual structure constitutes the base of China's so-called economic 'comparative advantage'.

First, almost 100 per cent of the peasants, who comprise the majority of the population, own their house and land. That makes China different from other developing countries. Although there is a poor population, there is not a condition of absolute poverty to be found in China. Furthermore, private home ownership has reached 89 per cent of the population. The number is higher than the advanced countries. However, home ownership is not categorized as a private asset in the rural areas in China. Although radical market reforms since the 1990s have led to an increasing relative poverty rate and the polarization of rich and poor, rural society in China has remained relatively stable.

Second, the 'rural labour pool' during the last two decades of market pricing of excess labour, has for a long time provided the cities with a large-scale flowing labour force whose cost of social reproduction and social security is low. It is also not generally confrontational. Although the peasant workers have been suffering unfair treatment, which has led to many cases of labour-management strife, their innate 'oriental peasant household rationality' has discouraged them from advancing a union movement guided by Marxist theory, unlike the experience of class politics in the West in the nineteenth century. At present, there are about 200 million rural households and over 200 million peasant workers in China. It is only after these people settle in the cities that the peasant workers will emerge as the working class in the real sense.

The above factors are the main reasons why China can manage to escape the development trap on both of the two occasions of extraneous economic crisis since it embraced globalization 20 years ago.

South Africa's Negative Sovereignty Externality

In 1955, after extensive grass-roots consultation, the African National Congress (ANC) announced the Freedom Charter (ANC 1955) which advocated that:

[t]he national wealth of our country...should be returned to the people; the mineral wealth beneath the soil, the Banks and monopoly industry shall be transferred to the ownership of the people as a whole; all other industry and trade shall be controlled to assist the well-being of people.

Other initiatives included free education, accessible drinking water, affordable electricity, inhabitable living conditions and the right to work. For decades the Freedom Charter had been the guideline for anti-apartheid struggle. It was nothing less than a manifesto of a national democratic revolution.

In the early 1990s, the white government negotiated with the ANC and finally agreed to give up the political privileges enjoyed by the white population on the condition that the new government accept a series of neoliberal economic guidelines, such as an independent central bank, free from the government's control, which amounted to depriving the government of power in terms of financial policy. South Africa had to partake of globalization and joined the General Agreement on Tariffs and Trade (GATT, the predecessor of WTO) on unfavourable terms, such as not being allowed to subsidize industry. The government was consequently handicapped in creating employment opportunities. South Africa also accepted the IMF loan conditionalities and had to suppress wages and government expenditure. Under the guidance of the World Bank, the privatization of public services such as drinking water and electricity was advanced.

Furthermore, the new government was made to commit to paying back the foreign debts contracted by the white minority government during apartheid (about US\$25 billion) on the pretext that it would reassure foreign investors and bolster their confidence. The black majority had not benefited from these debts in the past, but was now being made to pay the bill.

A sovereignty formed in this sort of transaction is characterized by substantial negative externalities. The ANC was not able to fulfil the vision of the Freedom Charter by bringing the mining sector under public

ownership. Instead, the government had to privatize national assets in order to repay the debts (US\$4.5 billion per year). At the same time the new government had to maintain a pro-capital policy and relaxed restrictions in the financial sector by allowing South Africa's enterprises to be listed overseas and to move their headquarters abroad. South Africa's economy is highly financialized, having one of the largest real estate bubbles in the world. On 26 February 2009, an article by *The Economist* entitled, 'Domino Theory: Where Could Emerging-market Contagion Spread Next?', ranked South Africa as the riskiest among 17 emerging economies.

Since the ANC took power in 1994, the government has formally succeeded in wresting parliamentary politics from the hands of the whites but failed to really take over economic and resource sovereignty. As a result, the greatest part of the agricultural land and mines are still owned by the white population, which accounts for 14.1 per cent of the total population but owns 87 per cent of the land. By contrast, the black population, which accounts for 74.8 per cent of the population, owns less than 13 per cent of the land. In 2009, merely 8.9 per cent of the mining sector belonged to blacks. In 1990, the average area of farms owned by the white population was 1462.15 ha, while that of the black, only 1.16 ha. There existed a huge difference in terms of population density in the settlements for the white as opposed to the black population. According to Sun Hongqi (2011: 12–13):

In 1985, the population in the black homelands was 14,017,000. The total land size was 16,318,000 ha; the per capita area was only 1.16 ha. In the 90s, the total population of the six homelands that had not claimed independence was 7.01 million, while the total land size was 8.83 million ha; the population density was 86 inhabitants per square km. Even if all of the towns, roads, rivers and deserts are taken into account, the per capita land size was merely 1.26 ha, only 0.34% of that of the white population.

The government aims to transfer 30 per cent of the 82 million hectares presumed to be in the hands of white farmers, amounting to 24.5 million hectares, to black farmers by 2014. However, only 6.7 million hectares had been transferred by early 2012, via redistribution and restitution.

Lacking complete economic sovereignty, the achievements of the ANC since it began its rule in 1994 follows (Bond, Sharife and Hargreaves n.d.; Klein 2007):

1. In 1994–2006, the population in absolute poverty (income less than US\$1) increased from 2 to 4 million.
2. In 1995–2005, the average income of black households decreased by 1.8 per cent, while that of whites increased by 40.5 per cent.
3. The black unemployment rate has risen up to 28 per cent (although the real number should be higher, for in official statistics, begging, living by hunting or planting one's own food are also listed as employment).
4. In 1995–2006, the Gini coefficient rose from 0.56 to 0.73, while in 2009 it was still as high as 0.63, South Africa being the second most unfair country in terms of wealth disparity.
5. The ANC has built 18 million low quality houses as a means to promote the economy, while 2 million people have been homeless.
6. In 2006, over a quarter of the population lives in slums.
7. In the first 10 years of the new democratic rule, a million have been expelled from the farming land.
8. The water supply was cut to 1.5 million households who could not afford the bill, as a result of the privatization of drinking water.

In essence, South Africa had been an internalized colonial economy under apartheid, as the white government was in fact a post-colonial regime. The black population had suffered from super-exploitation for years. Therefore, the aim of the anti-apartheid struggle should have been the economic empowerment of black people. Before the 1980s, South Africa's economic policy was typically mercantilist. Today, although the black population has taken over the political regime through struggle, the ANC has given up most of its economic sovereignty in the negotiations. As a result, South Africa adopted neoliberalism without having gone through liberalism. Politically, the black people enjoy formal civil rights (the right to vote, civil liberties) but in the economic realm, apartheid still persists. What the black government has taken over is in fact an empty political shell.

Under the impact of negative sovereignty externalities, the racial conflict has turned into class conflict after the establishment of black rule. The Marikana Platinum Mine incident is a case in point: on 16 August 2012, police opened fire against striking miners armed with machetes

and clubs, leaving 34 dead and 78 injured. It has been one of the bloodiest police operations since the official abolishment of apartheid.

The problem of sovereignty externalities is quite common in developing countries. Nonetheless, there are instances in which economic and resource sovereignty is taken back through national democratic revolutionary struggle. Venezuela is a typical case.

Venezuela's Bolivarian Revolution

Venezuela was one of the more developed countries in Latin America. In 1960, the per capita income of Venezuela ranked eighteenth in the world. However, with oil as the mainstay of the national economy, the extraction and trading of oil, and its revenues, had been mainly controlled by transnational corporations. The situation was similar to other Latin American countries relying on natural resources, which suffered from innate negative sovereignty externalities.

Consecutive Crises and Regime Rotation

After the oil crisis of the 1970s, Venezuela's per capita income fell to the fortieth place in the world ranking. The 1980s was the lost decade for Latin America, and Venezuela was no exception. The decline of the price of oil caused export revenues to shrink and the foreign debt to increase, thus adding to economic difficulties. At the end of the 1980s, Venezuela was forced to give up the decades-long development model of import substitution, and adopt the market and export-oriented model. In 1990, its per capita income fell further to the seventy-second place. In the 1990s, Latin American economies saw a recovery. In Venezuela, the income gap between rich and poor widened, as the country went through socio-economic adjustment. The living standards of the poor deteriorated. The decade can even be considered as the second lost decade for the country. The average annual growth rate during this period was 2 per cent, not only lower than the regional powers but also the regional average. The unemployment rate remained high (see Table 1), while the poverty rate increased from 40 to 49.4 per cent in 1990–1999.

Table 1: GDP Growth Rate and Urban Unemployment Rate of Seven Latin American Countries, 1981–2000 (per cent)

Country	Average GDP Growth Rate		Average Urban Unemployment Rate, 1991–2000
	1981–1990	1991–2000	
Argentina	-0.7	4.2	12.7
Brazil	1.6	2.6	6.0
Mexico	1.9	3.5	3.6
Chile	3.0	6.6	7.5
Colombia	3.7	2.6	12.5
Peru	-1.2	4.2	8.7
Venezuela	-0.7	2	10.7
Average	1.2	3.3	7.4

Source: La Comisión Económica para América Latina (CEPAL) (2008: 85, 89).

Due to the impact of the Mexican financial crisis, dozens of Venezuelan banks were closed down in 1994. The country experienced the most severe financial crisis in its history. In the face of this, the government adopted fiscal retrenchment measures by cutting expenditures, increasing the state revenues, tightening credit, and imposing foreign exchange controls and price regulation. After two years, the crisis was under control, and three consecutive years of negative growth also ended.

In April 1996, the government cancelled foreign exchange controls, began the deregulation of interest rates, and raised the oil price and tax rate. In order to mitigate the negative effects on the public, the government launched a series of social compensation measures at the same time. The new economic plan was accompanied by a preliminary agreement on a US\$3.3 billion loan by the IMF, World Bank and the Inter-American Development Bank.

At the end of 2001, under the domino effect of the Argentine financial crisis, Latin America sank into recession (GDP growth rate in 2001 was 0.4 per cent and in 2002, -0.4 percent), and Venezuela was once again affected. If Latin American countries are described as victims of neoliberalism, then Venezuela was among its most grievous. The total

failure of neoliberal reform in Venezuela and its consequences, such as severe social injustice, contributed to the triumph of the leftist leader Hugo Chávez in the presidential election of December 1998. He was deposed in a military coup, but thanks to the support of tens of thousands of people living in slums, who bravely braced themselves against the military threat, he managed to resume power. As a staunch critic of neoliberalism, he considered the reform to be a form of imperialist exploitation of Latin America. Neoliberal policy and globalization, as advocated by the dominant countries, have debilitated and destabilized Latin American economies. As an alternative to the capitalist system, he embarked upon a new programme which he called 'Twenty-first Century Socialism'.

The major contents of his government have been the advancement of participatory democracy, by mobilizing people at the bottom of society, and the nationalization of the oil industry to strengthen economic sovereignty and state control over revenues. Venezuela today makes use of the premium revenues of a high oil price to expand social investments, promote endogenous development, change the economic development model, reduce the gap between rich and poor, and mitigate social injustice. The country has also initiated the *Alianza Bolivariana para los Pueblos de Nuestra América* (ALBA) as an alternative to the Free Trade Area of the Americas (ALCA) led by the dominant countries in the region. ALBA advocates and promotes solidarity and the cooperative integration of Latin America.

Following the pioneering effort of Venezuela, other leftist governments in Latin America have come up with a similar reform plan, such as Bolivia's Communitarian Socialism and Ecuador's Twenty-first Century Socialism'.

Venezuela Regains the Oil Resources Sovereignty and its Effect on National Welfare

After the approval of the Bolivarian Constitution of Venezuela by public referendum in 1999, the Organic Hydrocarbon Law was enacted. Article 12 of the Constitution of the Bolivarian Republic of Venezuela (MINCI 2006) calls for the following:

Mineral and hydrocarbon deposits of any nature that exist within the territory of the nation, beneath the territorial sea bed, within the exclusive economic zone and on the continental shelf, are the property of the Republic, are of public domain, and therefore inalienable and not transferable. The seacoasts are public domain property.

Oil deposits belong to the Republic, and the Venezuelan state, for its part, grants exploitation rights to joint ventures. This law made it possible to establish joint ventures. Since in such ventures the state retains more than 50 per cent of the shares, it was able to take a leading role in shareholders' meetings and, therefore, influence decisions on the development of its own activities. Two years later, in 2001, the oil extraction royalties were raised from 16 to 30 per cent.

In April 2005, within the framework of the Oil Sovereignty Policy, the Ministry of Oil instructed the Board of PDVSA (Venezuela's national oil company) to correct omissions or faults of each and every operational agreement concerning hydrocarbons, and to evaluate legal mechanisms to extinguish said agreements within a year. In order to achieve this, in March 2006, the National Assembly (National Congress) passed and published in the Official Gazette No. 38410, the terms and conditions for the incorporation and operation of joint ventures, as well as the model contract for the conversion to joint venture that would be signed with the interested private entities (IOCs).

The year 2007 marked the end of the process of formation of new joint ventures within the framework of the nationalization of the Orinoco Oil Belt, as per the Decree-Law on Migration to Joint Ventures of the Association Agreements of the Orinoco Oil Belt, No. 5200, dated 26 February 2007. This was an historic step toward the consolidation of national sovereignty in the oil sector. With the New Legal Framework and the migration of the operational agreements to joint ventures, the nation has regained control over the oil industry, and has increased tax collection for social development programmes. The state receives 23 per cent more in additional incomes, due to the new fiscal regime and legal framework.

All these additional incomes have been invested in several social projects in different sectors, such as infrastructure, transport, education, health, sport and housing, which have had a positive impact on macro-economic and social indicators. Also, there have been improvements in

other economic indicators, such as the unemployment rate and welfare expenditures as percentage of total expenditures, among others.

The social impact is tangible when we analyze the most important social indicators, such as the Human Development Index, the Gini coefficient, and the percentage of people in poverty. Among the achievements that deserve to be mentioned are (Huang 2012; Rivas and Revello n.d.; Wang 2007):

1. In the fight against poverty, the number of people in poverty was reduced by half, one of the UN Millennium Goals, by 2009.
2. In education, the increase in enrolment rates in primary, secondary and tertiary levels; the eradication of illiteracy in 2007, through Mission Robinson, which brought basic education to the people; the creation of the Bolivarian University of Venezuela and strengthening of the Technical University of the National Army, both with several units across the country, to obtain the second place in the ranking of university enrolment rates among Latin American countries, and the fifth worldwide.
3. In health, the strengthening of the health sector by creating primary health centres in poor neighbourhoods, integral diagnosis centres, popular clinics and the building of the Latin American Child Cardiology Hospital, among other initiatives.
4. In transport, the construction of six subway lines in three major cities, three cable car lines in the capital, two railway lines, and the second bridge over the Orinoco River, while a third is in progress.
5. In sports infrastructure, the construction of nine new soccer stadiums, each with a capacity of more than 30,000 people, to host the Copa America in 2007, the oldest soccer tournament in the world.
6. In technology, the launching of a satellite.
7. In power generation, the construction of one hydroelectric plant along the Caroni River, at a total cost of US\$2.5 billion, which added 2,280 megawatts to the national electric system, and a new hydroelectric plant in progress in the Caroni River, which will add 2,000 megawatts by 2014, at a total cost of US\$5.9 billion.

In summary, after Venezuela successfully regained its resource sovereignty, the oil industry has become an engine for the development of the country and its people. While transnational oil companies were exploiting natural resources for profit, the state-owned oil industry is contributing to the country's sustainable development. PDVSA, under the new legal system, has contributed to the improvement of the welfare of all Venezuelan people by building infrastructure and financing social programmes which have resulted in a remarkable improvement in the development of the people's living standards.

We need to go further in understanding the experience of Venezuela in overcoming its economic crisis and political transformation. Venezuela nationalized most of its oil before the 2008 financial crisis, when the advanced countries poured an enormous amount of excess liquidity into the global markets to save the financial system, which caused energy prices to soar. Venezuela therefore seized the historic opportunity to reap the premium of a soaring oil market. Venezuela's national revenues benefit from price-hikes in the international oil markets. The government makes use of these increases in revenues to invest in various social projects. The Bolivarian Movement, which is initiated and sponsored by the government, mobilizes thousands of volunteers to the destitute communities and promotes participatory small-enterprise community-building that lays the economic foundation for people's self-empowerment. In this way, the government increases investment into improving the infrastructure of slums and constructs the social basis for economic autonomy.

The substantial content of Chávez's Bolivarian revolution, which the Western media is eager to indict, essentially involves reclaiming from the hands of foreign capital its economic sovereignty through a peaceful rotation of regime. The state thus appropriates its resources and the related revenues and uses them to improve domestic welfare. This experience can serve as an elaboration of our analysis of the problem of 'sovereignty externalities' of developing countries. This case demonstrates that this externality can be amended by political measures which sometimes involve national and democratic revolution. It also alerts us to the fact that any revolutionary practice to reclaim a nation's economic sovereignty may lead to a confrontation with the national and corporate interests which such an action would jeopardize.

Venezuela's experience is particular in developing countries. It can be contrasted with the case of South Africa mentioned above in which the right to control the nation's economic resources was lost in the 'transaction', seemingly as a quid pro quo for political sovereignty. The different experiences of these two countries therefore constitute a ground for further comparative studies.

Through the above comparative case studies we come to two conclusions. First, whether a developing country can break through the development trap very much depends on whether its people can liberate themselves from Eurocentric dogmas, and whether the respective national governments possess the conditions to absorb by means of internalization the social costs and the externalities caused by the concentration of capital and the subsequent risk.

Second, an independent country which gains a complete 'revolution bonus' through a national democratic revolution—that is, achieves economic and political sovereignty—is free from the predicament of negative sovereignty externalities. However, it must, at the same time, confront the all-around hostility of its former suzerain and political bloc in exile, because the assets previously owned by foreign transnational corporations and the domestic bureaucrat-capitalist class have been confiscated. This confrontation makes it imperative to turn conspiratory manoeuvring into explicit strategy that is being incorporated unquestioningly into discourses of science, education, and culture, among others, in order to maintain its political correctness. What we witness is the ideological confrontation of 'soft power' that not only occurred during the Cold War, but also continues at present.

Nevertheless, we discover in the above case studies that the intellectuals in developing countries who are responsible for the production of knowledge are themselves an interest bloc. They are shaped by colonialist education and cultural edification and thereby enjoy part of the benefits together with the former suzerains or transnational capital. This soft power control is so ingrained in their heart and soul that 'elites capture' is a common situation in developing countries. The intellectual elites of developing countries who are perplexed by the soft power will find it difficult to face up to the fact of their respective country's predicament in the development trap due to negative sovereignty externalities.

If the developing countries are willing to shake off the shackles of Western soft power, they may come to an understanding. East Asia is

the only region in the world that has been impacted directly by China's agrarian revolution, entailing 'compulsory institutional transition' and egalitarian distribution of land to the peasants. This institutional transition, which was influenced and driven by China's revolution bonus, became the pre-condition of the industrialization of East Asian countries, one by one. This has been the case regardless of which kinds of Western ideologies or political systems these countries have claimed to follow.

Accordingly, a rational understanding of the real predicament facing developing countries becomes a great historical task we have to bear.

The International Competition 'Smiling Curve' Under the New Currency-Strategy

During the stage of commercial and industrial capitalism (also the age of colonization), the homogeneous expansion of capital became the crux of an international relationship which was aimed at the geostrategic control of resources. Since the 1970s, financial capital has become the core factor in the creation of a new international division of labour and distribution. Currency power has therefore surpassed geostrategic power as the new pivot of international relations in the age of financial capitalism.

The core nations dominating the globalization of financial capital have been forging their institutional and discursive powers since the Second World War. They can thereby maximize their strategic interest and the profitability of their capital, while transferring the institutional costs, and the costs of the financial crisis generated in the process, to developing countries, as well as to the environment and eco-systems.

