Article

China's Strategic Responses to Crises and for Rural Vitalisation

Social Change
1–16
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in.sagepub.com/journals-permissions-india
DOI: 10.1177/0049085718821749
journals.sagepub.com/home/sch

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The tyranny of global monopoly-finance capital can be seen in part as monetary geopolitics backed by military power. It directly appropriates, through investment schemes, production gains from the physical and resource economies of developing countries. At the same time, it engages in financial speculation by means of 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 analyses how China negotiates with the effects of global financial crises through adopting the policy of strategic transformation towards ecological civilisation and rural revitalisation. In addition, the grassroots initiative of rural reconstruction movement has played an important role in the ongoing transformative process.

Keywords
China, economic crises, *sannong*, rural vitalisation

Introduction

Throughout China's 69-year history of industrialisation and financialisation, whenever the cost of an economic crisis could be transferred to the rural sector, capital-intensive urban industries would achieve a 'soft landing' and existing

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institutional arrangements would be maintained. In other cases, however, the urban sector suffered, prompting major fiscal and even economic reforms. Chinese peasants and rural communities have rescued the country from economic crises. Chinese leaders, in the past, have adopted policies of land distribution in favour of the small peasantry and promise to defend the agrarian sector, comprising three irreducible elements—peasants, rural society and agriculture, known as '*sannong*'—against the background of macroeconomic crises.

Under Mao Zedong, land was redistributed to peasants on a massive scale, and a total of 40 million educated youth were sent to live and work in the countryside in three waves during 1960–1962, 1968–1970 and 1974–1976. In the Deng Xiaoping era, the household responsibility system was implemented to guarantee collective land ownership and rights of land use of peasants and to sponsor the recovery of the rural economy in which township and village enterprises (TVEs) played a major role. Jiang Zemin followed suit. Then, Hu Jintao announced a multi-year initiative dubbed the 'New Socialist Countryside'. This included 'an integration of the city and the countryside' in 2002; 'a scientific view of development and harmonious society' in 2004; 'new countryside construction' in 2005'; 'multi-function agriculture' in 2006; 'ecological civilisation' in 2007; and an 'inclusive and sustainable growth' in 2009. Further annual programmes followed under Xi Jinping. He promoted 'amazing China' in 2012, 'nostalgia for the home village' in 2013, 'new rural governance by local talents' in 2014 and 'precisely targetted poverty alleviation' in 2015. At the Nineteenth Congress of the Communist Party of China in 2017, with the country's economy burdened by industrial overproduction and financial instability, Xi urged 'rural vitalisation' and declared a commitment to renewing peasants' rights of land use for 30 more years.

Broadly speaking, in recent decades China has enjoyed a long period of comparative stability. The majority, 60 per cent of the population, are small property owners in rural areas. This is not only the legacy of the land revolution but also the foundation of Chinese society which acts as social stabiliser and buffer during economic crises.

Mapping Monetary Geopolitics

In its drive towards high profits, globally mobile financial capital is consistently characterised by three features: liquidity, short-term speculation and concentration (Wang, 2015). These tendencies inevitably produce bubbles and crises whose risks and costs are externalised from 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 increasingly sophisticated financial 'devices' and 'products'.

These forces of de-localised, 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 conflicts and displacing tens of thousands of people. Chinese economist Song Hongbing calls such disruption 'currency war' (Song, 2011), while Xu Yisheng and Ma Xin refer to it as 'financial sanction' (Xu & Ma, 2015). Liao Ziguang similarly names it 'financial war' (Liao, 2008).

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 'civilising mission' of 19th-century colonialism. Indeed, the Chinese scholar Liu Fudui calls it 'financial colonialism' and proposes that China establish a 'state financial security bureau' as defence (Liu, 2011). Samir Amin likewise implicates monopoly-finance capitalism in the recent global resurgence of fascist movements (Amin, 2014).

While its power has weakened somewhat, the USA remains the world's financial hegemon. This monetary dominance is underwritten by military strength: just as the US dollar dominates currency markets and reserves, US military bases encircle the earth. Since becoming the world's 'sole superpower' after the demise of the Soviet Union, the USA has regularly launched invasions, aerial bombardments and other interventions in Iraq, Afghanistan, Libya and elsewhere. Whatever their stated rationale or immediate goals, the ultimate aim of such actions is to defend, consolidate and expand the so-called 'Dollar Lake'. In fact, as the US debt crisis has worsened, its military spending has increased, because the country's unmatched power allows it to issue ever more debts to avoid repayment of existing debts—not by virtue of the strength of American democracy or markets, but through the sheer military force that supports US financial capital. It is no surprise, then, that in 2017, the US' military spending was US $610 billion, accounting for 35 per cent of the world share (Stockholm International Peace Research Institute [SIPRI], 2018).