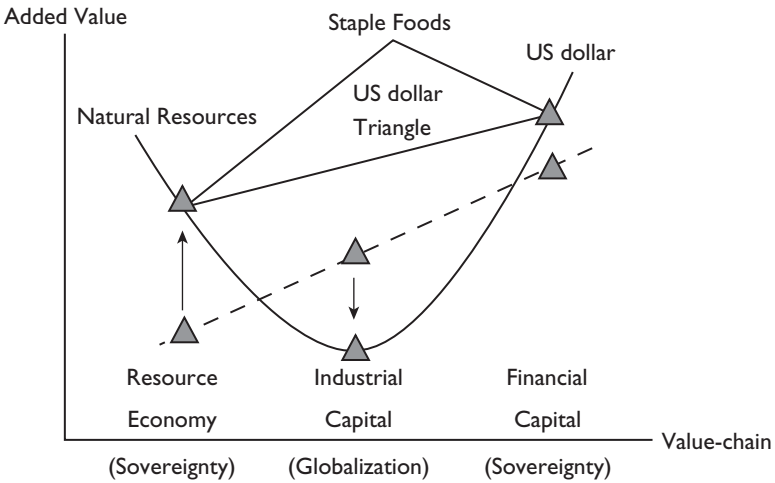
The advanced countries manage to maintain low inflation rates, and, hence, low interest rates, thanks to the massive amounts of low-priced commodities imported from developing countries. With their currency dominance, they can enjoy a competitive edge of low-cost finance, and thereby double their gains in developing countries. On the one hand, low interest-rate investments can earn higher spreads in developing countries, which generally have to maintain higher interest rates in order to attract foreign investment. On the other hand, the relative appreciation of the exchange rate of the investor's currency obliges developing

countries to acquire appreciated foreign exchange to pay off debts. The investments by the countries with currency hegemony therefore render accumulated foreign debts in the developing countries. The investor country can enjoy higher profitability in developing countries. It thus helps the dominant countries to form long-term institutional gains in capital markets and attract great amounts of financial capital into the stock market. A manifestation of this is the Dow Jones Index, which remains at a high level despite a sluggish domestic economy.

The contemporary currency–strategic structure of financial globalization has determined the relationship between the hegemonic–currency nations, the manufacturing countries, and the resource-exporting countries. The hegemonic–currency nations expand their money supply and government bond credit on a massive scale to dilute and transfer their debts. In this way, they can exercise seigniorage, while causing a rising global trend in the prices of strategic commodities, namely, raw materials, staple foods, and energy. This relationship can be represented by the ‘international competition smiling curve’.

In Figure 1, the dashed line represents the traditional yield curve in the stage of industrial capitalism. The solid line represents the contemporary yield curve of financial capitalism. In the contemporary system of financial capitalism, the mechanisms of capital accumulation, earnings, and distribution have profoundly changed. Under speculative fluctuation in financial markets, the mechanism of dovetailing upstream and downstream markets along the industrial value-chain—a mechanism prevalent in industrial capitalism—is seriously weakened. It is the same with the capacity of enterprises to internalize external risk. The international competition among countries becomes a situation represented by a ‘smiling curve’, on which natural resources and financial capital are located on the two top ends of high value added, forming the corners of a ‘smiling mouth’. Industrial capital, which used to occupy the centre of organizing various resources and production factors, is now located at the bottom of the curve.

Meanwhile, those countries that possess resource sovereignty can free-ride to enjoy greater gains, by exporting natural resources and use the revenues for social redistribution. The economic and social risk these countries face is thus reduced. At the same time, however, they are confronted with hostility by the hegemonic–currency countries and demonized by international ideological mouthpieces, such as media and

Figure 1: US Dollar Triangle

Source: Developed by the authors.

academia, by means of various ‘soft powers’, consequently facing the risk of military subversion.

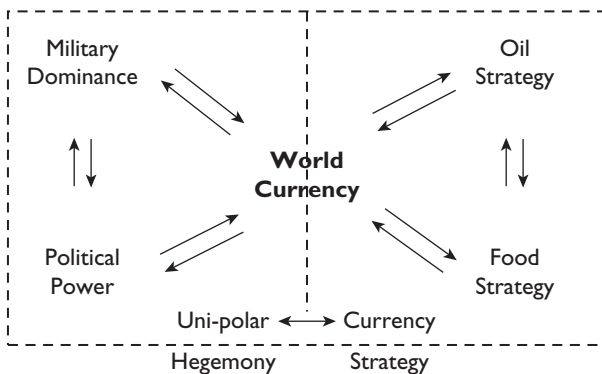
As for the industrial countries relying on manufacturing, they have to bear a double pressure of low exchange rates and high interest rates, due to the extraneous inflation caused by an explosion of global financial liquidity. A manufacturing country has to raise the interest rate under pressure of inflation caused by rising prices of raw materials. As a “result, the domestic price of investment goods becomes higher than that of its foreign counterparts. Domestic capital, therefore, fails to compete with foreign rivals. Its domestic strategic industries are thus conceded to foreign investors. Meanwhile, a massive inflow of foreign currency leads to increasing domestic money supply. On the one hand, it lowers the domestic exchange rate. On the other hand, it creates the pressure of inflation. As a result the cost of paying off foreign debts rises. Accordingly, manufacturing countries face the highest risk coefficient.

On the basis of the smiling curve theory, we may further analyze the above three country experiences. Under the present global crisis, the United States can only watch Venezuela free-ride of the expanding US money supply, regardless of their ideological opposition. The more the

US increases its money supply on a massive scale and pushes up the oil price, the greater fiscal revenues Venezuela can gain from the oil premium yield, thank to its oil resource sovereignty. And it can thereby invest more funds into the initiatives of anti-poverty and Latin America regional integration. It is thus obvious that the United States, a country in the stage of financial capitalism that issues the world currency has the effect of providing positive sovereignty externality to Venezuela, based on its resources. Nevertheless, China, a manufacturing country, is obliged to bear the negative sovereignty externalities simultaneously from these two countries sharing strategic reciprocity. As for South Africa, which has lost part of its resource sovereignty in the transaction for political rights of the black majority, its premium yield in resources exportation is controlled by transnational corporations. Lacking a solid revenue base, the government cannot fulfil its promises to the people, leading to consecutive social conflicts.

The contemporary structure of globalization under the new currency–strategy has become a new development trap for developing countries (Figure 2). In a nutshell, the manufacturing countries occupy the least favourable position in international competition. Under the current system of financial globalization, the less developed countries pursuing modernization (industrialization) are beset with difficulties, but are not clear about the reason.

Figure 2: Currency–Strategy Diagram



Source: Developed by the authors.

Concluding Remarks

To sum up, the current global currency–strategic system of the United States is a new hegemony based on the US dollar, energy (petroleum) and staple foods. It is secured by geostrategic relationships and underpinned by the right of pricing natural resources that provides security for its industrial chain. Its core is the credit system derived from political sovereignty and an unfettered fiscal and monetary policy. Armed with US dollar hegemony, the United States can benefit from the expansion of capital and transfer its cost to others in the global competition of financialization.

As a counter-measure, different developing countries must adopt different strategies according to their respective situation in terms of sovereignty externalities. South Africa, for example, must actively respond to the furious struggle by the oppressed black population against transnational corporations and continue its unfinished national democratic revolution to take back its economic and resources sovereignty. Venezuela must prepare for another optional manoeuvring of currency–strategy with its soft power. If the United States reduces its need to import energy sources, the international oil price may drop. In this case, Venezuela's export earnings may decline. Its domestic anti-poverty and regional integrations initiatives, relying on oil revenues, may then be affected.

China, as the largest physical economy and developing country, has to restore its domestic currency as a sovereignty currency. It must advance two strategic adjustments based on its physical economy. First, it has to strengthen its internal integration by domestic policies in order to implement the nation's will to transit from capitalist civilization toward an ecological civilization. In so doing, it needs to make use of its political condition of collective action and the long-standing dual rural–urban structure. The key is the integration of three strategies, namely vertical industrial integration, regional eco-friendly comprehensive development, and the 'New Principle of People's Livelihood'. It has to expand its domestic space of investment and long-term development to accommodate its excess industrial and financial capital.

Second, in terms of its foreign policy, China should not aim at sea power competition, which it has lost once again in modern history. Instead, it should found its foreign strategy upon land power competition,

which it has never lost. Taking advantage of its complete industrial structure which endogenously tends toward horizontal integration, China should extend its cooperation with Central and South Asia, West Asia and North Africa to promote comprehensive infrastructural development, that is favourable to the countries in these regions in restoring their sovereignty, and accompanying investments that are beneficial to restoring people's livelihood and the social development of the regions. In this way, China can build the external conditions for its domestic currency-strategic security and consolidate the continental strategic depth that enables it, as a continental country, to bring about peripheral regional development.

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China's Stock Market Crash and Alternatives

Date: 6 July 2015

Venue: Room HSH109, Lingnan University, Hong Kong

Organized by: Global University for Sustainability <http://our-global-u.org>

Participants: Professor Wen Tiejun (by skype), Professor Lau Kin Chi, Dr Erebus Wong, Dr Sit Tsui, Dr Kho Tungyi, Ms Ellen So, Ms Jojo So

(Note: The following is based on the transcription of a seminar among several Chinese Founding Members of the Global University for Sustainability, conducted on 6 July 2015, and then revised by the speakers. The seminar also covered analysis of the Greek crisis, which is available under the Global U website, section on Region\Greece. The translation is done by Ms. Alice Chow, and vetted by Dr. Kho Tungyi.)

The Root of China's Stock Market Crash

Professor Wen Tiejun:

The stock market crash in China this time has been an on-going, developing battle between 'long' and 'short' positions that reflects the unique characteristic of the phase of financial capitalism. On the surface it is a showdown between the long-position of Chinese state capital and the short-position of private capital. How should we view it?

Before the 2007 financial tsunami in Wall Street as a result of the sub-prime crisis in the USA, there had been a market crash in China that evaporated more than RMB 700 billion. This time, before the eruption of the global financial crisis which we are predicting, China also precedes it with a stock market crash, evaporating over RMB 7 trillion...

So, people are all asking: who is staging this crash in China? Who are the two sides battling in long and short?

You should all be aware that in the recent two years, close to US\$ 1 trillion of hot money had already flowed into China quietly. Is this another Trojan horse? Who could have allowed the escape of funds on a large scale? It was the integration mutually of the foreign capital of USA and the domestic capital of China. Given that the two are essentially the same, they would be able to collaborate with each other seamlessly!

That is to say, no particular investors have held a meeting with foreign and domestic capital wherein they agreed to close collaboration. Rather, the Chinese financial capital groups had demanded "deepening the reform" in accordance with their vested interests. After launching derivatives trade that could absorb great amounts of excessive supply of money, the foreign and domestic collaboration can finally take place in line with the ways of financial capital markets and the mechanism of virtue capital. It only needs someone to "pull the trigger" to kick start the shorting.

Before this, Western financial capital had already had the intention of short-selling China's capital market. It has been going on for at least five years. In these several years, every time I visited Hong Kong, I was invited by this or that large financial capital group to seminars or

discussions. Their unanimous voice was shorting China. It has been an open secret. Several years ago I had said, 'I am telling you that you cannot do the shorting now because China's financial capital markets are not yet opened to the outside.' China has only given a token policy of QFII (Qualified Foreign Institutional Investors) to foreign capital. Given the small approval limit, it is not sufficient to cause havocs.

Now, they have finally accomplished the shorting that they have dreamed of for years. Where did that opportunity come from?

Ever since the initiation of the "Shanghai-Hong Kong Stock Connect", the "Shenzhen-Hong Kong Stock Connect" [under preparation], the so-called "Shanghai free trade zone" and so on which was the start to opening up to foreign financial capital, then followed by other coastal and even inland cities to follow suit, the opportunity for the long-short battle arises from the opening up of these capital accounts. In fact, all these so-called opening up has to do with giving approvals to coastal region's strong requests to directly deal with foreign capital! Thereupon, this "new deal" of deepening reform, in which China turns towards western financial capital on all fronts, and of promoting "internet + finance", has indeed given the opportunity to foreign and domestic financial capital to mount a Trojan horse to go short on China.

Therefore, no matter what measures the Central government is to adopt in this long-short battle in the stock market, it will be entirely different from the previous times.

In 2008, Wen Jiabao's market rescue tactic of using RMB 4 trillion to 'long' was successful in producing results because in his time domestic financial controls had not yet opened up. A decade before that, in 1998 Zhu Rongji had launched national debt investments to strengthen centralized adjustments, which was in effect a 'long', and it was also effective because at that time the Central government had strict control over financial capital. Internationally, this kind of system is referred to as capital controls, while the entire external financial capital system is known as capital flow. That was why after the 1997 Asian financial storm and the 2008 Wall Street financial tsunami, there were discussions around capital control or free capital flow. The conclusion was that China's strict control of capital market had effectively prevented the East Asian financial crisis from worsening and later buffered the impact of the 2008 financial tsunami. In this decade the Chinese government has effectively prevented the publicly pronounced attempts by international financial capital to short selling on China.

In 2013, this time around the West had deployed various speculative schemes to cause emerging countries like Brazil, India, Russia and so on to fall into market crashes and large scale currency depreciation. China in 2013 still had not undertaken the project to deepen the reform on capital account, and hence fortunate enough to be spared.

Nevertheless, after the third plenary meeting of the eighteenth session held at the end of 2013, China had started to turn towards the western model of financial capital economy on a large scale. During this phase, the authority strongly pushed forward various trading tools such as margin trading, financial futures, over-the-counter financing and so on that would facilitate the development of derivatives. Because of that, it has actively created the historical opportunity for overseas financial capital to finally have the conditions for going short on China.

Therefore, I am not in the least surprised by the market crash in China today. We have a strategic think tank that, in earlier discussions even as early as three months ago, had clearly pointed out there would be a round of stock crash eruption in China before June 28. This prediction has been proven to be extremely accurate. How was it so accurately predicted? It was because they saw these successive, step-by-step institutional arrangements being put in place one after another, both inside and outside the country, finally culminating to the successful historical case of collaborative short selling China's stock market, by foreign and domestic capital.

Prior to this I had said that finance has no frontier, no national boundary. Whether it is domestic or foreign capital, as long as you are working with financial capital, you would embody the 'statelessness' of finance. The profit making process of financial capital through mobility is not in the least concerned with national boundaries. Therefore in the phase of financial capitalism, financial globalization would definitely take over the mainstream. The recent neo-liberal strategic thinking that was proposed in the top-level design of deepening reform has innately embodied financial colonialism, and would therefore be most resistant to nationalism, populism...

To be in the game of financial capital, there has to be a pursuit of liquidity. Profiting from liquidity is a major characteristic of financial capital. Of the so-called 'three new natures': liquidity, short-termness and concentrativeness, the first is liquidity. Because of liquidity, there would be short-term, concentrated entries and withdrawals. In the previous phase of industrial capitalism, imperialism had the 'old three natures': because it was parasitic, so it was corrupt and dying. In the past Marxism talked about the old three natures. What do the new three natures of financial capital of today refer to? Because it has to pursue liquidity to profit from capital, so it has no national boundary, no home nation.

In the past I have made the reference to you: old Marxists had said that "the proletariat had no home country". Yet as soon as imperialist countries were at war, the proletariat class immediately had home countries, all wanting to revert from internationalism to nationalism. This is a historical lesson. The reason that the proletariat class could not be 'countryless' is because industrial capital is "localized". The major basis for the proletariat class to have home countries is the re-distribution of the profits by industrial capital in the societies of the different home countries. Redistribution confers a fatherland to the proletariat. The 'countrylessness' of financial capital, this other form of internationalism, has finally been realized. By whom? By financial capital. Financial capital robs the whole world. Therefore financial capital can be registered in Cayman Island or Bahamas, any small country with a low tax rate. As long as profit is optimized and the speculative capital return is optimized, it can almost entirely ignore where the mother nation is. So although the Marxist internationalization of proletariat could not be realized in the phase of industrial capitalism, the financial capitalist class has finally become internationalist during the financial capitalism phase today. As long as they can rely on 'long-short' battles to arbitrage and make profit, they would wreak havoc anywhere in the world. This time it is the stock market crash in China.

Many of those who hold thoughts of western liberalism may take pleasure in seeing China's misfortune of the market crash. In fact, this situation has nothing to do with liberalism or authoritarianism. It is simply the phase of financial capitalism, a historical phenomenon of the 'long-short' battle of nationless financial capitalists. I hope everyone would look at this objectively, not to forget our key capability of innovative thinking, not to be influenced by that foreign environment where public opinion is entirely taken up by liberalism.

Looking at Greece, it is a case among the financial capitalism confrontation between the USD bloc and Euro bloc. The Trojan horse was arranged by Goldman Sachs way back, and it simply erupts today.

For the same reason, we see the market crash in China today as a case where the country-less international financial groups have finally gained the historical opportunity to short-sell on China as a result of a whole series of neo-liberal policies since 2013. If the Central government as represented by various departments such as Securities and Financial Supervision do not adopt emergency measures, then it would mean when the stock market crash erupts, international and domestic financial capital groups would be given the opportunity for shorting and bottom-fishing, and that would be even worse. The wealth of the physical economy that has been accumulated over the years would first be depressed to next-to-nothing, and then bought up at rock-bottom prices. It would be similar to the outcome of the 500-day reform in Russia in 1991. That had also been a robbery.

Yet who would be happy about this? It would be the financial capital groups and those so-called academics the former has intoxicated over the years. The society would be left with chaos and nothing else after the corpses are shared and eaten up. Then would financial capital have benefited? In the short run of course there will be benefit. Yet in the long run, because it is corrupt, dying and by nature parasitic, ultimately when financial capital finishes with robbing all the real economies and have nothing more to rob, it would itself collapse. Just like the black hole theory. The black hole will collapse ultimately at its own gravity. Financial capital is itself a black hole. Ultimately, when long-short battles can no longer be waged, it will collapse.

The Passive Financialization of China

Dr. Erebus Wong:

The USA returns to Asia Pacific in a high profile way aiming at re-balancing, instigating conflicts over the Diaoyu Islands and providing behind-the-scene support to the right-wing forces in Japan to reappear on the political stage. It has led to the abortion of the prospect of a '3+10' Asian currency alliance envisioned early this century in the Chiang Mai Initiative, hence secured the presence of the US dollar in Asia. Further, the USA has actively pushed forward the TPP to ensure that Pan American Pacific will continue to be a huge 'US dollar lake'. This is a strategy that concerns USA's future in the coming decades. China's initiative of 'silk road belts' and Asian Infrastructure Investment Bank (AIIB) aim to break through the blockade of USA's Pacific alliance by taking advantage of the vast continental depth to develop a secondary sea power along the long borders of continents. It attempts to create a RMB lake in continental Asia, Europe and Africa. The global political economy of the next ten years will develop amidst the collisions of the three major currency lakes, US dollar, Euro and RMB, in this geo-political strategic game.

The predicament of China is that the old development model of the past twenty years has reached the end of the road. The manufacturing industries in the country have seen earnings rate declining, down to zero almost. Yet China has accumulated substantial liquidity, and financial interest blocs are beginning to rise to push forward financialization and RMB internationalization. In the odd USA-China relationship over the past twenty years (China earning large amount of trade surplus from the USA yet could only let it flow back to the latter in the form of US bonds purchase,

providing low-cost funds to US financial capital to re-enter China to speculate and make profit), China was in fact being passively financialized. The large influx of US dollar has led to corresponding increased supply of RMB. The base money supply of China had in effect been passive. When industrial earnings rate declines while money supply increases, short of a corresponding expansion in physical economic volume, the result is asset bubbles in real estate and stock market. The land transaction policy that is being heatedly debated now, under various ideological disguises and pseudo economic theories, is in essence in the financial interest of sustaining the expansion of money supply through the privatization, monetization and financialization of land, and most importantly, to support the value of RMB assets.

Therefore it is absolutely unimportant whether or not this stock market crash in China is led by foreign short-selling deals. Before the imminent crash, we noticed a large scale of fund withdrawals from China equity funds. Are foreign investors simply holding a gloomy outlook on China's economy hence peacefully withdrawing, or are these their strategic arrangements? Or are they sending signals to financial crocodiles inside the country? All of these are in fact unimportant. In any case finance knows no home country. Financial capital simply has no loyalty. What is interesting is that this major crash serves as a mirror that exposes the demons. All brands of specialists came out. The financial bureaucrats rushed out to defend foreign capital, with the concern that the people would be misled by rumors. Authoritative financial experts asserted that the market was sacred and inviolable, and the government's interventional measures would surely fail. The Trojan-horse, yellow-skinned white-core 'banana' specialists sent by Goldman Sachs said that the most effective way would be to let the market "naturally" decline to release liquidity. Only then would the purchasing power re-enter the market, and so on. The thing is, after the blood bath, who would have money in their hands to fish at the bottom? Let us review history. The process of Russia in the early 1990's: 1. Financialized; 2. currency and financial crises; 3. physical assets seriously under-valued; 4. assets sold at rock-bottom prices. If the game is to take back the US dollar reserve accumulated over decades, China would be awakened from a long dream. Yet money in itself is not wealth. Acquiring all your physical assets at rock bottom prices is the true victory. So, all those issues being discussed in China are simply irrelevant. The crash this time is just the beginning.

Looking at it this way, the predicaments of RMB and Euro are the same. When a currency becomes an emerging regional strong power and wishes to take one step further to challenge the hegemony of the US dollar, it could only accelerate the deepening of internal financialization in the process as it does not yet have the advantage of the US dollar of reaping profit globally. In order to ensure a relatively high endogenous financial profitability to support the value of assets being priced on this currency, it has to maintain the earnings rate of financialization through internal squeezing. The more Chinese financial interest bloc wants to go international, the more the entire economy has to be financialized.

Professor Wen Tiejun:

About the impact of China's development on conventional geo-political strategy we could have alternative assessment which is different from mainstream Western thinking.

For example, compare China to the European Union which has expanded eastward to include 27 countries, eventually coming to geo-political conflicts with Russia -- although those geo-political conflicts were formed in the phase of industrial capitalism, yet they still have strong repercussions even now. What kind of a country do you think China is? It is a super-size continental nation that has maintained traditional governance by the indigenous for several thousand years. The domestic language is predominantly Chinese, the culture is unified. Relative to the EU countries which have to form a unified system with 27 languages, the institutional cost for China is much lower. With the national political culture developed over several millennia to form a super-size continental nation, it has conditions that could allow a lot more room for internal integration than other regions.

In a nutshell, because China is vast and has a large population, the conditions for internal political integration are much better than the EU.

Now why do systemic crises occur successively in southern EU countries with no effective governance?

Erebus has mentioned that EU is not politically unified. Not being a politically unified country, it is not possible to have unified macro adjustment policies. He mentioned that the EU parliament could not control the ECB. Europe has not yet forged itself into a relatively mature and complete political system. Because of this, internal integration within the EU is much more difficult than in China and continental Asia / Africa. In particular, when China starts to form economic and trade regional integration with the surrounding countries, the comparative advantage will be much more obvious than the EU.

Another example is Venezuela's attempt to integrate a Latin American alliance, taking the opportunity of fiscal growth by way of high oil price. Nevertheless, before it has been accomplished, the price of oil dropped by a large extent and Venezuela's corresponding capacity for integration also declined. Furthermore, after the death of Hugo Chavez, the integration capacity of Venezuela is now probably not even one-tenth of what it was before. Brazil has also attempted regional integration between the two oceans but after Lula left, its integration capacity has also become lower. In a nutshell, Latin America again finds itself in a rudderless situation. As for Africa, the regional integration capacity is even worse.

If we look at the several large continents, it is only Asia that has the conditions for completing a historical regional integration. Europe has not completed integration. Latin America did have conditions for almost entering into a new integration but is no longer the case now. Africa does not have that opportunity yet.

So then, what is the present setup? Continental China has a complete set of state governance systems developed over millennia of political and economic integration. This can be compared with continental America, which has developed a White government authority after eliminating its indigenous peoples. Each has its own edge. Both of them are super-size continental-type nations. They would have the prospect of confronting each other across the Pacific Ocean. Looking at it from this perspective, it is an issue that we are more concerned about. In the global setup, China is a nation that has completed continental integration. The country areas of China and USA are similar. China has 1.36 billion of population. The USA has only 0.31 billion. On the basis of GDP volume, USA is the first and China the second. Both of these super-size continental

countries have an all-round and intact political system. The confrontation of the two different systems will be the principal contradiction in the geo-politics of the world.

We could say that from the perspective of the financial capitalism phase, the current principal monetary-political contradiction is the confrontation between US dollar zone and Euro zone. If it is from the perspective of systemic contradiction between nations, then the USA and China, the two countries that have completed continental integration, constitute the principal contradiction in regard of different state systems.

To rank the principal contradictions that prevail in the world now, we would find that the financial capital blocs' confrontation in the phase of financial capitalism – the contradiction between the two major capital blocs: US dollar and Euro – is still the principal monetary-geo-political contradiction. Yet, looking at it from a long-term perspective, the systemic contradiction between the USA and China, the two large countries that have completed continental integration, would be the principal geo-political contradiction.

Given that China's governing system has been developed gradually from ancient times to now over the course of four thousand years of history, while the USA is a united states that has completed the super-size continental integration radically over the recent few hundred years, the essential difference between their two kinds of systems would in the long run be the principal state-to-state contradiction.

Looking at the world's principal contradictions in this way, it can be understood with clarity: one is the principal monetary-geo political contradiction in the financial capitalism phase between US dollar bloc and Euro bloc; the other is the long-term geo-political contradiction between political systems of the USA and China.

The USA is the principal agent of both contradictions, with the EU and China simultaneously. The contemporary world not only has a tripod setup because of this, it also facilitates conditions for the strategic partnership between EU and China.

The Compelled Financialization in China

Professor Lau Kin-chi:

We have said earlier that China is the only one among the seven emerging countries (E7) that we are studying that could still hold its ground. The other six could not. On the recent stock market crash in China, your analysis is that China has allowed the influx of foreign funds through 'Shanghai-Hong Kong Stock Connect'. So, does China have stronger defending capacity?

Professor Wen Tiejun:

In 2013 when India had a financial crisis, Brazil also had it. Thereupon we said the E7 were in trouble. In 2013 China was the only one without a major problem.

Furthermore, we have quoted from what happened in the East Asian crisis in 1997, that all the East Asian industrialized countries that had adopted liberalized financial deregulation were

robbed by the USA-led speculative capital. Only Hong Kong, which had just been returned to China, was able to fend off the financial speculation of George Soros through China's pledge of support. The two economic bodies, mainland China and Hong Kong, were two East Asian brothers in adversity but fortunately spared. Only these two had not been robbed.

Then in 2013, again it was only China that had been spared from financial disasters out of the major emerging countries. Almost all emerging countries had been robbed. On that basis, I had asked that in writing the E7 report we should include these new changes to prove the theories that we have put forward.

Yet it is precisely in less than two years since 2013 that the newly risen Chinese financial interest bloc has been integrated into global finance at an accelerated pace. The financial market reform has accelerated, led by financial bureaucrats who publicly agree with the neo-liberal system. That created the conditions for international financial capital to enter China on a large scale, forming the opportunity for short-selling and robbing.

This analysis is critical. In these two years what has China done with regard to the financial capital institutions?

First, under the pressure from WTO, there has been a large expansion of the scale of QFII. In the past China did not allow foreign capital to directly enter the capital market. This capital control regulation was insisted upon in WTO negotiations – when China joined WTO in 2001, it insisted on keeping the capital market closed, insisted on restrictions over RMB exchange. These two terms have persisted from 2001 to 2015. According to the principles of the WTO, after the WTO's so-called transition period is over, China has to open the market on all fronts including capital market and currency market. This is the pressure forcing China to be integrated with neo-liberal institutions.

The second pressure is the TPP (Trans-Pacific Partnership) that the USA has initiated. The USA is firmly against India and China joining. China has financial control and India is semi-controlled. In the financial crisis of 2013, the semi-controlled India almost lost ground. If it had not then adopted tough measures, the blow on India's finance would have been devastating. India increased the tax on capital outflows, requiring any foreign exchange leaving India to pay a tax of 24%. With such measures the outflow of funds was halted. Otherwise there would have been a disastrous outcome for India in 2013. So India is under semi-control and because of this, the USA excludes India from the TPP. It should be noted that the core substance of TPP is not the general liberalization of commodities trade but the liberalization of financial flow.

In the two-year duration after the third plenary session in 2013, what has happened is precisely the so-called 'deepening reform' in China, being integrated into globalization at an accelerated speed. It brings about a very significant phenomenon. Since the 2009 major global crisis, excessive money supply by the USA, Europe and Japan have pushed up the price of raw material futures and grain futures, leading to more severe inflation in China because of its large scale import of raw materials, oil and grains. To deal with inflation, there is a need to increase interest rate, and then its financial capital is not competitive given that the USA, Europe and Japan are all using close to zero interest rate to help their financial capitals in international competition. In coastal regions, the US dollar financial capital is available at almost zero interest rate, whereas in China the capital from domestic banks costs at least 6-7%, which means Chinese capital cost is

6-7 times higher than the capital cost of USA, Europe and Japan. Therefore everywhere in China there are attempts being made to obtain overseas funds through all sorts of tactics. Why would foreign direct investment, FDI, enter so quickly into China, grow by so much, with trillions of hot money gushing into the Chinese market? That is because in these few years, foreign funds are too cheap while the cost of domestic funds, having to deal with inflation, is high. It leads to the large influx of foreign funds.

Just now Erebus talked about China having been 'passively financialized'. Large scale trade surplus has given rise to foreign exchange flushing into China, in turn leading to expansion of domestic money supply, facilitating the rise of financial capital power to a great extent. Since China is a country with control over foreign exchange, the influx of foreign currencies into China has increased domestic money supply, causing the total volume of domestic financial capital to substantially increase. Therefore, China has passively joined the global financialization process. Financial capital has expanded drastically. Within a short period of around a decade, China's money supply has expanded by tens of trillions - twenty to thirty trillions – more than three quarters is increased supply for passive hedging. It is necessary to have a clear understanding of this process in China. It is not done actively but rather passively.

Where does the large quantity of money go? The capital cost of domestic funds is higher than foreign investors, therefore not as competitive as the latter. In the past years it has gone into real estate on a large scale but since last year it started to be taken out of real estate and put into the equity market, because real estate is under pressure and real estate asset pricing is becoming bubble-like. Much of the investment in real estate has suffered losses, so funds are taken out and put into the equity market, quickly leading to speculation frenzy.

This situation is simply a usual phenomenon in accordance with the laws of financial capital pursuant to China's passive financialization. Large quantity of excessive funds first speculates on real estate then on the stock market. It is similar to the situation in USA in 2007, where the bubble in real estate had burst in 2007 and created the financial crisis in 2008. This time, if the lesson is seriously learnt then it might be said God has once more blessed China at a critical moment.

We should all understand and not be swayed by vulgar media and academics. In fact you cannot swim against the law of financialization even though it is passive financialization. Excessive money supply creates bubbles in the stock market. Now that the market has crashed and excessive supply has vaporized, it amounts to the digestion of financial garbage created from passive financialization. Looking at the financial phenomenon in China from this basis, we can become more neutral. By getting a grasp of the fundamental laws of economy and finance, we can understand what is happening in China.

We have talked about the process by which China joined the WTO. Let us review it this time.

First, what is the Uruguay round?

In the 1980s when neo-liberalism was pushing forward the liberalization of finance, countries led by the USA that set the rules for global trading demanded substantial adjustments to

GATT which had been in force since 1944. In the post-war era USA needed to export goods to the rest of the world so the GATT institutional rules were fitted to the vested interest of the USA in exporting goods. By the 1980s, the USA had the need to let excessive financial capital flow out and therefore demanded to include financial liberalization in GATT. However, GATT was an agreement on customs and trade, and had not included the free movement of finance. Therefore, negotiation around the liberalization of finance was first included in the Uruguay Round.

Erebus mentioned that since grain and oil are anchored on the US dollar, it enables the latter to become the chief clearing currency in the world. Most countries in the world need to buy oil and grain, so everyone has to use US dollar to clear trading. The USA demanded to include the free trade of grain – agriculture – in the framework of GATT. The others disagreed so a Uruguay Round was set up to negotiate the liberalization of finance and agricultural produce trade which had not been included in GATT before.

The Uruguay Round was set up in 1986. After long debates, GATT was finally abolished in 1994. The GATT was renamed WTO which went on with the Uruguay Round. That meant WTO had existed only since 1994. Back in 1944 it was GATT that had been established. After half a century, it had been directed, or perhaps even half coerced, by the neo-liberal strategic thinking of USA pursuant to the rising of financial capitalism, to transform into WTO, to include financial trade and agricultural trade as part of liberalization. That was why when China joined the WTO the negotiation requested a guarantee to exempt the capital market from opening up. The final outcome of negotiations was that all industries would be opened, with the exception of the capital market and currency exchange over which the Chinese state would still control.

Now that the WTO transition period is over, the guarantee can no longer be in force. That is why, after 2013, in order to comply with the principles of WTO of opening finance, to start with there was the setting up of Shanghai free trade zone, a liberal economic enclave that opens up to foreign financial capital, an experimental zone for free foreign exchange that is regarded as successful after a year. Now Guangzhou, Shenzhen, Wuhan, Tianjin, both inland and coastal, all want to establish similar free trade zones as Shanghai. Local governments and domestic enterprises all want low-cost foreign exchange. Since foreign capital is cheap whereas domestic funds are costly, every place wants to open: if Shanghai has benefited so much from opening, we inland also want to

These are the two sides of pressure, domestic and foreign, that have led to acceleration of the movement of financial capital in China. Under the circumstances, Chinese leaders may not be able to keep it under control. Looking at it now, it would be very difficult to keep it under control.

This financial crisis is indeed a good thing. Although it robbed a group of people, yet it also taught a key lesson to the people in China, telling them: ‘Do you think there will definitely be advantage in opening up? Just one trillion US dollar of hot money has already caused such turmoil to you. How many market rescue policies have you dispatched one after the other - the “ten imperial decrees” – even ten market rescue policies could not stop the outflow of funds.’ If we say that in 1998, 2008 and 2013, China had been fortunate enough to be spared from disasters, then this time it already has one leg deep in mud. The other leg is still onshore. It is trying to pull itself out, trying hard to pull out. Today, July 6, the market index [Shanghai A Share] is maintained at around 3900. Everyone begins to feel there is a small victory in this long-short battle. After this crash, people should start to have some discussions, should realize what it would mean to China to

have free trade zones like Shanghai all over the country. Is it disastrous or advantageous? On this people should be awakened. It may be regarded as a lesson.

Professor Lau Kin-chi:

Yet if China has to comply with the exogenous pressure of WTO, does that mean that within a year or two China would have to concede no matter what?

Professor Wen Tiejun:

Objectively speaking, after more than a decade, if the total volume of financial assets of USA, Europe, China and Japan are converted to US dollar, the four do not differ by much. Obviously USA is the largest with over 30 trillion, Japan is over 20 trillion, China is almost 20 trillion, more than two-thirds of the USA. Europe is the same as USA. It is an obvious trend that China will enter the global competition of financial capital. Given that the WTO transition period is over, it would be very difficult to continue curbing the free flow of foreign currency in and out even if China wants to.

What can China do? It is still a choice. The AIIB and Silk Road Belt have in themselves an intention by China to try out a route that differs from the globalized competition in the financial capitalism phase. China has that intention.

The financial capital of the USA wreaks havoc in the virtual markets, waging long-short battles everywhere, whereas China's enormous financial capital would mostly be used upon infrastructure, improving the infrastructure of the continental bridge between Europe and Asia, as well as the surrounding areas, to accomplish the absorption of large amount of financial capital through infrastructure and at the same time driving development of the physical economy in countries along the way. This is obviously different from the way the US dollar bloc has been leading in the global financial capital competition. If you want to talk about what is alternative, if indeed the Silk Road Belt initiative could drive real industrialization and improve conditions for infrastructure, it would be an alternative. That is because we have not put the enormous amount of excessive financial capital into the stock market to create bubbles, we have not played it the same way as US financial capital. If it is to be another game that would facilitate the physical economy of emerging countries, it should have the characteristics of alternative economy in itself.

Professor Lau Kin-chi:

The Chinese government has dispatched "ten imperial decrees" during the time of stock market crash. Are there certain "Chinese characteristics" that could have the capacity to do this?

Professor Wen Tiejun:

That's right, since all big investment organizations like Central Huijin are owned by the state. If there is not the capacity of the state in controlling financial capital, the ten imperial decrees could not have been dispatched, and would be useless even if dispatched. It was not that the USA did not want to dispatch "imperial decrees" to stop the 2008 financial tsunami, but that even if they were dispatched there would be no stopping it. For China, given the system where most financial organizations are state-owned capital, they could do it.

The Significance of Alternative Practices in Crisis Situations

Professor Lau Kin-chi:

In the past when we had discussions with Henk van Arkel from the Netherlands and Luis Lopezllera from Mexico, they strongly advocated using alternative currency for economic transactions, to replace the mainstream currencies that were 99% conducting financial speculation. Venezuela and several other Latin American countries have been designing a Southern currency with the intention of breaking out of US dollar clearing. Speaking from the standpoint of global setup, a tripod model will offer more restraint than a monolithic model. Yet from the perspective of how to benefit the majority, the countering of financial capital does not necessarily need to rely on one super-currency to restrain another super-currency, but to the largest extent possible not to have our own economic activities being impacted by it. Let the physical economy (agriculture, industries, industrialization, services) break out of the financial control of US dollar and the like, not to be impacted by speculation – such proposals exist and some countries have made attempts. Nevertheless it has not yet become viable in general.

On the other hand, the existing challenges are mostly negative reactions, such as discontent with the present situation as expressed in street politics. There is need to actively transform that into a civil society self-defense movement. We have discussed food sovereignty and rural regeneration, to let everyone see that there are realistic, practicable ways out, not just wishful thinking. At this time when everyone is concerned about Greece's situation, we can launch relevant debates and investigations. ARENA, together with other international organizations such as Freedom from Debt Coalition, has jointly signed a statement to support the "No" vote of Greeks to oppose austerity. To some extent it is rather like the atmosphere of Occupy Wall Street movement. The people are generally mobilized, yet "autonomy" is often an empty slogan if there are no realistic proposals. Thus, our endeavor should be at two levels: first, macro analysis; second, articulating real, viable practices that exist even if they do not yet constitute comprehensive alternatives.

Professor Wen Tiejun:

We should discuss what would be 'alternatives' at this time.

With a clear analytical framework of the principal contradictions discussed above, we can have a clearer understanding of social movements.

Under this framework of fundamental contradictions, we would place the partial issues that we have thought of for purpose of analysis. For example, "unified regional integration" has been

attempted by Venezuela and by the EU; Brazil is working on it now; China proposing now for ASEAN to constitute “ten + one”, and so on.