Every US 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 defence of US 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 USA has felt compelled to respond to the rise of potential economic rivals. In December 2015, the IMF changed its rules such that loans issued by the USA must still be repaid in full, but those from Russia or China not necessarily so (Hudson, 2016). Despite the USA withdrawing from the Transpacific Partnership (TPP) in January 2017, among the twelve charter member countries, China, one of the biggest economies of the world, was conspicuously absent. Afterwards, the Trump administration has described China as a strategic 'competitor' and has started a trade war with China.

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 2008–2009 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 privatisation, raw material and food commodity markets, as well as derivatives similar to those that precipitated the most recent financial collapse. Further, the zero interest US dollar has spurred overseas investment and strategic acquisitions in the physical economies of developing countries. 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 (Wen, Gao, & Zhang, 2015).

On the other hand, the US Federal Reserve's plan to 'taper' QE and gradually raise interest rates has rattled global financial markets, especially in emerging countries with physical economies 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 externalise 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 to substantially expand the role of virtualised financial capital in core countries. Second, in order to protect their assets from a worsening financial crisis largely driven by their own speculative investments, the centres of financial capital, such as the USA, Europe and Japan, have advanced institutional reforms to stabilise their own financial markets. In October 2013, the central banks of six major developed economies—the USA, the European Union, Switzerland, Britain, Canada and Japan, with the Fed at the centre—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 calls it the new 'Atlantic System' of international currencies. Financial markets in the countries whose currencies have entered this system—the US 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 (Xu, 2013). 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 USA resumed its cycle of interest rate hikes.

Since the Fed's mid-2013 announcement that it would begin tapering QE which sent shockwaves through global currency and financial markets, global financial capital has retreated *en masse* from emerging markets. The US 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, countries, such as Brazil, that lack measures to limit currency exchange or contain capital flows have been hardest hit.

There has been an enormous turbulence since June 2013 in emerging market currencies threatened by the prospect of QE tapering.[1] From June 2013 to early October 2018, in terms of US dollar exchange rates, the value of Turkey's currency had dropped by 217.3 per cent, Brazil's by 76.6 per cent, Indonesia's by 53.8 per cent, South Africa's by 45.6 per cent, India's by 30.3 per cent and China's by 12.7 per cent. 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. In 2013, Brazil, Indonesia, Turkey, South Africa and India had already been referred to as the 'fragile five' in economic scholarship.[2]

It was estimated that in the 13 months preceding July 2015, net capital outflows from the 19 biggest emerging economies totalled US $940.2 billion. Based on an estimate by EPFR, an organisation that monitors fund flows, in a single week in June of that year, mutual fund outflows from emerging markets reached US $9.3 billion, a new record since the 2008 -2009 crisis. Of this, US $7.1 billion flowed from Chinese mutual funds, the largest fund outflow in emerging market mutual funds in seven years.[3]

Lessons from China's Experience in Response to Imported Crisis

Since 2000, the problem of excess capacity, also known as excess production, a concept rarely seen in China in the 20th 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 (Xinhuanet, 2015).

There are thus important lessons to be gained from China's experience of globalisation. When the country joined the West-dominated World Trade Organization (WTO) in 2001, China had by and large already completed its most sweeping marketisation reforms. Amid Western sanctions initiated in 1989 by the USA, 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. In December 1993, the State Council announced its decision to liberalise 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 specialised banks directly managed by the state. After the launch of market liberalisation 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 commercialisation reform. Afterwards, 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 bank 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 (Wen, Ji, & Zhang, 2015). 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 towards 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: marketisation reform and banking reform, which together created the institutional conditions for China to participate fully in globalisation. Soon after that, in 2009, following the eruption of the global crisis, financial capital became more alienated from real industries. In the context of the government's enormous injection of RMB 4 trillion, growth in currency credit exceeded that of the 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 (Chen, 2013). More broadly, since 2011, when growth in the domestic real estate market began to slow, a major shift has redirected China's economy towards the Western model of globalised financial capital. Property mutual funds entered virtualised 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 (Wen et al., China's stock market crash...).