Further, when I visited the USA, PK Hui went with me to learn about the Ithaca Hours and the community currency of Mexico’s Tlaloc. These are localization efforts, attempts at integration in order to raise the capacity to deal with financial capital crises. There is also the initiative of the Southern Bank by Ecuador. All these alternatives around the world are innovations to face the challenge of globalization.

By including these into the macro analysis, we would realize that: regional integration is the alternative development model under the monetary-geo strategic confrontation of the two major blocs, and the geo-political confrontation between the two big nations!

We should take note of what constitute alternatives under the challenge of financial globalization. Regional unification is an alternative. So, what comes under regional unification? Localization. And below that would be community integration. All these initiatives are beneficial to the people en masse in facing the cost transfer of financial globalization.

Now we shall talk about communalization.

With that general framework as the premise, we shall look at what we do in terms of community regeneration and localization. Every approach has great positive significance. They all make us optimistic. Furthermore, the rural construction movement that we have persisted on for more than ten years in China, community regeneration, common wealth and local knowledge, all have positive significance.

Why is that?

Because when a global crisis occurs with the principal contradiction inside the major framework, leading to devastating outcomes, what is it that the people en masse could respond with? That is localization. It is the economic foundation that would maintain relative stability for a place or a region. Because of that, these localization experiences should be highly regarded by us, and not to be belittled.

Therefore the Global U platform that we are working on should treat the localization or community integration experience that are being practiced and garnered as major points for reflection. Every case has innovative significance.

In the bible, as men had been too greedy, God destroyed the world by flooding in order to teach them a lesson. Before the flood came God had selected Noah and his family for salvation due to his endeavors in localization and farming. He was asked to bring some animals to keep the balance between human and natural ecology. They all went up in the ark. When the flood came, his whole family with the animals drifted on the sea. That was the bible’s story that explained the revival of the human race.

We shall put the stories aside. Yet we must not belittle the localization of today, including the transition town that we have seen in Europe. It is typical localization. Right now, the New Economy Coalition in Boston and New England is advocating community economy. Residents in the community initiate community regeneration on their own. The whole approach is of innovative

significance, being conscious and active efforts by the people under the major crisis. So we should not be pessimistic.

If there have not been major crises and serious sovereignty bankruptcy cases like those in the Mediterranean, if there are no Greek crisis, people would probably not be alerted still and would remain intoxicated with greed. If China does not have a stock market crash that vaporizes RMB 7 trillion and the common folks robbed clean overnight, they would be intoxicated with the expectation of sure-win gains from the stock market. In a nutshell, everyone would be indulging in greed. Today when people encounter setbacks from crises, they would then turn around and pay attention to what is localization, what is alternative, transition, new economy etc. All these would be like the material used to build Noah's ark, and would gradually give rise to even more attention. Our rural construction practices will also be more and more looked up to. Although there are still many who do not understand, the mainstream is still contemptuous of us, so what? What we represent is the direction of ecological civilization that human beings will be moving toward. We have enough confidence and are not pessimistic. If we analyze the current phenomena objectively and cool-headedly, our confidence should indeed be strengthened.

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One Belt, One Road

China's Strategy for a New Global Financial Order

SIT TSUI, EREBUS WONG, LAU KIN CHI, AND WEN TIEJUN

In late 2013, Chinese premier Xi Jinping announced a pair of new development and trade initiatives for China and the surrounding region: the “Silk Road Economic Belt” and the “Twenty-First-Century Maritime Silk Road,” together known as One Belt, One Road (OBOR).¹ Along with the Asian Infrastructure Investment Bank (AIIB), the OBOR policies represent an ambitious spatial expansion of Chinese state capitalism, driven by an excess of industrial production capacity, as well as by emerging financial capital interests. The Chinese government has publicly stressed the lessons of the 1930s overcapacity crisis in the West that precipitated the Second World War, and promoted these new initiatives in the name of “peaceful development.” Nevertheless, the turn to OBOR suggests a regional scenario broadly similar to that in Europe between the end of the nineteenth century and the years before the First World War, when strong nations jostled one another for industrial and military dominance. The OBOR strategy combines land power and maritime power, bolstering China’s existing oceanic hegemony in East Asia.

Historically, at the time of the Tang Dynasty (618–907), China’s expanding trade with the West motivated the Islamic world to exert control over the trading routes of Central and West Asia, forcing Europe—under the pressure of a silver crisis caused by continuing trade deficits—to seek eastern trading routes that would allow it to bypass the Islamic regions. One after another, Spain, the Netherlands, the United Kingdom, and eventually the United States became dominant maritime powers, protecting and expanding their trade interests in East Asia.

If the OBOR project were merely “one road,” it would be little more than a traditional land-power strategy, but OBOR opens up secondary

SIT TSUI is an associate professor at the Rural Reconstruction Institute at Southwest University, Chongqing. **EREBUS WONG** is a senior researcher at the Kwan Fong Cultural Research and Development Program at Lingnan University, Hong Kong. **LAU KIN CHI** is an associate professor in the Department of Cultural Studies at Lingnan University. **WEN TIEJUN** is director of the Rural Reconstruction Center at Renmin University, Beijing. All are founding members of the Global University for Sustainability.

This is the second of three articles by Sit Tsui and her coauthors offering a Chinese perspective on current issues in global political economy. MR thanks Zhihe Wang for his assistance in editing this article. Translated from the Chinese by Alice Chan.

maritime power along China's coast, backed by the vast expanse of country's landmass.

At the turn of the twentieth century, the English geographer Halford John Mackinder proposed that a strong power integrating the transportation and trading channels of Europe, Asia, and Africa into a single "World-Island" would be ready to dominate the globe.² In 1919, he wrote that "who rules East Europe commands the Heartland; who rules the Heartland commands the World-Island; who rules the World-Island commands the world."³ In practice, however, it is still necessary to coordinate control of land routes with maritime transportation along the coast of this World-Island.

OBOR depends on a series of delicate geopolitical calculations. Today only three nations can be considered continental powers: China, Russia, and the United States. China cannot simply open a new inland Silk Road, because it would inevitably have to pass through Russia. Ever since its emergence as an imperial power in the late eighteenth century, Russian geopolitical strategy has been oriented toward Europe, with only secondary attention given to East Asia. This partly explains why, as its economy benefited from a surge in oil prices several years ago, Russia took little notice of China's Silk Road proposal. Likewise, Russia took the lead in negotiating the new Eurasian Economic Union, meant to integrate and link Europe with the former Soviet countries of Central Asia. Putting it bluntly, it was not up to China to integrate Central Asia. However, in the aftermath of the Ukraine crisis, Russia faces hostility from Europe and the United States, and with the global drop in oil prices, the country has no choice but to turn east and seriously consider China's proposal for a trans-continental strategic partnership. Yet if relations with Europe were to improve, Russia would promptly turn back toward Europe. No matter how closely tied their regional interests become, neither Russia nor China can put all their eggs in one basket. That is why China's land-power strategy is being presented as OBOR, a distinctly Chinese project.

Nevertheless, China is aware that the United States would counter the OBOR effort by strengthening its alliance with capital interest blocs within China—both inside and outside the ruling clique—to reassert its influence over China's future development policy. Indeed, in this respect the United States has already had much success: the Chinese financial bureaucracy accedes to the unwavering primacy of the United States as the world's central bank, making it unlikely to question, much less undermine, U.S. leadership in the global order. Nevertheless, there is little doubt the United States will adjust its diplomatic strategy with regard to OBOR. Iran, for example, is an important part of the OBOR proposal,

and whatever its other aims, the U.S. nuclear agreement with Iran was a strategic adjustment meant to balance China's influence in the region.

Maritime Power and the ASEAN Region

For such a small place, Singapore has long had an outsize influence and strategic importance. With the Strait of Malacca, it controls a vital access point for the maritime trade routes connecting Europe, Africa, and Asia. Singapore clearly understands that its survival depends on a balancing act between the West and China. The West valued Singapore's first prime minister, Lee Kuan Yew, an ardent Cold Warrior determined to stop the spread of Communism in the region. Thus, despite Lee's close ties to Chinese officials and their sympathy for the authoritarian efficiency and corporatism of his "Asian values" ideology, Singapore would never become a Chinese ally. Lee remained loyal to U.S. interests to the end: shortly after Obama took office, he advised the United States on its diplomatic "pivot" to Asia and the Pacific, and opened up military ports to assist with new U.S. military deployment within the Association of Southeast Asian Nations (ASEAN) region. Given this legacy, China harbors no illusions about Singapore's allegiances.

For these and other reasons, China wants to open up another transportation channel from southwest China to the Indian Ocean, bypassing the Strait of Malacca. Another potential southbound route would pass through Pakistan or Bangladesh to the Indian Ocean. In either case, the goal would be to connect with Sri Lanka, where a new, world-class harbor would open up one more entrepot in the Indian Ocean. ASEAN is the starting point of the maritime Silk Road proposed by China, but it is also the region most fraught with complexities, and where U.S. influence is most deeply rooted.

China's Development and the U.S. Dollar System

In recent years, China has taken a leading role in the establishment of a new set of international economic institutions, including the New Development Bank, the BRICS Contingent Reserve Arrangement, the AIIB, and the Silk Road Fund, as well as the Shanghai Cooperation Organization. Together they represent a regional counterweight to Western-led entities like the International Monetary Fund (IMF) and the World Bank—and more recently, the European Central Bank—that have dominated the global financial order since the introduction of the Bretton Woods system after the Second World War. China is arguably only the third country in history, after Britain and the United States, with the capacity to shape and lead a global system of finance and trade. Of course, in the foreseeable

future, China will not replace the U.S. dollar system; it could at most stand on equal footing. After the United States overtook the United Kingdom to lead the world in industrial production capacity in the late nineteenth century, it took another fifty years and two world wars before it could dominate global finance. China recognizes this reality, and has consistently promoted the AIIB and other organizations as complements, not competitors, of the World Bank and Asian Development Bank (ADB).

Over the next decade or so, as long as no major instability unsettles the Chinese economy, it seems inevitable that the renminbi will become one of the most important international currencies. Nevertheless, it is far from clear that the renminbi, even in twenty years' time, could challenge the hegemonic status of the U.S. dollar. As a capitalist economy industrializes, the strength of its currency depends on the country's continued productive capacity, supported by the government and civil society. However, in the subsequent phase of financial capitalism, the main source of a currency's credibility is the political and military strength of a country. From this perspective, the impregnable position of the U.S. dollar as the world's credit currency arises foremost from the United States' enormous military strength. The United States accounts for 40 percent of global military spending, more than that of the next ten countries combined.

Of course, a continually expanding military hegemony has not been the only source of U.S. financial dominance. Since the Second World War, private firms and government agencies in the United States have led the world in technological innovation, not only in arms manufacturing, but in chemicals, semiconductors, film and television, aviation, computers, finance, communications, and information technology. All of these innovations have facilitated the global expansion of capital's high value-added. The foundation of the U.S. dollar's value, besides American military and political strength, is thus the United States' monopolistic innovative capacity in raising the value-added of capital.

In China today, a spirit of utopian capitalism is rampant at all levels of the economy, driven by the belief that as long as state-owned enterprises continually withdraw or dissolve, to be replaced by private firms, then China will be blessed by some miraculous market power with an innovative capacity for high value-added. But without an enormous investment in systematic research and development, it is unclear how scattered concentrations of private capital in China could make such advances in the near future. Consequently, China's currency is unlikely to challenge the U.S. dollar, or even the Euro. Ironically, the single force that seems most likely to bring down the U.S. dollar is the increasingly virtualized U.S. financial system itself.

In exporting capital over the past decade, China lacked any overall planning for foreign investment and development, sometimes entangling it in geopolitical crises, as in Libya or Sudan, other times in bureaucratic morasses, as in its role in the Mexican high-speed rail and Sri Lanka harbor projects. This misdirection resulted from the lack of any strong support and coordination from financial organizations like the AIIB. While China has become an important capital-exporting country, it has largely avoided entering into explicit political or financial alliances that might protect its large-scale foreign investments. With the establishment of the New Development Bank and the AIIB, however, China's financial ties to neighboring nations have become more formal and far-reaching. From this perspective, they represent the kind of transnational institutional construction needed to give greater focus and strategic leverage to China's capital exports.

One goal of the Obama administration's "pivot" to the Asia-Pacific was to prevent the emergence of a mutually beneficial Asian currency alliance among China, Japan, and South Korea, which would have threatened the primacy of U.S. currency in the region. Toward that end, the United States encouraged the right-wing restoration in Japan under Shinzo Abe, helping form a defensive Pacific ring to contain China. In addition, the United States has sponsored the Trans-Pacific Partnership (TPP), in part to ensure that the Asia-Pacific region will remain a dollar stronghold. The AIIB represents China's response. Though the United States put strong pressure on its European and Asian allies not to join the bank, since its founding in 2015 the AIIB has already attracted a prominent international membership, including not only major developing economies such as Brazil, India, and Russia, but also France and the United Kingdom. One reason for the slow progress of the TPP negotiations is that the agreement has been centered on U.S. interests, and the marginal returns gained from tariff reductions might prove minimal in comparison to the financial implications. However, the founding of the AIIB compelled the United States to both speed up these negotiations and to make significant concessions, finally reaching an agreement in October 2015. (Though even now, after all these efforts, the election of Donald Trump has put the TPP's future in unforeseen jeopardy.)

Awkwardly for the United States—which launched the TPP with the original intent of blocking China—the AIIB marks the first time since before Bretton Woods that the United States has been excluded from an important international financial structure. When trusted European allies like the United Kingdom, Germany, France, Italy, Switzerland, and others announced their participation, Obama called an emergency

national security meeting. The reason is clear: the AIIB challenges, albeit still within an institutional framework, the U.S. financial hegemony that has prevailed since the Second World War.

Of course, these allies are not jumping ship from the U.S. dollar-dominated system just yet, but only hedging their bets, as that hegemony has shown clear signs of exhaustion. In setting up the AIIB, China has stressed shared interests and cooperation among member nations, the better to attract interested allies.

The first European country to join the AIIB was reportedly Switzerland. However, because Swiss officials wanted to keep their negotiations with China secret and postponed announcement of the decision, Britain was the first European country to officially announce its participation. That both Switzerland and Luxemburg, strongholds of financial capital that have previously declined to join most international organizations, have now signed on with the AIIB, suggests that the Bretton Woods alliance faces deep internal fissures. We can call it the Bretton Woods system's Triffin Dilemma: the interests of the United States and those of its long-time allies are beginning to show potentially insuperable contradictions.

The institutional coherence of this alliance has been slipping for some time. A primary purpose of the Bretton Woods system was to facilitate exports of excess industrial capacity and capital from the United States. The interests of postwar growth in the United States and recovery in Europe were in line. In 1971, when the Nixon administration unpegged the dollar from gold and the United States began to export liquidity on a large scale, these moves likewise seemed to serve the interests of European financial institutions. However, over the last two decades the fundamental needs of the two have come into conflict. Reforms within the IMF have stalled, because the United States does not want to give up its veto power, while other international financial organizations long dominated by the United States have proven unable to accommodate the rapid rise of East Asian economies. The AIIB, led by China, is a clear outcome of these trends.

The liquidity swap alliance formed in October 2013 among six central banks—the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the U.S. Federal Reserve, and the Swiss National Bank—is designed to prevent another large-scale liquidity crisis in Europe and North America like the one that precipitated the financial crisis of 2008–09. Yet it is only preventive. The new global paradigm now needs new institutions and proactive propositions. The IMF and the World Bank (and its subsidiary, the ADB), constrained by U.S. interests, are not up to the task. Can China take this opportunity to oversee the development

of a new global financial alliance? For a large industrial country just entering the phase of financial capitalism, increasingly roiled by domestic disturbances, the challenge is unprecedented and enormous.

Weakening Alliances

The establishment of the AIIB puts the United States in an awkward position, because it marks the first significant defection by its close allies since the advent of the united front of Western capitalist countries after the Second World War. The United States has sharply criticized its European partners, particularly the United Kingdom, which has responded in kind. South Korea and Australia were discouraged from taking part, only to join at the last minute. Of the major U.S. allies, this leaves only Japan, eager to regain its regional military standing, and Canada, which has been indifferent from the beginning.

In addition to these tensions in the U.S.-led financial order, there are signs that United States' political alliances in both Europe and Asia are under similar strain. For example, it is very difficult for European allies, particularly Germany, to follow the hardline, neo-Cold War stance of the United States toward Russia, where German economic interests are so deeply embedded. Of course, saber-rattling aside, the United States does not really want to make war with Russia. The former's broader geopolitical goal is to foment conflicts between Europe and Russia, the better to inhibit the development of a strong Euro-Russian-Central Asia integration. With the Ukraine crisis, the United States hopes to further isolate Russia from the rest of Europe, with only halfhearted assistance from Western European governments themselves.

Similar contradictions have arisen in Asia. South Korea and Australia are key partners in U.S. efforts to contain China, as well as members of the TPP. Yet they, too, have joined the AIIB, in an implicit dissent from overbearing U.S. influence. Only Japan, a holdout from both the TPP and the AIIB, remains a faithful ally, largely because of continued U.S. support for its military expansion. The long and narrow Japanese islands are scarce in resources, and to become a strong nation it is necessary to build maritime power and expand. At the end of the nineteenth century, Japan defeated the navy of the Chinese Empire, then scored victory against Russia to become an overlord of the region. Next Japan wanted to challenge the strong maritime power of the United States, but was defeated and occupied, ultimately becoming a vassal of U.S. maritime power. In any case, the prevailing political ideologies in the two countries have long been mutually compatible.

South Korea has for decades been Japan's main regional rival. A united Korea would be able to challenge Japan in terms of its population, military, and industrial capacity. But for now, South Korea has turned to China as its most important trading partner, and the two nations have signed their own free trade agreement. Even on the question of future unification, South Korea would ultimately need China's help. However, the prospect of a united Korean Peninsula holds little appeal for the United States, since the formidable trio of China, Korea, and Japan would compete directly with the United States in East Asia. Furthermore, in the event of unification, it is doubtful that the new Korea would be willing to give up its nuclear capabilities, driving it eventually to seek military independence from the United States. Thus, whatever their outward affinities, the long-range interests of the United States and South Korea are likely destined to come into conflict.

Even Japan, the United States' closest ally in Asia, may yet go its own way. The country is coping with an excess of capital, and is anxious for new outlets for its industrial exports. The country's leading corporations thus hope Japan will eventually join the AIIB. These trends are hardly new: after the 1997 Asian financial crisis, Japan moved to establish the Asian Stabilization Fund, which would have made it the dominant financial power in Asia, only to have it vetoed by the United States. Japan leads the ADB, but ultimately has to abide by U.S. directives. The region has an annual demand of \$800 billion for infrastructure investments, yet the ADB has only approved \$13.5 billion. The drive toward military expansion has kept the ruling Liberal Democratic elite in Japan firmly behind the United States, but in the long run Japan's subordination of its own regional interests to U.S. strategy may prove unsustainable.

As the legitimacy of the United States' sole-superpower status has slipped, the interests of other national blocs and alliances have grown more diverse. Internal contradictions among the United States and its close allies are deepening by the day. It will require careful planning and keen strategy for China to find its best position in this changing global order. Over two decades of rapid growth, China has kept a low diplomatic profile relative to its size and strength. In the coming years, China's diplomacy will need new ideas and tactics.

Beyond Development, Toward Social Justice

From the 1950s through the 1970s, the United States successfully exported an ideology of industrial development that suited its economic and military interests alike. After this World Bank-directed developmentalism had left many emerging countries impoverished and mired

in foreign debt, however, U.S. diplomatic discourse shifted in the 1980s toward institution-building, democracy, and liberty. In particular, after the first Gulf War, the cause of “liberty and democracy” became the main theme of U.S. geopolitical ideology. However, in the last decade, imperial adventures in Iraq and Afghanistan have sparked a concatenation of regional conflicts, not only causing death and displacement on a massive scale, but fostering the rise of organizations like the Islamic State. Official talk of liberty and democracy, always disingenuous, has been decisively discredited. “Security” and “stability” are now the watchwords of U.S. strategy; the old causes of global peace and prosperity have fallen victim to the United States’ own catastrophic interventions.

The official ideology behind OBOR, by contrast, is peaceful development—to sponsor infrastructure investments and facilitate economic development, promoting cooperation and minimizing conflict. There is no doubt that peaceful development is more sensible and sustainable than American-style militarized “security”; poverty and injustice are hotbeds for extremism.

Yet the discourse of “peaceful development” has its own blind spots, which reflect China’s domestic contradictions. For instance, how can the AIIB avoid the damage done by the World Bank and others to the environment and indigenous livelihoods? How can China promote infrastructure investments that drive local development through diversity and sustainability, and not simply serve its own need for export outlets? The challenge, in other words, is to ensure that the AIIB and Silk Road Fund do not simply become East Asian counterparts of the IMF and World Bank. Given that OBOR is a contest for institutional influence in East Asia, the deciding factor for success or failure may be the competitiveness of its guiding discourses. China must promote a message of social justice and equitable development to counter the soft power of institutional transition that the United States has pushed since the 1980s.

It should be clear that this discursive power will depend on deeds as much as words. If China continues to absorb excess capacity through rapid urbanization without regard for rural culture or ecological sustainability, and if the government fails to address the severe social contradictions caused by rising wealth inequality, labor disputes, environmental deterioration, and official corruption, then the slogans of “infrastructure-based developmentalism” will have little persuasive power overseas.

A Final Note: Learning from Rural Society

Since the end of the Qing Dynasty (1644–1911), as China has undergone a series of struggles for national independence and unity, rural

society has been central to the structure of government. Whenever one of the traditional mechanisms of local governance has come under attack, threatening the livelihoods of peasants and villages, serious social conflicts have erupted, sometimes to the point of provoking peasant uprisings. From the collapse of the Qing to the demise of the Republic of China in 1949, violent peasant-led revolts were all too common. But where it was possible to make effective use of the traditional social and economic institutions of rural society, peasant communities were integral to the country's development. In particular, during the last few decades of industrialization, the Chinese countryside has become the source of a vast "labor reserve," allowing the state to rely on *sannong*—the so-called "three rurals" of peasants, villages, and agriculture—as the foundation of China's turbulent but continuous modernization over the last sixty years.

Chinese rural society has been able to absorb the risks of this modernization because of the strength of its relation to nature, an advantage that has never been adequately acknowledged. Chinese agricultural society has been formed on the basis of common needs, such as irrigation and disaster prevention. This interdependence creates a collective rationality, with community, rather than the individual peasant or family, as the basic unit in the distribution and sharing of social resources. This focus on collective needs runs directly counter to the Western emphasis on individual interests. Over thousands of years, Chinese agricultural society has become organically integrated with the diversity of nature, giving rise to an endogenous religion of polytheism. As it plans and promotes its vision of sustainable development and peaceful trade, China should look inward, to these age-old social structures, as a guide to the future.

Notes

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to the Comprehensive National Security," led by Wen Tiejun at Renmin University, Beijing, and funded by the National Social Science Foundation of China (No. 14ZDA064).

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Re-organizing Peasant Labour for Local Resilience in China¹

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Sit Tsui¹
Erebus Wong²
Lau Kin Chi^{3,4,5}
Wen Tiejun^{6,7,8}

Abstract

The recurrent crises of financial capitalism that has erupted within core countries have resulted in a double cost-transfer to countries in the Global South in conditions where the South suffers from political upheaval, economic down turns and social unrest. Encountering the challenges of global financialization and de-industrialization, the

¹ Associate Professor, Institute of Rural Reconstruction of China, Southwest University, Chongqing, China.

² Senior Researcher, Kwan Fong Cultural Research and Development Program, Lingnan University, Hong Kong, China.

³ Vice President, World Forum for Alternatives.

⁴ Founding Member, Global University for Sustainability, Hong Kong, China.

⁵ Associate Professor, Department of Cultural Studies, Lingnan University, Hong Kong, China.

⁶ Executive Dean, Institute of Advanced Studies for Sustainability, Renmin University of China, Beijing, China.

⁷ Executive Dean, Institute of Rural Reconstruction of China, Southwest University, Chongqing, China.

⁸ Executive Dean, Institute of Rural Reconstruction of the Straits, Fujian Agriculture and Forestry University, Fuzhou, China.

Corresponding author:

Sit Tsui, Associate Professor, Institute of Rural Reconstruction of China, Southwest University, Chongqing, China.

E-mail: sittsui@gmail.com

Global South needs to strengthen national sovereignty over common resources and enhance its capability of reorganizing the labour force, in order to protect the livelihood of the majority. Other than the usual approach of providing more urban jobs, an alternative more socially and culturally beneficial to society in the long term is to enhance local resilience against globalization and reactivate rural communities to promote jobs as well as reincorporate young people. Though the Chinese government's central policy of 'New Socialist Countryside' attempts to absorb the crises of overproduction and unemployment through large scale domestic investment in basic infrastructure and social welfare in rural areas, it does not necessarily strengthen local resilience. Local resilience evolves through initiatives from below for social transformation through self-organization, popular participation, reciprocity and ecological practices.

Keywords

Cost-transfer, peasant labour, self-organization, rural community, ecological agriculture

Double Cost-transfer to the Global South

In the early years of the twenty-first century, emerging countries, such as Brazil, Russia, India, China and South Africa (BRICS) had once 'risen up' and then pursuant to crises erupted in core countries in recent years, have again fallen into stagnation. The core countries are essentially constructing a global system that facilitates the smooth 'double transfer' of the economic and political costs to semi-peripheral and peripheral countries, in Immanuel Wallerstein's sense (Wallerstein, 2011).

Global crises have continuously erupted inside core countries, referred to as 'implosion' by Amin (2013). After the sub-prime crisis erupted in the USA in 2007 and developed into the Wall Street financial crisis in 2008, core capitalist countries fell into financial or debt crises one after the other. The USA, Europe, Japan and so on have successively initiated multiple attempts of quantitative easing, creating enormous amount of excessive liquidity. On the one hand, it has pushed up the price of energy, raw materials and food commodity globally, thereby successfully exporting the cost of economic crisis to countries of physical economy. On the other hand, while continuously exporting inflation, they effectively sustain low interest rate and low inflation at home. Furthermore, during

the crisis, core countries have increased their external debt on a large scale, yet most of them would certainly not implement institutional changes in accordance with requests by the creditor countries. On the contrary, they even transform the debts into asset trades expanding the capital market which do not bear the obligation of debt repayment.

These two phenomena of the new century give warning to all the interest groups in developing countries that are subject to the soft power of the West and infatuated by its 'invisible hand'. Only hegemonic countries having the backing of international institutions and occupying the high table in financial-monetary dominance can create the unprecedented 'miracle' of wealth in the history of economy. The approach of core countries—the higher the debt the more outrageous the expansion—is completely opposite to the situation of developing countries in the latter part of the twentieth century. As debtor countries, these countries not only have to comply with the demands of creditor countries to carry out 'institutional reform' but are also encouraged to sell off their valuable assets in order to repay debts with interest, that too in terms of US dollars. This clearly indicates that the international order of so-called 'liberalism', proudly flaunted after the Second World War, has already been thoroughly overturned by 'neoliberalism' in the stage of financial capitalism.

The core, relying on global financialization, expands credit on a large scale in order to sustain its unipolar hegemony. They manage to do this by three types of borrowing: (a) to borrow for consumption (borrow money for their limitless consumption); (b) to borrow for investment (borrow money to possess our resources and acquire our industries); and (c) to borrow for war (arms race, instigating conflicts and killing civilians).

It is true that certain emerging countries, such as Brazil and Venezuela, made improvements in their domestic well-being by hitching a ride on this short-lived opportunistic profiteering arising from rise in prices of resources. Other super-sized countries with physical economy like China could also deploy measures to deal with the onslaught of global crises to maintain a temporary footing. Yet, these emerging countries should not forget even for a moment that international institutional power is still concentrated in the hands of the core, which, in order to deal with the global crisis arising from innate contradiction of financial capitalism, have adopted many tactics similar to the 'Hand of God' trick in the soccer field. These tactics are not targeted at resolving the structural contradiction of financial capitalism, but they continuously make use of the asymmetry in international institutions to extend their advantage to extract enormous profit from the semi-periphery and periphery in the

global system on the one hand, and to transfer out the political and economic costs to non-core countries on the other hand.

People are more or less aware of the transferred economic costs already. However, regarding political cost transfer there is often too much ambiguity and vagueness. What needs to be emphasized is: globalization of today is based on nations as competing units. Therefore, political cost transfers have mainly been embodied in the support that core countries provided, through soft power and smart power, to the various colour and floral revolutions in peripheral countries, essentially pretexts for the strategic deployment of denationalization. The outcome is often that core countries are able to protect their monetary geopolitical strategic interests at low cost, while the countries that have become peripheral under the dominance of Eurocentric ideology have mostly 'failed' in the global competition. Only a few vested interest groups in these peripheral countries can share some handouts in accordance with their contributions to the core, while the people at large have to bear the enormous cost of failed governance and even collapsed state. In some cases, the tragedy of population displacement and casualties among innocent civilians are also witnessed.

Undoubtedly, we also have to give importance to the increasingly serious class contradiction within core countries. Wealthy societies in Europe, the USA, and further in Japan, South Korea and so on are becoming increasingly polarized in terms of wealth allocation. Western social science has, because of the strong growth of the middle class, once challenged the concept of 'class', in the Marxian sense, in classical political economy. Yet in wealthy societies, middle class is generally shrinking. A small population from the wealthiest class disproportionately takes up most of the increase in national wealth. This may be called the institutional asymmetry of financial capitalism. Regarding this structural asymmetry, some Western progressive academics have descriptions on the phenomenon, but seldom investigating its root deep in financial capitalism (Piketty, 2014; Sassen, 2014). Yet class contradiction in the core does not necessarily reveal itself in the form of class struggle. On the one hand, international asymmetry has allowed the countries of the core to extract enormous profits from the periphery. When these profits flow back to the society of core countries, regardless of how unfair the allocation is, the lower middle-class people would still be able to share a small portion. Hence though a majority of them could enjoy proceeds from the global system, they would still prefer a state system of financial capitalism that engages in international competition. On the other hand, ideological machines (including media, cultural industries and academics)

have strived to hide the structural source of class contradictions and ease the class confrontational mood. Consequently, the discontent among lower middle class has often expressed itself by way of various kinds of identity politics, such as religious or ethnic confrontations, xenophobia and others. Right-wing populism and even fascism are generally on the rise in Europe, the USA, Japan and non-constructive radical politics is showing its face in different countries. All these have roots deeply ingrained in the system of financial capitalism.

The Global South, in general, has different conditions even though they witness identity politics. But within this chaos created by global financial capitalism, their social contradictions would be more often expressed as direct antagonism towards their own government. The key reason is that these countries, unlike the core, could get as much political and economic gain globally on the one hand and transfer crisis outwards on the other. Therefore, the return they enjoy and the risk they bear in the international contest are highly asymmetrical, and this is manifested directly as domestic social contradictions.

Core countries can engage in 'transfer of political cost', the main substance of which is monetary-geopolitical-military strategic deployment in character. Such a strategy comprises of all kinds of smart power and soft power moves, to topple governments in peripheral countries which are seen as barriers to the optimization of interests of the core. Alternatively, such countries could be denationalized, hollowed out of sovereign substances. Political and economic instability of opponents is on the one hand beneficial to the capital of core countries for acquisition of valuable assets; on the other hand, it also induces international capital to flow back to core countries. An aspect of denationalizing is to reduce a country's capability in adjusting its economy to combat the destructive flow of capital. This is done by knocking out the relatively competitive state capital even as its national capital is not yet competent to compete in the international sphere. This strangles the country's international competitiveness in the long term.

In this context, the producers of knowledge and public opinions in these countries lack proper understanding of their situation because they are under the spell of the hegemonic power of the core. They simply blame it on the backwardness of their own country's economic system and see it as inferior to the advanced systems of developed countries. As a result, economic and social contradictions are then rendered into political contradiction. Furthermore, some of these movements have been launched to serve the core's geopolitical strategy.

In the South, China relatively speaking was better positioned to deal with the double cost transfer from the core countries. In the following,

we will elaborate how China negotiates with the global financial crisis of 2008 through a large-scale investment into the rural areas.

China's Responses to the Global Financial Crisis of 2008

In New China's 60-year history of modernization and industrialization, as a rule, capital intensive urban industry has been able to achieve a 'soft landing' (Wen, 2012) whenever the cost of economic crisis could be transferred to the rural sector, and the status quo has been maintained. When costs have not been transferrable to the rural sector, however, the urban sector has experienced a 'hard landing' (Wen, 2012), leading to major reforms in fiscal and even economic systems. The recent example is China's response to the global financial crisis of 2008 and how she continues to negotiate with its repercussions.²

In the late 1990s, macroeconomic fluctuation has led to deterioration and crisis in rural governance (Dong & Wen, 2008). Since 2003, the ruling party has reiterated the importance of the *sannong* problem, referring to peasants, villages and agriculture as the most important of all problems. In 2005, the policy of New Socialist Countryside has been listed as the first major strategy in China's future development.

Since then, a series of pro-rural policies has been implemented, and the rural sector has been given a chance to rehabilitate. The regulatory function of its labour pool for industrialization has partly been restored. The function of the county economy as the second capital pool besides the urban sector has been strengthened. It has played a positive role in enhancing the sustainability of development and rectifying the long-lasting structural imbalance of the national economy, in terms of industrial over-capacity, capital excess, labour surplus, disparities between coastal regions and hinterland, rural-urban polarization as well as income inequality.

Between 2003 and 2008, investment into the rural sector was over RMB 1473 billion.³ The fiscal investment into the *sannong* problem during 2003 and 2009 has accumulated to RMB 3096.752 billion, that is, an average of RMB 15,000 per household. This has substantially increased the capital stock in the rural capital pool. Infrastructure investment has provided a great number of local non-agricultural employment opportunities. The once heavily debilitated regulatory function of the rural labour pool has thus been restored.

Second, pro-rural investment has stimulated rural consumption demand. During 2000 and 2003, the annual increase of retail sales volume in rural consumer goods market below county level was only about RMB 100 billion. In 2004, it number doubled to RMB 231.2 billion. It is estimated that the big push by the New Socialist Countryside would increase the rural retail sales volume of social consumer goods annually by about RMB 400 billion, that is, an annual increase of over 2 per cent in GDP (Huang, 2005).

Third, as significant resources are flowing back into the rural sector and the tension between the peasants and grass-root governments is being mitigated, the contradictions and conflicts in rural communities are centred around disputes about general benefits. The rural sector at large has become more stable and would be the social base of the *sannong* as a vehicle to bear the cost of another crisis transfer. These have been the vital conditions affording China ample leeway to deal with the 2008 global crisis. China maintained a high GDP annual growth rate from 2003 to 2007, but the national economy became increasingly dependent on the international market in this period. In 2006, this dependence was estimated to be at 66 per cent. This fared unfavourably in comparison with other countries. Between 1980 and 2001, the dependence on trade in economies, such as the USA, Japan, India and Germany, were within 14 per cent to 20 per cent (Shen, 2004). In this condition of general over-capacity, China could only 'use the future over-capacity to digest the present over-capacity' (Lang, 2010). In other words, China has no more space to deal with its over-capacity in the future.

The global credit crunch of 2008 caused China's unbalanced economy and export-dependent sectors to be hit hard instantly. The contribution of export to GDP growth dropped from 2.6 per cent in 2007 to 0.8 per cent in 2008. International capital in commodities future markets increased after the sub-prime crisis pushed up primary product prices. China suffered a serious instance of imported inflation (Wang, 2008). The Producer Price Index (PPI) rose from 5.4 per cent in 2007 to 8.1 per cent in 2008. The monthly Consumer Price Index (CPI) reached 8.7 per cent. Long-lasting insufficient domestic demand and over-dependency on export and investment had made China's economy highly susceptible to external crisis. The GDP growth rate declined to 9 per cent. This was still considered a respectable growth figure, but compared with previous years, it was just a step away from recession.

Just like in the financial crisis of 1997 and 1998, the Central Government's response was to stimulate domestic demand by positive fiscal investment. The planned scale was up to RMB 4 trillion by the end

of 2010. However, even though the government was successful in resuscitating the economy, the rescue measures of 1997–1998 were skewed in favour of urban interests, leading to the over appropriation of rural resources. The rural sector had to bear much of the institutional costs, which gave rise to an escalation of social conflicts.

In contrast, the rescue measures of 2008 and 2009 emphasized investment in the rural sector, which was a continuation of the Central Government's *Sannong* New Deal since 2003. Two of the three factors of production (namely, capital and labour) have flowed back into the rural sector in a significant way and partly restored the regulatory function of the rural labour pool. Moreover, a second capital pool (the first being in the urban sector) has been in the process of being constructed in the rural economy at a county level. Hence, there was a major difference between two national measures dealing with external crises. In face of the financial crisis of 1997 and 1998, new public debt was mostly spent on infrastructure, whereas in 2008 investment allocation of RMB 120 billion was the following: RMB 10 billion in public housing, RMB 34 billion in rural livelihood and rural infrastructure, RMB 25 billion in railway, highway and airport, RMB 13 billion in medical care, education and culture, RMB 12 billion in energy efficiency, environmental and ecological preservation and RMB 6 billion in supporting entrepreneurship initiatives and industrial structure adjustment, and RMB 20 billion was advanced from the 2009 budget for reconstruction after disaster. It is obvious that most of the new funds were used in livelihood-related projects and over one-third in rural projects. Only RMB 25 billion was spent on infrastructure (Wen, 2012). Despite continued government investments, rural society has been confronted with the problem of brain drain and weakening self-organization capability.

Attenuation of Rural Grassroots Self-organization Capability

Because the Central Government finally removed the agricultural tax in 2004–2006, rural China entered into a post-tax era characterized by an essential structural change. Since the rural population is increasingly composed of the elderly, women and the very young, the capacity of the *sannong* as shock absorber and social regulator is thus weakened considerably. Young and prime labour forces with higher human and natural resources stock (potential surplus value stock) have been migrating out of rural China over the last two decades. New generations of

migrant workers from rural regions tend to settle in cities as the new rural population are excluded from land redistribution when the neoclassical conjecture of ‘the scale economy of land’ is now being legalized as a formal policy. As a consequence, the rural labour force that is left over comprises women and the aged (Wen & Yang, 2012). Whether it is the elderly and women left behind in villages, or the first generation of workers who have endured multiple exploitations and returned from cities, the human resource stock is too low to be attractive to external capital seeking to capitalize on cheap human resources. In other words, the capitalization of the rural surplus labour force is necessarily untenable, even if the aging rural sector is willing to be capitalized on so as to seek development opportunities. The question of how the left-behind rural inhabitants can become agents of rural sustainable development has become a great challenge in the post-tax era. The crux seems to hinge on how the rural labour force reservoir may be resuscitated. What should be emphasized is the essential change in the social fabric has taken place as a result of the outward drain of rural human resources.