Counter-crisis Measures in China

Faced with the challenges of globalisation, China has consistently taken active measures to increase 'aggregate demand': since 1998, China has continuously bought 'long'. These polices included large-scale strategic investment projects to drive economic growth, supported mostly by national debt: RMB 3.6 trillion in 1999 for the development of the country's western regions; RMB 2–3 trillion in 2001 to revive former industrial bases in the northeast; RMB 2–3 trillion in 2003 on development of central regions; over RMB 10 trillion for the Policy of Building a New Socialist Countryside in 2006–2015; and RMB 2 trillion in 2008 on post-earthquake reconstruction in Sichuan province as well as RMB 4 trillion in 2009 on emergency market bailouts. Driven by exports and state investment, 2002–2012 appeared 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.[4]

Moreover, the government's counter-crisis measures relied on transferring institutional costs to rural society. In the name of coastal economic development strategy, TVEs were encouraged to import raw materials from overseas and focus on production for foreign markets and, accordingly, to retreat from domestic raw materials and product markets. The mainly state-owned and debt-ridden urban enterprises thereby managed to avoid competition with the emerging rural enterprises, which were not so burdened. However, state investment in public goods such as education, medical care, local governments and party organisations was largely cut.

From 1989, peasants' per capita cash income declined for three consecutive years. A huge number of rural labourers had no choice but to move to cities to seek employment. By 1993, the outflow of rural labour had soared to 40 million. At the same time, local governments and grassroots organisations transferred the costs to peasants by imposing taxes and levies. As a result, social conflicts in rural regions increased greatly and tensions were intensified.

A dramatic consequence of orientation towards urban interests was the suppression of the rural economy and consumption by peasants, who still comprised a majority of the population. As a result, national domestic demand declined, and the internal contradictions of the economic structure worsened. The Chinese economy was forced to turn from domestic demand to export-led growth. Such a change explains in part why China in the 1990s was so eager to embrace globalisation and be integrated into the global capitalist economy.

During that period, the actual problem China encountered was the first wave of overproduction. One of the first experts to propose policies to address this issue was Lin Yifu of Peking University who stated as early as 1997, when the East Asian economic crisis erupted, that China's problem was 'a vicious cycle under double-surplus (surplus production and surplus labor)'. Consequently, 400,000 state-owned enterprises closed and 40 million workers were laid off.

The government's response to the crisis had been based on policy proposals by China's senior economists, including Lin Yifu, Ma Hung and Lu Baifu. Chinese officials in charge of economic policies also sensed the seriousness of the problem. As a result, strong adjustment measures were adopted starting in 1998. To stabilise economic growth, the central government directly issued national debts to support investments.

In 1998, China's economy was being rapidly reshaped by the commercialisation reform of financial institutions. The four major banks—Bank of China, Agricultural Bank of China, Industrial and Commercial Bank of China and China Construction Bank—all carried bad debts totalling more than one-third of their capital fund. The banks lacked sufficient funds to finance investments. That was why the central government had to directly issue national debts to support infrastructure investments; for example, of RMB 33.6 trillion invested in Great West development, more than two-thirds had been national debt investments.

Many people have wondered why China was fortunate enough to be spared from the impact of the Asian financial crisis. In fact, it was not spared at first. Given that throughout the 1990s, China had an export-driven economy that relied on overseas demand to support its growth, the sudden decline in that demand threatened imminent crisis. The so-called 'China experience' which helped avert the crisis was no more than a 'call move made directly by the government's visible hands' as a counter-cyclical adjustment.

The measures in response to the first wave of overproduction were not only effective, but also addressed the issue of unbalanced regional development. The Great West development begun in 1999 had a total investment of RMB 3.6 trillion. The rise of Chongqing would not have been possible without the state's large-scale infrastructure investments in the mountainous regions. Today, Chongqing is among the leaders in GDP growth not only in Western China, but in the nation. This growth was made possible by state investment during the Great West development. In 2001, the Northeast Revival project brought a total investment of RMB 2.4 trillion, and in 2003, when former premier Wen Jiabao took office, new growth policies for the country's central regions were put forward. The government's investments were all aimed at adjusting unbalanced regional development.