Since 1989, the contribution of agriculture to GDP and peasant’s household income has been declining. After the decline of township-village enterprises, peasant households seeking comprehensive returns had to adjust their labour portfolio which was getting increasingly oriented towards cities in order to seek short-term cash income to maintain reproduction. This resulted in a massive flow of migrant workers from the rural areas into cities. These workers mostly comprised surplus labour forces from rural households that owned a small number of assets (the usage right of a small parcel of arable land). In this way, they were different from the working class as defined in classical political economy, which arose from being expropriated of the land. Such migrant workers endured irregularly paid wages, accepted employment without social benefits and consciously suppressed consumption in order to collect a cash income higher than that obtained from rural labouring. What underpinned this practice was the particular form of land ownership that was in place. Arable land is collectively owned by a rural community and distributed within the village. Meanwhile production subcontracting has been determined according to the size of the household. This has been the real foundation of China’s ability to maintain low labour costs for 20 years. The so-called ‘comparative advantage’ theory has failed to explain China’s ascendancy because there was no shortage of developing countries with a huge population base but which could not replicate similar economic outcomes.

Nevertheless, the Government policy of New Socialist Countryside, with its stress on investment inputs to the countryside and to agriculture, reinforces the money-oriented solution to the crises. Ironically, it is this same money-orientation that destroys the social fabric of communities. The following example of the rural reconstruction effort of the Puhan community offers possibilities beyond government efforts from above. Puhan believes that the cultural regeneration of the community with a reintegration of young people in the village and agricultural community is a more resilient way.

Puhan Rural Community

Initiated in 2003 by Zheng Bing, Yongji Peasant Association is the first peasant association in China officially registered under the Ministry of Civil Affairs. A primary school teacher for over 10 years in Zaizi Village of Shanxi province in north China, Zheng organized science and technology training courses for local peasants. Recognizing that if peasants did not have common interests, it would be very easy for them to be disbanded, so she decided to organize them.

As the Asian financial crisis revealed the fragility of the bubble economy, Zheng quit her teaching job and in 1998 began to devote herself to organizing cultural and economic activities based on grass-roots women's collectives. With the support of the Women's Federation of Yongji City, she launched a women's club, which was named the Center for Women's Cultural Activities and Women's Association. When male peasants showed interest in the association, they were also accepted as members, and the base of the association became larger and larger. Formally established in 2003, the Yongji Peasant Association now has 3865 members from 35 villages in two counties, namely, Puzhou County and Hanyan County. It organizes six technological services centres, a handcrafts cooperative, a youth farm and an ecological agriculture zone (Sit, 2011; Zhao & Yang, 2007; Zhou, 2012). Some of these efforts are described below.

Towards an Ecological Agriculture

Although the fertilizer-based cooperative agriculture can make profit, Puhan makes efforts in transforming agriculture from chemical to

ecological agriculture. On the one hand, it runs four retail stores which sell fertilizers and provide technological advice for peasants. Thirty per cent of profit goes to the whole community. On the other hand, Puhan has been experimenting on organic farming for several years. Once a local government official asked Zheng Bing, 'you have done so well for ten years, but why don't you build a factory and set up a business company?' Zheng Bing responded, 'every mu⁴ of land is a factory, if we do it well, it will bring more profit than running a factory. And the environment can become better. Why do we have to build a factory?' 'You won't see any factory. Our offices are on the second floor of peasant houses' (Chen, 2012; Han, 2012).

In 2008, Puhan designed a 10-year plan for the future. One of the targets is to convert 50,000 mu of its 80,000 mu arable land into organic farming. They persuade the household one by one to improve the quality of soil. Gradually, they persuade every household to begin organic farming from 1 to 3 mu. In 2011, Puhan has successfully converted 3,000 mu into organic farming. Hong Kong business company, Mecilla, wanted to purchase organic cotton but did not believe Puhan could produce organic cotton. A Swiss organization, Helvetas, was sent to investigate. It finally agreed to cooperate with Puhan after discovering lots of *coccinella septempunctata linnaeus* on the land. The purchasing price is 20–30 per cent more than the market price. Mecilla even requested for 30,000 mu to grow cotton, but Puhan declined the offer as they believed that mono-culture will bring harm to the land and ecology. They had paid high costs to learn the negative effects of mono-culture. In 2006 and 2007, over 60 per cent of land was invested in growing asparagus. But in 2008, a big pest disease destroyed nearly all asparagus (Ren, 2013). In 2012, they successfully practiced ecological agriculture on nearly 10,000 mu. Zheng Bing remarks, 'being peasants, we must cultivate our feelings for the land. Is it possible if human beings take pills (referring to chemical fertilizers) everyday?' (Zheng, 2012). A simple and alternative calculation is provided for the peasants. During the slack farming season, a peasant normally goes out to work in the city. He can earn RMB 60–70 per day. Then he spends 2-day wages for a bag of chemical fertilizers. If he spends 1 day to make compost, such as mixture of weeds, grass and soil, after several months, he can save money because he does not need to buy any chemical fertilizers. It is even cheaper than goat manure and cow manure which cost more than RMB 100. In this way, a peasant can save money and the soil is greatly improved (Zheng, 2012).

Association of Organic Agricultural Cooperatives

Forty professional cooperatives are established on a voluntary basis, of which 20 cooperatives are registered and the other 20 are non-registered. Before 2007, the association has 28 professional cooperatives. After the law of cooperative was announced, the government gives each cooperative a grant of RMB 30,000–50,000. Some cooperatives were formed just because they wanted to apply for the government grant. However, they did not do any cooperative activities after receiving the government grant. So Puhan decided not to do any more cooperative registration.

Every cooperative has between 20 and 150 households, with 100 and 150 mu of land. The cooperatives focus on cultivation of cotton, asparagus, bean, apple, persimmon, almond, peach, walnut, pear, hawthorn, *cedrela sinensis*, jujube, corn, pepper, sweet potato and sesame. There are also poultry cooperatives with focus on producing chicken, pig, cow, sheep, rabbit and fish. Other activities under taken are the cultivation of vegetables, watermelon production and small-scale industries, such as spinning, weaving, embroidery and others. There are 12 staff members who monitor the activities of cooperatives with one staff member taking charge of 50–150 households. They provide services and assistance to the cooperatives in order to promote the transition to organic agriculture (Ren, 2013). In 2005, they organized study tours to Nanjie Village of Hehan Province and Scientific Village in Sichuan Province, which practice modern large-scale agriculture and eco-tourism. After returning home, they concentrated 1850 mu of land in order to copy the above models. However, the experiments of land concentration completely failed (Ren, 2013). Thereafter, they adopted a decentralized way of household management of land. One cooperative is generally composed of 20–100 households with groups being formed of 3–5 households each. The agreement is to carry out examination of five standards: examination of fertilizers, usage of pesticides and selection of seeds, technological trainings, quality control and marketing. But individually, each cooperative has its own management of land and production. In other words, each farming household controls and manages its piece of land. Any kind of cooperation is based on voluntariness and commitment (Ren, 2013).

The association provides some benefits in order to encourage peasants to adopt organic farming. The association owns three agricultural machines, which are used for plowing, tillage and sowing. The market service charge is RMB 30 per mu, but they only charge RMB 10 per mu in the first year, and free of charge in the second year. They produce

organic seeds, RMB 10 per mu, while the market price is RMB 40 per mu. They even provide some tools for members (Ren, 2013).

It takes about 20 minutes from the community to Yongji City, and about 40 minutes to Yuncheng City by car. Organic agricultural products are fixed at only 20 per cent higher than the market price. The idea is to let the people enjoy good and healthy food, while money and profit are not the first priority.

Youth Organic Farm

In face of rural youth exodus, the core group has mobilized their sons and daughters to return to the rural since 2008. For example, Han Lei, the son of Zheng Bing's classmate, was persuaded to work for the association after graduation at Yuncheng Agricultural College. Against his original dream of being a government official in the small city, he has explored another path of life style in the countryside. Another example is Liang Xiaoli, whose mother is core member of Hongliang Handicraft Cooperative. She found a job in the supermarket in the city after she graduated. Later she found it was unnecessarily expensive to lead a city life with boredom. She decided to go back to home village.

In 2008, Zheng Bing recruited more than 20 young people and then a youth organic farm was set up. They contracted about 28 mu of land. Each is required to cultivate 1 mu and to take record about progress. They are also required to do collective farming. They did experimental organic farming for 3 years. In 2010, after having a good harvest of organic cotton on some experimental farmland, they promoted the relevant techniques and skills to other farming households. The target is to gradually improve the fertility of soil. Now the Farm has 53 young staff members who are doing experimental organic farming on 68 mu of land at a monthly salary of around RMB 800–1000 (Chen, 2012; Han, 2012).

Every young staff member is also requested to collect a monthly cost of garbage collection, that is, RMB 2, from each village. At the beginning, they were not willingly to do it as they thought it was not a decent job. They considered themselves as educated people, and they felt embarrassed when it was related to dirty work. Then Zheng Bing and other senior staff arranged a series of meetings for the young staff to discuss with village heads, village cadres and garbage collectors. They taught the young staff how to conduct household interview through the process of garbage collection. In that sense, the young staff can understand more about the reality of different peasants and also pay respect to physical

laborers. Afterwards, every month the young staff arrange a lunch meeting for garbage collectors to show their appreciation. Gradually, the young staff become more identified with peasants and workers. On the other hand, they are no longer arrogant outsiders in the eyes of villagers (Zheng, 2013).

Han Lei and Liang Xiaoli have changed their minds and behaviours after working with peasants for several years. Han Lei was sent by Zheng Bing to attend a youth training course organized by James Yen Rural Reconstruction Institute in 2006. He felt surprised when he found fellow classmates from prominent universities such as Peking University and Tsinghua University willingly to collect urine and feces to make organic compost. He thought he could do better than them as his major subject was agriculture. Now he is in charge of the Youth Organic Farm and is the leader of the young team. He organizes many collective activities for young colleagues such as hiking and camping on the mountains. He even mobilizes his classmates and friends to go back to village (Chen, 2012).

Liang mentioned that she felt very upset when she returned to home village. In the dominant discourse, a successful model of a rural youth should lead a decent city life and never return to any village. Liang has gradually overcome these prejudices about shames and failures through learning together with young colleagues, senior staff and peasants. She found it interesting to learn ecological farming in the actual cotton field and apple land, even though it is indeed hard work (Liang, 2011).

Puhan intends to complete 30,000 mu of organic soil conversion by 2018. Puhan cooperates with the Rural Youth Training Program of Liang Shuming Rural Reconstruction Centre to introduce zero-waste Natural Farming Fermentation Bed technology to 600 livestock farming households. Laoshi Farm, named after a famous rural reconstruction movement leader, Liu Xiangbo, becomes not only a demonstration farm of natural farming and husbandry but also a model of rural youth engaged in organic agriculture. By raising livestock at the scale of 5 pigs, 5 goats and 20 chickens, each household can convert 10–15 mu of corn and wheat into organic farming using compost made with fermented manure. Apart from that, the participants are encouraged to document and learn traditional knowledge and skills such as making sesame oil by stone grinder, natural dyeing and weaving, paper cutting, among others (He, 2017).

Social and Cultural Activities

Puhan aims to let economic activities and public services go hand in hand. They redistribute the profit through providing public services and

organizing social and cultural activities for women, children and the elderly.

In 2011, the net profit was about RMB 2 million. The profit mainly came from the organic agricultural cooperative association 60 per cent, fertilizer cooperative 20 per cent, handicraft cooperative 10 per cent and others 10 per cent. In 2012, collective consumption and marketing generated an income of RMB 5 million. They divided the net profit from the cooperatives into three parts: 60 per cent to members, not through cash, but through other method. They did not grow rice, so they did collective purchase of rice. A profit of 30 per cent went to the whole community, and particularly to those sectors which did not have much income. Ten per cent of cash bonus went to all members (Zheng, 2013).

Hongliang Handicrafts Cooperative not only reactivates traditional knowledge, such as spinning, weaving, dyeing and embroidery, but also organizes social activities for the elderly. The members are mainly middle-aged women who frequently visit the elderly and to learn from them. Now there are around 200 members, RMB 1000 for each share, but the maximum is five shares (Zheng, 2013).

There are more than 2,000 old people who are aged at above 65 years old. It is impossible to build a big elderly care centre. The elderly people are invited to be teachers of the handicrafts cooperatives and of summer camps. The elderly people are also encouraged to learn to use computers to communicate with young people such as their grandchildren. For the elderly who cannot take care of themselves, matching services are provided with some middle-aged women providing in-door services for the elderly who are differently abled (Liang, 2017).

Children summer camps are also organized. Children are taught to learn local knowledge, such as how to recognize different seeds and plants, and how to grow cotton and weave. Children have more social interactions with the elderly. One of the slogans is that 'you, I, he or she do not exist on one's own, we exist as a family. Fame and fortune are not our goals, but only truth, kindness and beauty' (Liang, 2017).

Conclusion

Other than the usual approach of providing more urban jobs, an alternative more socially and culturally beneficial to society in the long term is to enhance local resilience against globalization and reactivate rural communities to promote jobs as well as reincorporate young people.

Though the Chinese government's central policy of 'New Socialist Countryside' attempts to absorb the crises of overproduction and unemployment through large scale domestic investment in basic infrastructure and social welfare in rural areas, it does not necessarily strengthen local resilience. Local resilience evolves through initiatives from below for social transformation through self-organization, popular participation, reciprocity and ecological practices. The efforts from the above should be integrated with the efforts from below.

Based on Puhan's experiences, the major functioning vehicle at the grassroots level should be comprehensive rural community cooperatives. Besides ensuring effective investment, rural regions can also be better organized to benefit the majority of peasants, including women, the elderly and the handicapped.

Puhan works hard to keep 'the identity and reality of peasantry' alive: living on land as a way of life and means of livelihood, supported by small-scale manufacturing industries. It adopts collective management of the commons such as land resources and labour power. Puhan has established several cooperatives against the trend of individualization and privatization. The goals are neither to be an agri-business nor to be subject to them. The basic social structure is family units working hand in hand with community management. The practices of organic farming embody the values of ecology and ethics, becoming more and more important. Rural-urban interaction and cooperation are carried out through fair trade of farm products.

Apart from economic business, there are various cultural and social activities. Marginalized groups such as women, the elderly, the youth and even the handicapped are encouraged to be involved in activities of community building. Particularly, the youth education and leadership training becomes the priority task for the future of rural society.

Through cultivating on the land and working with peasants and workers, the youth have gradually taken a different perspective on nature and social relations. They no longer consider the countryside as a failure and a shame. They no longer dislike physical labour such as farming and garbage collection. They have learned not only knowledge of ecological agriculture and skills of handicrafts but also the importance of self-organization and cooperation. Hence, they are no longer so self-centred and market-oriented.

All these are carried out with an understanding of the importance of the cultivation of social relations that form the basis of interdependence, mutual support and recognition, reaffirming the genuine wealth of the people, rather than monetary value determined by capitalistic relations.

Hence the social organization of labour and peasants form an important part of the strategy to build an alternative to a merely finance driven approach.

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Notes

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2. Wen Tiejun analyses the ten cyclical economic crises that China experienced since 1949 till now. Retrieved from <http://our-global-u.org/oguorg/en/series-no-5-chinas-real-experiences-professor-wen-tiejun-on-ten-cyclical-economic-crises-in-china-1949-2016/>
3. Data sources: *China Statistical Yearbooks*. Due to limited data in several years, the actual total fund investment is estimated to be more than RMB 1790.
4. The unit of land in China is *mu*. 15 *mu* is 1 hectare.

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The Tyranny of Monopoly-Finance Capital

A Chinese Perspective

SIT TSUI, EREBUS WONG, LAU KIN CHI, AND WEN TIEJUN

Emperors Yao and Shun governed virtuously, thence their people lived harmoniously and achieved longevity; Emperors Jie and Zhou governed brutally, their people were consequently debased and could only lead a short life.

–“Biography of Dong Zhongshu,” *Book of Han* (111 AD)

The tyranny of global monopoly-finance capital can be seen in part as monetary geopolitics backed by military power. Through investment schemes, it directly appropriates the production gains made by the physical and resource economies of developing countries. At the same time, it engages in financial speculation by buying long and selling short in capital markets. The end result is the plundering of social wealth. China is not immune to this tyranny. This article analyzes the causes and effects of China’s financial crises, which are in large part the fallout of crises occurring outside China. Crucial here is uncovering how financial capital—both domestic and foreign—has become alienated from the physical economy and “de-localized” in its pursuit of profits.

Since China launched its first nationwide program of industrialization in the 1950s, its economy has undergone ten successive crises. The seven that occurred before the mid-1990s arose from structural imbalances in the domestic economic system, while the three subsequent crises, those of 1997–98, 2008–09, and 2015–16, could be broadly attributed to China’s

SIT TSUI is an associate professor at the Rural Reconstruction Institute at Southwest University, Chongqing. **EREBUS WONG** is a senior researcher at the Kwan Fong Cultural Research and Development Program at Lingnan University, Hong Kong. **LAU KIN CHI** is an associate professor in the Department of Cultural Studies at Lingnan University. **WEN TIEJUN** is executive dean of the Rural Reconstruction Institute at Southwest University. All are founding members of the Global University for Sustainability.

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rapid integration into a globalized economy, and can thus be considered “imported” crises.¹ Later, in the summer of 2015, simultaneous assaults by domestic and foreign financial interests led to multiple stock market crashes. The renminbi exchange rate fluctuated wildly, and China’s foreign currency reserves sharply declined. This most recent crisis is clearly not the result of isolated domestic factors, but is instead symptomatic of a globalization that has largely erased any distinction between domestic and foreign financial capital.

Since the 1980s, economic growth in the core capitalist countries has been driven by an enormous expansion of financial capital, accompanied by steady deindustrialization. In recent years, the monopoly power of this financial capital has displayed increasingly tyrannical characteristics: it depends for its continued growth on ever-increasing indebtedness and dependence in developing nations, widening the divide between rich and poor and ultimately fostering state violence that serves to suppress popular resistance.² In the era of Western-dominated financial capital, military and monetary strength work together to profit from inequality and instability in emerging economies.

The Use of Monetary Geopolitics

Wherever it goes in its drive toward exorbitant profits, globally mobile financial capital is consistently characterized by three features: liquidity, short-term speculation, and concentration.³ These tendencies inevitably produce bubbles and crises whose risks and costs are externalized from the multinational banks and firms that create them. The Internet and other innovations in telecommunications have made possible the immense volume of “high-frequency trading,” a globe-spanning system of split-second, automated digital transactions that has come to dominate high finance. Where traditional banking served the physical economy by facilitating investment in productive infrastructure and in deposits, loans, exchanges, and remittances, financial capital today operates in a largely virtual realm of ever more sophisticated financial “devices” and “products.”

These forces of de-localized, stateless financial capital depend equally on collusion with military powers in resource-rich regions, where “long-short” speculations are manipulated to reap huge profits, in the process sparking violent conflict and displacing tens of thousands of people. Chinese economist Song Hongbing calls such disruption “currency war.”⁴ Xu Yisheng and Ma Xin refer to it as “financial sanction.”⁵ Liao Ziguang has similarly named it “financial war.”⁶

The role of Western governments and corporations in these regional conflicts is justified in the name of “human rights” and “democracy”

–slogans that recall the “civilizing mission” of nineteenth-century colonialism. Indeed, Chinese scholar Liu Fudui has called it “financial colonialism,” and proposes that China establish a “state financial security bureau” as defense.⁷ Samir Amin has likewise implicated monopoly-finance capitalism in the recent global resurgence of fascist movements.⁸

While its power has weakened somewhat, the United States remains the world’s financial hegemon. This monetary dominance is underwritten by military strength: just as the U.S. dollar dominates currency markets and reserves, U.S. military bases encircle the earth. Since becoming the world’s “sole superpower” after the demise of the Soviet Union, the United States has regularly launched invasions, aerial bombardments, and other interventions in Iraq, Afghanistan, Libya, and elsewhere. Whatever their stated rationales or immediate goals, the ultimate aim of such actions is to defend, consolidate, and expand the so-called “Dollar Lake.” In fact, as the U.S. debt crisis has worsened, its military spending has increased, because the country’s unmatched power allows it to issue ever more debt to avoid repayment of existing debts—not by virtue of the strength of U.S. democracy or markets, but through the sheer military force that supports its financial capital. It is no surprise, then, that the United States accounted for more military spending in 2015 than the next seven biggest arms spenders (China, Russia, Saudi Arabia, United Kingdom, France, Japan, and India) put together.⁹

Every U.S. administration in modern history, regardless of which party is in power, has affirmed that a strong dollar is fundamental to the nation’s prosperity and security—implicitly forbidding any country to try to undermine the primacy of the dollar as the international reserve and trade-clearing currency. The defense of U.S. monetary hegemony takes many forms, from military intervention to ideological pressure to economic sanctions to “free trade” agreements. As global capitalism enters its financial phase, the system’s monetary geopolitics are undergoing major transformations, and the United States has felt compelled to respond to the rise of potential economic rivals. In December 2015, the International Monetary Fund changed its rules such that loans issued by the United States must still be repaid in full, but those from Russia or China not necessarily so.¹⁰ Preliminary negotiations for the U.S.-directed Trans-Pacific Partnership concluded in October 2015, and among the twelve charter member countries, one of the world’s biggest economies was conspicuously absent: China. Then, a few months later, the opening of the Asian Infrastructure Investment Bank marked the inauguration of a major new regional financial institution—but the United States and Japan refused to join.

The Predicament of Emerging Countries

In the financial phase of global capitalism, financial competition is largely dominated by the “core” advanced economies, and the enormous profits and speculative capabilities of financial capital are concentrated among transnational corporations, based in the core countries, that command monopolistic positions. In the years since the 2008–09 crisis, central banks in core countries have, through enormous amounts of quantitative easing (QE), provided capital at effectively zero interest rates to institutional investors, allowing them to reap high returns from capital markets, resource privatization, raw material and food commodity markets, as well as derivatives, similar to those that precipitated the most recent financial collapse. Further, the zero-interest U.S. dollar has spurred overseas investment and strategic acquisitions in the physical economies of developing countries. According to one estimate, two-thirds of China’s twenty-one major industries are controlled by foreign capital.¹¹ With basic commodity prices pushed up by international trade, domestic inflation has inevitably risen, which in turn has increased the cost of business transactions. Countering inflation would induce higher domestic capital costs, making it even more uncompetitive in the global investment market relative to the low-cost overseas investment.¹²

In contrast, the U.S. Federal Reserve’s plan to “taper” QE and gradually raise interest rates has rattled global financial markets, especially in emerging countries whose physical economies are most dependent on foreign investment. Losing the “long-short” battle manipulated by this outside investment is one of the external factors that has led to the recent slowdown of growth in developing countries, notably China.

It is to be expected that in order to externalize the cost of frequent financial crises, the core countries would develop corresponding institutional arrangements. The most obvious of these is the Fed’s QE policy, which has served substantially to expand the role of virtualized financial capital in core countries. Next, in order to protect their assets from a worsening financial crisis largely driven by their own speculative investments, the centers of financial capital, such as the United States, Europe, and Japan, have advanced institutional reforms to stabilize their own financial markets. In October 2013, the central banks of six major developed economies—the United States, the European Union, Switzerland, Britain, Canada, and Japan, with the Fed at the center—announced a long-term multilateral currency-swap agreement that would build a cooperative network for liquidity among these core countries. This outwardly unremarkable decision in fact signified the formation of a “new core” for the financial phase of global capitalism, a major institutional

adjustment. Chinese economist Xu Yisheng has called it the new “Atlantic System” of international currencies. Financial markets in the countries whose currencies have entered this system—the U.S. dollar, euro, yen, British pound, Canadian dollar, and Swiss franc—will enjoy liquidity support as well as the “bottom line of risk premium” assessed by international capital. Meanwhile, in economies outside of the system currency exchange rates and financial markets are left vulnerable to volatility and crisis.¹³ In October 2014, the Fed formally announced the end of QE. The Japanese Central Bank and European Central Bank had earlier picked up the slack and put forward their own QE policies. In December 2015, the United States resumed its cycle of interest rate hikes.

Since the Fed’s mid-2013 announcement that it would begin tapering QE, which sent shock waves through global currency and financial markets, global financial capital has retreated en masse from emerging markets. The U.S. dollar has regained its strength, causing jarring fluctuations in emerging markets, including currency depreciation, asset price decreases, growth slowdowns, and even stagnation or contraction. Such effects have helped expose longstanding structural problems in these countries. Among them, states, such as Brazil, that lack measures to limit currency exchange or contain capital flows, have been hardest hit.

There has been enormous turbulence since June 2013 in emerging-market currencies threatened by the prospect of QE tapering.¹⁴ From June 2013 to early September 2015, in terms of U.S. dollar exchange rates, the value of Brazil’s currency had dropped by 73 percent, Turkey’s by 55 percent, Indonesia’s about 45 percent, South Africa’s by 34 percent, India’s by 17 percent, and China’s by 5 percent. It can be seen that, except in China, which maintains strict capital controls, these countries stand to lose the most in the ongoing institutional transformation of global finance. Brazil, Indonesia, Turkey, South Africa, and India are already being referred to as the “fragile five” in economic scholarship.¹⁵

It was estimated that in the thirteen months preceding July 2015, net capital outflows from the nineteen biggest emerging economies totaled \$940.2 billion. Based on an estimate by EPFR, an organization that monitors fund flows, in a single week in June of that year, mutual fund outflows from emerging markets reached \$9.3 billion, a new record since the 2008–09 crisis. Of this, \$7.1 billion flowed from Chinese mutual funds, the largest fund out-flow in emerging-market mutual funds in seven years.¹⁶

China’s Response to Imported Crisis

Since 2000, the problem of excess capacity, also known as excess production, a concept rarely seen in China in the twentieth century, has

begun appearing in official documents with increasing frequency. Although the Chinese government has responded with policies that would strengthen financial investment in the physical economy as well as facilitate what it calls “supply side reform,” these do not address the problem’s deeper causes: the loss of funds with the decline of certain industries within China, as well as the expansion of capital markets driven by highly leveraged financial interests.¹⁷

There are thus important lessons to be gained from China’s experience of globalization. When the country joined the Western-dominated World Trade Organization (WTO) in 2001, China had by and large already completed its most sweeping marketization reforms. Amid Western sanctions initiated in 1989 by the United States, China’s government had announced in 1992 its project of building a “new system for a socialist market economy.” Before that, it had already decontrolled prices for food and other commodities, gradually phasing out the coupon distribution system and initiating currency reform. And in December 1993, the State Council announced its decision to liberalize China’s financial system, opening up three speculative capital markets—in securities, futures, and real estate.

By the early years of the new millennium, state-owned banks in China had completed the commercial banking reforms begun in 1998. Previously, the four major state-owned banks—the Industrial and Commercial Bank, Chinese Agricultural Bank, Bank of China, and Construction Bank of China—were specialized banks directly managed by the state. After the launch of market liberalization in 1992, public and commercial finance were strictly separated; during this period, the Chinese financial system was in chaos, saddling the banks with large quantities of bad assets, in turn resulting in severe shortfalls of capital. In 1997, the government sponsored the First National Financial Work Conference in Beijing. Conference attendees proposed the establishment of four asset management companies, one for each major bank—Huarong, Cinda, Great Wall, and Orient—to take on bad assets and smooth the path to commercialization reform. Afterward, during the Asian financial crisis, expansionary fiscal measures were adopted to invest in infrastructure in inland regions of China on a large scale, underwriting special national bonds that were issued to the four major banks to cope with a crisis that had originated outside China itself.

Given that China had not yet opened its domestic capital and currency markets to foreign investment, such measures to strengthen state banks’ capital in the face of an “imported crisis” amounted to an official countercyclical intervention, directly “buying long,” and as a result China

was spared from the worst effects of the regional financial meltdown.¹⁸ Yet this essentially Keynesian use of national fiscal policy to make countercyclical adjustments was regarded by Western countries as a form of “capital control,” in contrast to “capital flow.” The West then shifted its demands from an imperative to open the “market” in general toward a stress on the opening up of finance.

Before panic seized Western financial markets in 2008, China had mostly completed its reform of the four major state-owned banks for public trading. In response to the WTO’s request to admit foreign capital, the Second National Financial Work Conference in 2002 made it official policy that state-owned banks would be restructured as commercial banks, with the state retaining a controlling share. In due course, shares in the four major banks were offered to the public on the A-Share market of Shanghai and H-Share market of Hong Kong.

Thus, within a single decade, two major systemic reforms altered the role of financial capital in China: marketization reform and banking reform, which together created the institutional conditions for China to participate fully in globalization. Soon after that, in 2009, following the eruption of the global crisis, financial capital grew alienated from real industries. In the context of the government’s enormous injection of ¥4 trillion, growth in currency credit has exceeded that of GDP. The respective growth rates of industrial added value and of M2, the aggregate social financing, began to diverge. The additional credit fund did not prompt an expansion of the physical economy. Instead, many non-financial institutions that had obtained financing abandoned low-return primary industries and entered the financial sector, launching businesses that offered loans, managed wealth assets, and so on.¹⁹ More broadly, since 2011, when growth in the domestic real estate market began to slow, a major shift has redirected China’s economy toward the Western model of globalized financial capital. Property mutual funds entered virtualized realms such as insurance and internet finance. At the same time, shadow banks multiplied, and the financial market expanded rapidly.

In recent years, the financial capital groups that drove this alienation of China’s development priorities away from the real economy, along with sympathetic state authorities, have introduced a series of trading tools facilitating the development of derivatives, such as margin trading, financial futures, over-the-counter financing, and more. All of this represents a rare historic opportunity for foreign and domestic financial capital to collaborate and short-sell the Chinese economy.²⁰

Stock Market Crashes and Exchange Rate Fluctuations

Objectively speaking, the multiple stock market crashes that occurred in 2015 in China, as well as the fluctuations in the renminbi exchange rate, were part of a larger “long-short” war that has typified global capitalism’s financial phase, enabled by the entry of Chinese financial capital into the globalization process—even if on the surface it appears as merely a confrontation between the “long buying” of Chinese state capital and the “short selling” of private capital.

In early 2015, the stock market surged, prompted by an expectation of favorable policies. In April, the China Securities Regulatory Commission (CSRC) launched several new stock indices, as well as a mechanism for full “short-selling.” According to estimates by analysts in over-the-counter financing institutions, the scale of over-the-counter financing was about ¥1.7 to 2 trillion, much higher than the CSRC’s own estimate. In June 2015, data from Bloomberg showed that the largest Exchange Traded Fund (ETF) in the United States tracking renminbi-based stocks had seen the inclination to “short-sell” Chinese stocks rise to 16 percent of total circulating shares, a new record.²¹ All the necessary factors were in place for a classic stock-market panic.

From June to July, successive stock market crashes shook the Chinese economy. The Shanghai Stock Exchange Composite Index plunged from a peak of 5178 to about 3300 before eventually recovering. ¥18 trillion of market value evaporated almost overnight. On July 6, the Shanghai-Hong Kong Stock Connect Program had a net “sell” in both directions: ¥13.4 billion in Shanghai and ¥14.6 billion in Hong Kong.²² One after another, overseas funds fled Chinese stock markets.

On June 27, the Central Bank of China announced it would lower interest rates by 0.25 percent, and at the same time reduced the reserve-deposit ratio requirements for certain banks. The last time this unusual combination had been tried was at the peak of the 2008 crisis, an indication of the severity with which the government viewed the situation. A week later, the State Council held a meeting to discuss other possible measures, and it was reported that the government raised an amount of ¥1.7 trillion effectively to bail out the market.

Goldman Sachs estimates that the Chinese government had spent close to \$140 billion to avert a stock market meltdown. Other industry analysts estimated that including social security, the China Securities Finance Corporation, and other institutional investors, the total fund for bailing out the market amounted to ¥2–3 trillion.

In August 2015, pursuant to the renminbi exchange rate reform, China’s currency entered a cycle of depreciation. Since then, the offshore

renminbi exchange rate has fluctuated wildly. Chinese authorities have intervened repeatedly in the currency and financial markets in order to deal with the coordinated short-selling activities of foreign and domestic investment funds.

According to calculations by economist Zhang Ming, compared to their peak near the end of June 2014, foreign reserves in China had shrunk by about \$800 billion, of which \$500 billion was used by the central bank to intervene in the foreign currency exchange market. From November 2015 to January 2016, the monthly decline was close to \$100 billion, most of which was deployed in foreign currency exchange market interventions. By the end of 2016, China's foreign currency reserves were worth \$3.01 trillion. The reduction was necessary to stabilize the renminbi, which had depreciated by about 7 percent against the surging dollar in late 2016.²³

That Western financial capital had long been aiming to short-sell the Chinese capital market was an open secret.²⁴ Nevertheless, earlier attempts had failed, mainly because China's financial capital remained largely closed to foreign investment. Now, however, in order to realize the market's role as the deciding factor in resource allocation, China had extended its economic liberalization to include the opening-up of the financial industry, both domestically and externally.²⁵

Before the 2015 reforms, China's only official set of capital requirements for foreign investment was the Qualified Foreign Institutional Investor (QFII) policy.²⁶ Because relatively few foreign investors were approved under QFII, speculative financial capital was given little room to cause trouble within China. This hardly kept speculative investors out of the country, however: financial big shots instead simply set aside their enormous funds in the more open environment of Hong Kong, eventually pushing the Hong Kong stock market to a six-year high of over 25,000 in September 2014.²⁷ This in turn led Hong Kong's economy into a deep dependence on capital markets, as well as a parasitic reliance on the economy of mainland China. As in the United States and other Western nations, an increasingly financialized economy is inherently incapable of overcoming mass unemployment, dimming the already bleak economic prospects of young people. A backlash was probably inevitable: from the youth-led Umbrella Movement of 2014 to the unrest in Mongkok in 2016, the root cause of Hong Kong's recent social disruptions is not the lack of free elections or the rule of law, but the unchecked rise of foreign financial capital, which has hollowed out the country's physical economy and polarized its society between rich and poor.

Transnational financial capital groups had finally found a long-sought opportunity to short-sell China. Where did that opportunity come from?

Since 2008, after the U.S. government's bailed out major banks and initiated QE, the cost of zero interest rate had expanded liquidity on a global scale. The excess funds that went into commodity futures markets had pushed up prices for raw materials, natural resources, and food staples, in effect transferring inflation to the importing countries.²⁸

China, as the world's largest importer of energy and raw materials, was thus exposed to high rates of domestic inflation which could hardly be contained. This in turn prompted domestic interest rate increases, narrowing profit margins in the physical economy and precipitating the latter's recent relative decline.²⁹ At the same time, because U.S. and Chinese interest rates tend toward an inverse relationship, foreign "hot money" continued to flow into China, abetted by public and private sectors keen on access to cheap foreign capital. China's new bourgeoisie rallied around calls to "open up the capital markets," leading to a series of liberalizing policies such as the Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect, and the Shanghai Free Trade Zone.

After the Shanghai-Hong Kong Stock Connect, other measures were proposed, such as a substantial expansion of QFII and the Renminbi Qualified Foreign Institutional Investors (RQFII) and the admittance of the A-Share into international stock indices. As part of the regional free trade zone established in Shanghai in September 2013, financial services were offered for free trade accounts that incorporated both domestic and overseas currencies, beginning in April 2014. Other coastal cities and even some large inland cities eagerly followed Shanghai's lead. It was these projects of opening up capital markets that set the stage for a major "long-short" battle. In fact, this so-called opening was mainly motivated by the strong demand in coastal regions to implement institutional "decentralization," in order to facilitate direct articulation between cheap foreign capital and the local state-owned corporations, freed from any formal repayment obligations.³⁰

After China's 2015 stock market crisis, the country's financial and fiscal authorities advanced a set of still more "pro-cyclical" policies. First, further reforms to facilitate the development of internet finance.³¹ Second, proposals to encourage cash dividends to improve the stock markets' rates of return.³² These proposals represent a decisive victory for the interests of financial capital, which has turned the current crisis to its own advantage. Finance's gain, however, is the Chinese people's loss.

"Long" Measures in China

Faced with the challenges of globalization, China has consistently taken active measures to increase "aggregate demand"; since 1998, China

has continuously bought “long.” These policies included large-scale strategic investment projects to drive economic growth, supported mostly by national debt: ¥3.6 trillion in 1999 for the development of the country’s western regions; ¥2–3 trillion in 2001 to revive former industrial bases in the northeast; ¥2–3 trillion in 2003 on development of central regions; over ¥10 trillion for the Policy of Building a New Socialist Countryside from 2006–15, and ¥2 trillion in 2008 on post-earthquake reconstruction in Sichuan province, as well as ¥4 trillion in 2009 on emergency market bailouts. Driven by exports and state investment, 2002–12 appears in retrospect as a “golden decade” of rapid growth and development in China.

For years, these “long” measures were effective, since control over domestic financial markets remained strict. Since at that time there was, at least at the national level, no strong separation between fiscal management and financial investment, the central government could retain close control over financial capital, largely shielding China from the East Asian financial crisis in 1997, and later from the 2008 global financial panic. For the same reasons, for most of the past two decades international financial capital was effectively blocked from acting on its stated ambitions to “short-sell” China.³³

All this came to an end around 2013, when the long-awaited “tapering” of QE provided Western financial capital a pretext to instigate capital speculations, producing violent stock market fluctuations and currency depreciations in Brazil, India, Russia, and other developing nations. Fortunately, in 2013, although China had already expressed its intention to further open capital markets, these reforms had not yet been implemented, sparing the country from such shocks.

However, in the years since, China has embraced the Western model of financial capitalism. The central government has promoted novel trading tools such as margin trading, financial futures, over-the-counter financing, and so on, all to facilitate the development and trading of derivatives. At the same time, objective circumstances such as the real estate crisis have redirected funds for property speculation toward the stock market.

A comparison with the 2007 stock market crash in China may be instructive. Before the U.S. subprime mortgage crisis initiated the Wall Street meltdown, China’s stock market was already in shambles. The SSE Composite Index dropped from 5500 to 2500, erasing over ¥700 billion in wealth. Although these numbers may look modest now, they inspired a bearish mood in Chinese markets, trapping almost all the “hot money” that had recently entered the country and inhibiting its flow back to the

United States and other western financial centers. This was one of the causes of the liquidity crunch during the subprime crisis, which set in motion the global financial crisis. By contrast, eight years later, in June 2015 another stock market crash occurred in China, this time wiping out ¥7 trillion, and again trapping large amount of overseas hot money. Yet this time China's instability caused only a brief dip in U.S. stocks, which quickly recovered. The decisive factor behind the disparate outcomes of these two crises was the new currency swap agreement of October 2013, set up among the United States and other core countries of financial capital, that was able to smooth market fluctuations.