The *Sannong* New Deal of 2006

In the late 1990s, macroeconomic fluctuation led to a deterioration and crisis in rural governance (Dong & Wen, 2008). Beginning in 2003, the ruling party reiterated the importance of the *sannong* (three irreducible agrarian sectors: peasants, rural society and agriculture) highlighting it as the most important problem then facing the country. In 2005, the New Socialist Countryside policy was listed as the top major strategy in China's future development.

Thereafter a series of pro-rural policies were implemented, the rural sector was given a chance to recover, and the regulatory function of its labour pool was partly restored. These policies played a positive role in rectifying the long-lasting structural imbalance in the national economy (industrial overcapacity, excess capital, labour surplus, disparities between coastal regions and the interior, rural–urban polarisation and income inequality) and enhanced the sustainability of China's development. They did so in three major ways.

First, during 2003–2008, investment in the rural sector totalled over RMB 1,473.1 billion. The fiscal investment into the three agrarian sectors during 2003–2009 amounted to RMB 3,096.752 billion—averaging RMB 15,000 per household. It substantially increased the capital stock in the rural capital pool and brought infrastructure investment that greatly increased local non-agricultural employment opportunities. The once weakened regulatory function of the rural labour pool was thus restored.

Second, pro-rural investment stimulated rural consumption demand. During 2000–2003, the annual increase in retail sales volume for the rural consumer goods market below the county level was only about RMB 100 billion. By 2004, the number had more than doubled, to RMB 231.2 billion. It was estimated that the big push by the new rural reconstruction initiative would further increase the rural retail sales volume of consumer goods by RMB 400 billion annually, amounting to an increase of over 2 per cent in GDP (Huang, 2005).

Third, the flow of significant resources back to the rural sector helped ease tensions between peasants and rural governments. Now the main conflict was over the distribution of benefits within rural communities. The rural sector became more stable—which was necessary, as it formed the social base of the *sannong*. These were the essential conditions affording China ample leeway to deal with the 2008 global crisis.

A Comparison of Responses to the Crises of 1997 and 2008

After the mid-1990s, China grew increasingly dependent on external markets. During the country's integration into globalisation, foreign capital became a dominant factor in the structural adjustment caused by overseas expansion of China's industrial capital. Both the Asian financial crisis of 1997–1998 and the global financial crisis of 2008 were crises 'imported' from abroad. These two exogenous events were very similar in their symptoms and in the responses they provoked.

First, the symptoms. Before each crisis, the national economy had heavily depended on export-led growth. Once the crisis broke out, the sudden drop in exports instantly led to a decline in the growth rate and increased unemployment. When evaluating the official response, it is important to note that in contrast to the deflationary measures adopted in previous crises, the Chinese government in 1997 and 2008 embraced a large-scale expansionary policy to enlarge investment and stimulate domestic demand in an attempt to keep economic growth from sharply declining.

However, despite their success in resuscitating the economy, the rescue measures of 1997–1998 were skewed in favour of urban interests, leading to an over-appropriation of rural resources. The rural sector was made to bear much of the institutional costs, further inflaming social conflicts. In contrast, the rescue measures of 2008–2009 emphasised investments in the rural sector, a continuation of the government's *sannong* policy in place 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) was under construction in the rural economy at the country level.

These policies were thus mutually beneficial for both urban and rural sectors. However, it was also around this time that the whole society had to shoulder the enormous cost of national industrialisation. For the first time, China's secondary industry comprised more than 40 per cent of the national economy.

From China's experiences in dealing with crises, it is evident that *sannong* had been the primary bearers of the economic and social pressures caused by macroeconomic cyclical fluctuations. It also served as a shock absorber regulating economic instability. The importance of *sannong* to economic security and sustainable development in China is beyond question. However, in the stage of late industrialisation, the socioeconomic structure of rural China, which had served as the stabilising foundation and regulator of economic development, was undergoing drastic and fundamental change.

Rural Land Resources

After 2003, when the central government emphasised the importance of *sannong* for all important economic tasks, the New Socialist Countryside was initiated in 2005. So far the project has brought investments of over RMB 1 trillion, mainly targetted at correcting the urban–rural imbalance in development. Outside certain pockets of poverty, more than 98–99 per cent of rural regions now have electricity, water, broadband and natural gas, in addition to road access. As a result, small- and medium-sized enterprises have bloomed. Previously, peasants were happy to give up their rural registration accounts to become urban households. Now the situation has in some ways reversed as many urban households have returned to their home villages asking to be given back their peasant identity and rural household registration.

The government's direct investments in infrastructure, meant to address the problem of overproduction, have greatly boosted the value of physical assets.