The multiple stock-market destabilizations that have occurred since 2015 undoubtedly required the close collaboration of foreign investors and Chinese domestic capital. Yet this is not to say that China's vulnerable markets are the result of a conspiracy by the global financial elite. Rather, it accords with larger objective trends in the global political economy. Representatives of China's financial capital and their allies had only to stress the guiding principle of the "market," implicitly rejecting the counter-cyclical measures that had long characterized Chinese macroeconomic policy, and further, demand the government's adoption of so-called "deepened reform." After the subsequent launch of derivatives-trading products able to absorb large amount of excess currency, the interests of domestic and foreign financial capital would merge in the form of a Western-style virtualized financial capitalism. Viewed this way, no conspiracy theory is needed to explain the weakening of China's physical economy and the volatility of its financial markets; only the fluttering of butterfly wings in Shanghai or New York—i.e., the cumulative consequences of every individual short-selling transaction.

Will Financial Capital Collapse?

China's market crash calamity is one episode in a global "long-short" battle waged by domestic and foreign financial entities during the current phase of financial capitalism. Domestic private capital, as well as some senior management of state-owned enterprises, who worked to undo the counter-cyclical "long" policies of the central government are in fact representatives of the interests of foreign capital blocs. China's neoliberal reforms since 2013 have followed the larger pattern of financial globalization, but the fortress could only have broken down from within.

Unless Chinese regulatory authorities take decisive steps to contain it, the stock market crash will strike further blows to China's real economy. Wealth accumulated over the years by corporatized local governments in the real economy—albeit by suppressing workers' rights and wages and

by destroying the environment—could be reduced to virtually nothing, as in the “500-day privatization plan” introduced in Russia in 1991.³⁴

Financial capital is ultimately a black hole. In the longer term, as financial capital overtakes everything in the real economy, it may be hurtling toward its own destruction.³⁵ Once it is no longer possible to wage “long-short” battles, it will implode.³⁶ For now, however, a world economy in which financial capital always wins looks more and more like a global race to the bottom.

Notes

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21. San Feng, “Crash of a Share: The Phantom of Soros Looming in the Financial War,” Deep Observation Think Tank, July 4, 2015.
22. The Shanghai-Hong Kong Stock Connect is a mechanism whereby the Shanghai Security Exchange and the Stock Exchange of Hong Kong allow investors in either city to trade in the other’s stocks—within certain limits—through local securities brokerages. Begun in November 2014, it represents a significant part of the opening of China’s capital markets to outside investment.
23. “News Analysis: China’s forex reserve drop narrows in 2016, pressure remains,” Xinhua, January 7, 2017.
24. “Road Map of Five-Step China-Shorting,” Ifeng, December 2, 2012, <http://news.ifeng.com>.
25. See “Third Plenary Session of the 18th CPC Central Committee” adopting “Decision on Major Issues Concerning Comprehensively Deepening Reforms,” November 2013.
26. The QFII system permits qualified foreign institutional investors to remit into China certain amounts of foreign currency and to convert it to local currency, to be invested in local securities markets through strictly monitored special accounts. The capital returns, stock dividends, and so on may then be converted back into foreign currencies and remitted, with approval from Chinese regulators.
27. “Hong Kong Stocks Closed above 25000 Barrier for the First Time in Six Years,” China News Service, September 19, 2014, <http://chinanews.com>.
28. Han Huishi, “The Export of Inflation under Quantitative Easing—from the Perspective of US Capital’s Outflow,” *Shanghai Finance* 5 (2011).
29. He Zhengquan, “Analysis of the Impact on China’s Inflation due to US Policy of Quantitative Easing,” *Journal of Finance and Economics* 10 (2012).
30. “Government corporation” carries two distinct levels of meaning and interpretation. The first is what Chinese scholars call “corporatized government,” wherein local authorities seek to optimize profits, over and against the interests of the people. The second is a phenomenon in which government leaders treat their jurisdictions as their own private companies, enriching themselves illegally.
31. On July 18, 2016, a joint press release, “Guiding Opinions on Promoting the Healthy Development of Internet Finance,” was issued by People’s Bank of China, the Ministry of Industry and Information Technology, Ministry of Public Security, Ministry of Finance, State Administration of Industry and Commerce, Legal Affairs Office of the State Council, China Banking Regulatory Commission, China Securities Regulatory Commission, China Insurance Regulatory Commission, and the National Internet Office.
32. On August 31, 2016, a joint announcement was made by the four major departments (the Securities Regulatory

Commission, Ministry of Finance, State-Owned Assets Supervision and Administration Commission, and the Banking Regulatory Commission), "Notice on Encouraging Listed Companies in Merger and Reorganization, Cash Dividend and Stock Buy-Back." It recommended further measures to simplify governance, empower, push for mergers and acquisitions among listed companies, encourage listed companies to pay cash dividends, help listed companies buy back shares, develop innovative payment and financ-

ing tools, and, through acquisition loans, overseas and domestic syndications, and so on, support listed companies in making transnational acquisitions.

33. The earliest attempt to "short" China was the so-called China Collapse that followed the disintegration of the Soviet Union and peaked during the 1997 East Asian Financial Crisis, before receding after 2001 as U.S. financial capital struggled to recover from the tech-bubble burst.

34. This shock-therapy plan proposed

that within 500 days, beginning on October 1, 1990, the entire base and structure of the Soviet economy would be liberalized, stabilized, and privatized, turning toward markets, and, in effect, toward capitalism.

35. Immanuel Wallerstein et al., *Does Capitalism Have a Future?* (Oxford: Oxford University Press, 2013).

36. Samir Amin, *The Implosion of Contemporary Capitalism* (New York: Monthly Review Press, 2013).



Why is the American language an impoverished form of English, if not because the "purer" capitalism of North America needs fewer nuances of thought and feeling? Why are the "vestiges" of culture in North America to be found in the appalling pro-slavery South and not in California or Las Vegas? Why has the language of the Europeans of the nineteenth century become unreadable for the functionalist sociologists of the twentieth century who simplify everything? Why has dialectics become synonymous for them with "incomprehensible," "contradictory," "erroneous," while they take delight in the simple—simplistic—language of the unilateral models that require a computer (which replace a billion connections of the human brain by ten million electric wires—ah progress!)? Why is that the idiotic specialists can no longer feel and understand cross-disciplinary allusions and metaphors? Why is it at the beginning of the nineteenth century that the wonderful, visionary cry of utopian socialism arises? Why do the most modern ideas and actions come from China?

—SAMIR AMIN, "In Praise of Socialism," *Monthly Review*, September 1974

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Unfolding Crisis and Great Transformation (2013-2018): from Globalization to Rural Vitalization

Wen Tiejun's Research Team

Preface

Since 2013 China's economy has been slowing down for five consecutive years, a drop by a third from the peak, a situation unprecedented in 20 years. The prospect of Chinese economy in 2019 is still unclear. However, we should have much expectation on the rural vitalization strategy the government adopts in recent years. It is an effort to turn away from developmentalism which aims at western model of modernization and steer towards an inclusive as well as sustainable development, with the determination to eradicate poverty.

The current crisis is an extension of the previous crisis after 2008. The weak global demand since 2012 has thrown China into a state of deflation. The ending of the US Federal Reserve's QE policy at 2013 has had great impact on emerging economies around the world. China is not an exception, though less serious than others. In response to the crisis, the government, however, took measures which were basically pro-cyclical, known as the "supply-side reform", for example, cutting the industrial production capacity generally in excess. The stock market crashed in 2015. Then China had to put as much as a trillion US dollar of its foreign exchange reserve in the market to stabilize the exchange rate of RMB under pressure.

The most prominent feature of the crisis during 2013-2018 is the government's failure to reverse the trend of financialization of the economy. China's money supply mechanism in the last 20 years relied too much on the inflow of foreign exchange reserves. The enormous trade surplus is rendered into rapid expansion of money base. Liquidity increases without corresponding growth in real economy. However, the defective in monetary conductive mechanism makes it hard for the small and medium enterprises in real economy to get credit from banks. With the declining profit rates in manufacturing and real economy, capital is driven into speculative sectors such as stock market and real estates. China has experienced great fluctuation in stock market and real estate bubble in the last five years. This crisis is essentially the institutional cost of China being incorporated into global financialization under the pressure of excess financial capital.

Then the government adjusts its policy returning to counter-cyclical measures through creating effective demand. Another important policy is to foster eco-friendly economy as an alternative development strategy. Hence the slogan, "green mountain is gold mountain; clean river is silver river". One of the major strategies of rural

vitalization is the valuation of natural resources in villages as well as the “capital-deepening of eco-economy” as ways to resolve the crisis of over money-supply caused by trade surplus and the inflow of foreign capital.

In a word, it is China’s proactive effort to steer away from decades of developmentalism aiming at western model of modernization. “Beautiful villages” are conceived to be the carrier of “beautiful China”. The national development strategy is gradually adjusted toward inclusive sustainable development which is resource-efficient and eco-friendly. Ecological civilization, rural vitalization, and poverty eradication are among the essential strategies of transformation.

Nevertheless, the USA is also taking major strategic shift while China is transforming. The US launches trade war against China in 2018 as a way to re-develop real economy (manufacturing) in the backdrop of the virtualization of financial capitalism.

Both China and the USA are pushing strategic transformation as a response to crisis respectively. The result is a seismic shift of the relationship between the two great powers. During the two decades of the golden age of globalization, the two nations are in a state of symbiotic complementarity. Now they are heading toward strategic collision in this post globalization era. This great shift is bringing forth an even more complicate scenario in a world already plagued by recession and political turmoil.

China’s Current Tenth Major Crisis: Its Background and Characteristics

Compared with the past nine major crises since 1949 we have elaborated¹, this unfolding tenth crisis has all the main characteristics but also its particularity in this specific historical moment.

Similar to the second to fourth crises in the late 1950s to 1960s, China is punished because of insisting relative independency and intact sovereignty and not totally submitting to the dominant hegemony. During the 1960s, China was forced to take the path of self-reliance after the interruption of the USSR aid and the sanction by the West, thereby achieved “delinking.” However, since the early 1970s, China once again introduced foreign capital. By the late 1990s, China was increasingly integrated into globalization. As a result, China’s industry has again become dependent to the West.

Forty years after China introducing western capital and twenty years being merged into globalization, the USA which still dominates international institutional

¹ See Wen Tiejun, *Ten Crises—the Political Economy of Modern China’s Development*, forth-coming.

power and holds currency hegemony is threatening to punish China through “trade war”. At the surface, the reasons are to do with the huge trade deficit as well as allegations like forced technology transfers and theft of intellectual property as well as trade secrets which so far are not supported with solid proof. However, no matter how much China is willing to concede and promises to balance trade and open financial and capital market, the US elites are not satisfied. In fact, imposing heavy tariff on Chinese products would not improve the trade deficits. It would not motivate manufacturing returning to the USA. The imbalance of US economy is the structural problem of advanced financial capitalism. In fact, American enterprises and consumers would not be benefited from the trade war. It has been shown by the rising trade deficits and studies².

The trade war is actually a way to reshape the global economic structure and avoid China’s economic independency by developing technology and fine-tuning international trading structure. Its strategic goal is not different from the Transpacific Partnership (TPP) advocated by Obama administration which aims at remaking global trade rules. In either case, China is in fact given two options: greater submission or being excluded from the new global trade system with the US still at its core.

In reality, those who are benefited most from China’s incorporation into the globalization are transnational capital (especially US capital) and Chinese capitalist elites. At the great expense of ecological degeneration and extraction of surplus value from labour, China appears to make substantial development. Nevertheless, China’s industry is still highly dependent on the advanced countries. Transnational corporate takes the largest share of the added value created in China. In financial sector, China still insists a relatively more intact sovereignty. That incurs discontents from foreign financial capital which is hoping to seek higher profitability in China.

Made in China 2025 strategy represents the country’s effort to develop core advanced technology as a way to shake off the status of industrial dependency. It is not a coincidence the US elites decide to launch trade war against China at this particular historical moment. The so-called structural reform the USA requests is in fact a greater submission or structural dependency. (Meanwhile, no country on this planet could impose structural reform on the USA, the structural imbalance of which being a major source of instability in global economy.)

An overall strategic suppression on China has become the consensus of US top political elites. It is not an issue by the spontaneity of an idiosyncratic leader, nor the preference of a single party.

² See, P. D. Fajgelbaum, P. K. Goldberg, P. J. Kennedy, A. K. Khandelwal, ‘The Return to Protectionism’; Trade Partnership Worldwide. LLC, ‘Estimated Impact of Tariffs on the US Economy and Worker 2019’; M. Amiti, S. J. Redding, D. Weinstein, ‘The Impact of the 2018 Trade War on U.S. Prices and Welfare’.

We may highlight the major aspects of the background of this crisis, which we cannot analyse in details here.

- From structural complementarity to strategic opposition: despite political disparity, the USA and China have been in fact complementary in economic structure in the first two decades of China's merging into globalization. That made China dependent on the USA economically and institutionally. However, China is increasingly delinking from the USA after 2008 as the model of globalization has exhausted its momentum. Now the two nations are heading towards strategic collision.
- China's merging with financial globalization: after the crisis of 1993, Chinese bank sector became commercialized in the Anglo-Saxon model. After two decades of development, China's financial sector has become one of the biggest interest blocs and increasingly intermingled with the global financial capitalism.
- Incomplete currency sovereignty: accumulating a huge amount of foreign exchange reserve mainly consisted of the US dollar, China's money supply mechanism becomes exogenous depending on the foreign exchange stock. China's monetary policy is susceptible to the Federal Reserve's policy and the US monetary strategy.
- Deindustrialization: the profitability of general manufacturing is declining due to overcapacity. After the Wall Street financial crisis in 2008 and the subsequent crises in the West, global demand crumbled, aggravating the difficulty of manufacturing. China is undergoing a tendency of deindustrialization while its industry is yet to succeed to upgrade to advanced technology with higher added value.
- Radical financialization while the real economy becomes hollow: the financial interest bloc is pushing radical financial reform, thus drawing excess liquidity into speculative sectors, leading to asset bubble and expanding debts.
- Lack of the right of pricing: even though as the biggest importer, China lacks the right to negotiate the price of commodities as the major settlement currency is the US dollar and the international commodity markets are highly speculative. In recent years, China is establishing its own commodity markets to gain the power of negotiation. One effort is the making of the Petro-RMB, which is regarded by the USA as a threat to the Petro-dollar, which has become the corner stone of the US national interests since the 1970s.
- Intensification of class struggle (labour-capital conflict) under crisis.

What China is facing is a multi-dimensional crisis with exogenous and endogenous factors. How to deal with the problem of deindustrialization as capital is

rushing into speculative sector seeking higher profitability? How to avoid systematic financial crisis? How to secure the survival of small and medium enterprises and improve their competitiveness? How to convert the over dependency on international trading by promoting domestic demand? How to prevent the national consumption power from being squeezed by real estate and finance? The key is to let majority of the citizens share the fruit of growth in a more equitable way. It requires containing various interest blocs intricate with power relationship. Decades of developmentalism has brought about severe ecological degeneration, income disparity, class tension and moral hazard. China has to deal with highly complicate relationship: domestic and international, central and local governments, finance and real economy, state and society etc.

Rural Society as the Condition of Crisis Soft Landing

Urban economy comprised of concentrated profit-seeking capital is characterized by risk. In comparison, rural society is based on household and community cooperation, which is an effective means to internalize negative externality. While urban economy is driven by economic rationality which often leads to irrational behaviour, rural community is maintained by cooperative rationality. We have proposed that for decades Chinese rural society has served as the buffer to absorb the negative externality generated by urban economy and as the vehicle for crisis soft-landing (see footnote 1). However, in recent years, the foundation of rural society's capability to absorb negative externality has been eroded. It is due to several reasons. For decades, production factors (labour, capital, land, etc) are draining out of rural communities. Peasants become disorganized, therefore rural governance becomes deteriorated. Rural household economy becomes underdeveloped compared with capital-intensive urban economy.

Developing cooperative economy is the key to rebuild a robust rural society, which may once again serve as an antidote to the risk-accumulating urban economy. Based on cooperative economy, the peasants can organize themselves, which in turn can consolidate the foundation of rural governance. The localized capitalization of rural resources based on cooperatives may help to shape a strong and healthy domestic demand.

The Valuation of Rural Ecological Resource and Cultural Assets

After a few years of futile policy, China proposes the strategy of rural vitalization in 2017. The government has adjusted its policies in several aspects:

1. Diverts from the policy of accelerating urbanization in recent years. Emphasizes the

priority of agriculture and the rural.

2. Asserts that rural vitalization is the most creative aspect of China's development in the 21st century.
3. Abandons the path dependence of quantitative growth and turns to eco-friendly (quality) growth.

Despite the limit in discourses, the policy-makers do turn their perspective to rural China and once again emphasize the importance of the rural sector. Can it save China again as in the past crises? Facing the current crisis, we should remain cautiously optimistic.

China's current M2/GDP is up to 200%, among the highest level in the world. However, we should not simply conclude from this that Chinese economy is shaky due to money oversupply. Compared with other advanced economies, China is characterized by a feature: many assets in rural regions have not be valued and priced, or their value remains implicit. Capital in urban sector currently at a state of excess is seeking the opportunity of resources yet to be capitalized. The trend of capital going down to the rural sector seems to be irreversible. Viewed in other perspective, it may be a chance to reverse the decades long draining of production factors (labour, capital and land) out of rural sector. The problem becomes how to avoid malicious and destructive enclosure of rural resources by capital and finance. Cooperative is a key element in this process. Supported by the national strategy of ecological civilization and rural vitalization, rural community cooperative can act as an effective agent of the valuation of ecological and cultural assets. Through appropriate institutional innovation, a part of the property rights can become exchangeable assets on a well-designed special market, while the fundamental ownership of vital resources like land still belongs to the community cooperative. This may attract capital flowing into rural sector in a healthy and constructive way. Factors like labour, capital, technology and land may contribute to localized rural vitalization. On one hand, the fiscal pressure of eco-infrastructure and rural construction can be partly relieved through this special finance. On the other hand, excess liquidity in urban sector can be channelled into rural sector, promoting peasant income growth while preventing the risk of financial bubble in national economy. Income increment can serve as a foundation for economic reproduction, the provision of public service for rural community, the protection of ecology and the improvement of rural governance. As long as the institutional arrangement and innovation is appropriate, the valuation of implicit cultural and ecological assets can easily absorb the money stock which otherwise will turn into excessive liquidity leading to financial bubble.

From Globalization to Rural Vitalization

In the post-globalization world, China is facing double excess in industrial capacity and capital. Chinese political and economic elites therefore have great impulse to expand their presence in the world. However, the world has changed. After decades of globalization and neoliberalism, worldwide social reactions (Polanyi's Double Movement) have raised vociferous and strong protest against its progress. Ecological degeneration and climate catastrophe have signalled the limit of the prevalent growth model. Even if these Chinese elites emphasize that China is merely seeking equal and bilateral cooperation for development opportunity, the unipolar power, unchallenged for nearly 30 years and indulging in the ingrained Thucydides trap, naturally regards it as a challenge to its hegemony. Every move such a big country like China takes will be taken as a transgression against the presence of the dominant geopolitical power. Advancing with expansion strategy in the post globalization age China has to face vicious competition and even a new cold war. Admittedly, the alternative option is not isolationism or closed country policy. However, an indispensable and more intelligent strategy is to turn introvert by ameliorating the gap between the urban and the rural, the rich and the poor, different regions, and different sectors.

If China persists with the strategy of rural vitalization, determined to pursue the path of ecological civilization, its foundation to deal with the global crisis may still have a chance to stay intact.