Similarly, through the state's efforts in building roads and supplying utilities and communications in rural regions, resource assets that were previously not valued have surged in value in monetary terms. With access to transportation and communication, the produce, scenery and unpolluted environment of rural regions, among the attractions, have all become more valuable, in turn generating value for physical properties. In the late 1990s, the value of real properties of peasants totalled to only around RMB 10 trillion. Now it has exceeded RMB 100 trillion. This enormous increase has reached every person who owns such assets, including peasants at the lower levels of society.

The increase in value of physical properties also brought another opportunity in the form of a provision for the central government to greatly increase money supply. The growth in international trade and foreign investments, as well as the growth in asset values and in the volume of transactions, is further facilitating monetary expansion. In addition, the seigniorage earnings generated from monetisation goes to the central government. Given that China's capital account is not fully open to the outside, foreign investments that flow in can only enter production-related areas. It would not be allowed to enter directly into China to drive speculation on the currency and the capital market.

This point is worth noting: it is precisely because the national currency and the capital market are not open that the domestic surge in financial capital has been possible. The country already hosts the greatest volume of financial transactions in the world, and four of the world's five largest banks are Chinese.

Most Chinese would not worry that these major banks would go bankrupt. That is because over 80 per cent of the capital fund in the four major banks comes from the state. Backed by the state's credibility, the banks can bear debt obligations over the long term. There is much to criticise in such a system of state financial capital but one point in its favour is stability. If it becomes bankrupt, that means the state's credibility is itself bankrupt.

In 1998, when the East Asian financial crisis broke out, more than a third of the balance sheets of the four major banks represented bad debts. In most Western nations, such banks would be insolvent according to the capital requirement of 8 per cent set in the Basel Accords. Yet this did not happen in China. With the policy set by the central government, the bad assets were removed and handled by four asset management companies. The banks were then given new capital to satisfy the Basel Accords and listed on the stock markets for financing. This is the Chinese approach to financial crisis.

Rural Self-Governance

With the official affirmation of 'ecological civilisation' as the goal of China's strategic transformation in the new century, the enduring imbalance and deficiency in the country's development have become a principal contradiction (Wen, Lau, Cheng, He, & Qiu, 2012). That imbalance and deficiency have taken the form of three major disparities: that between coastal regions and the interior, between urban and rural areas and between rich and poor.

Serious urban/rural imbalance resulted from policies adopted in the 1990s. The core problem was the issue of peasants, specifically peasants' rights. That is why the point of view of the 19th Congress, that imbalanced and deficient development is the principal contradiction, is highly relevant.

Strategic adjustment and structural reorganisation are necessary choices for the new era. For in addition to issues of high debt and serious pollution, China also faces the problem of a second wave of overproduction.

Recently, Xi proposed two main national strategic policies to address these challenges. The first is the One Belt, One Road initiative, including the creation of the Asia Infrastructure Investment Bank, meant to alleviate the overproduction crisis (Sit, Wong, Lau, & Wen, 2017). This project has brought increased land transportation construction, to connect China to neighbouring countries and stimulate development of resources and energy; infrastructure investments to transfer appropriate industries and technologies to less developed countries and stimulate non-agricultural employment and sustainable development in labour-rich countries; and cultural exchange, to facilitate economic integration and resolve geopolitical conflicts. The second major policy is the integration of Amazing China with Ecological Civilisation to alleviate environmental and social crisis.

In the Nineteenth Congress report, the emphasis is no longer rural direct elections but effective rural governance. The main difference between ruling and governance is that the former is a top-down executive system whereas the latter involves dynamic, multifaceted interactions among diverse groups. Only through the adequate expression of diverse views can sound governance be achieved. But even today most scholars of rural governance take 'ruling' as their core concept and propose no more than the strengthening of rules and regulations. Good governance requires the establishment of structuralised relationships among diverse social groups through diverse economic and cultural activities built upon the natural diversity that arises from climate, geographical and other factors.

In history, the governance of the low-stratum rural society differed substantially from the upper-echelon system of centralised imperial control. The latter realised social control and collaboration largely through counties and prefectures while rural regions below the level of counties and prefectures were self-sufficient and self-governing.

Since the emergence of the county and prefecture system, China's rural regions have been the fundamental structure of social stability. The two systems have formed a binary of governing institutions for an agricultural society: the official-rank standard for the upper-level society and rural self-governance for the lower level. In terms of rural vitalisation, an essential task should be the revival of rural self-governance.

Situating the Rural Reconstruction Movement

As a response to problems caused by industrialisation and modernisation in a developing country like China, rural reconstruction has been developed as a political and cultural project to defend peasant communities and agriculture. These grassroots efforts are separate from, parallel to or in tension with projects initiated by the state or by political parties. As an attempt to construct a platform for mass democracy and to experiment on participatory, urban–rural integration for sustainability, rural reconstruction may become an alternative politics of 'de-modernity'.

From the 1920s to the 1940s, several well-known scholars of different visions were actively involved in rural reconstruction movements. James Yen who received a western, Christian education promoted a mass education movement and civil society in Ding County, north China and later in southwest China. Liang Shuming, Confucians and Buddhists, advocated rural governance through the regeneration of traditional knowledge and culture in Souping Township, Shandong Province. Lu Zuofu, owner of a shipping company, established social enterprises and public facilities to modernise Beibei town, southwest China. Tao Xingzhi combined livelihood education with communism. Huang Yanpei designed vocational training programmes for rural people. After 1949, James Yen continued his rural reconstruction projects in Taiwan, the Philippines and different countries in Asia, Latin America and Africa.

Contemporary rural reconstruction is a response to the aggravating rural–urban divide and social polarisation, a consequence of the market reform started in 1979, with China's export-led manufacturing industries, the demand for cheap labour and the impact on the Chinese economy of the global financial crisis, among other things. Rural reconstruction as a necessary movement to defend the rural way of life was proposed in 1999 by some non-state sectors. Since 2004, *sannong* issues have been officially accepted as 'the utmost important among all important tasks' in the Central Document No. 1 of the Party and the state. While the government has prioritised rural development by investing over RMB 10 trillion on infrastructure and welfare for the last 12 years, rural reconstruction is committed to self-organisation and mass democracy. Most local efforts are autonomous operating on their own initiative and sometimes complementary to state policies.

The movement has mobilised officials, villagers, scholars and university students to work together for rural reconstruction. Particularly, rural women play an important role of organising at the grassroots level; their engagement is extensively documented in the PeaceWomen Across the Globe Project.[5] Of the diverse rural reconstruction endeavours, some notable events include the *Rural Edition of China Reform,* a national journal which spoke for peasant interests. In 2001, the Liang Shuming Rural Reconstruction Centre was set up to provide training programmes for university students and peasant cooperatives. In 2002, the Beijing Migrant Workers' Home was set up to provide cultural and educational programmes for peasant workers. In 2003, the James Yen Rural Reconstruction Institute, which organised peasant training programmes and advocated ecological agriculture, was established. In 2005, the James Yen Popular Education Centre was started to promote localised popular knowledge and courses for peasant workers. In 2008, the Green Ground Eco-Tech Centre was initiated to promote rural–urban cooperation, community-supported agriculture and ecological skills and techniques; it manages the Little Donkey Farm, a common project of the Haidian District Government and the Centre of Rural Reconstruction at Renmin

University of China. In 2009, the first China Community Supported Agriculture Conference was held in Beijing. In 2013, the Association of the Advancement for Loving Home Village Culture was set up to organise campaigns for recognising grassroots efforts in defending rural heritage. In 2015, the Participatory Guarantee System of social organic agriculture was launched to build a national network of agro-ecological working groups. In addition, throughout China, there are rural reconstruction bases with diverse experiments: rural integrated development projects in Yongji of Shanxi Province, Shunping of Hebei Province, Lankao and Lingbao of Henan Province; rural finance projects in Lishu of Jilin Province; and popular education projects and community colleges in Xiamen and Longyan of Fujian Province.

The new rural reconstruction movement has reached out to share experiences with popular movements in India, Nepal, the Philippines, Thailand, Indonesia, Japan, South Korea, Brazil, Peru, Mexico, Ecuador, Argentina, Venezuela, Egypt, Turkey, South Africa and Senegal, among others. These facilitations have paved the way for organising five South South Forums on Sustainability in Hong Kong and in Chongqing from 2011 to 2018.[6] The Forums propose consensus of the 'Three Ss for Sustainability' based on an ecological civilisation of the South, namely, Sovereignty, Solidarity and Safety. The world can return to ecological civilisation only through empowering people's sovereignty over the common, both natural and human, autonomous from the capital's as well as state regime's forceful expropriation, and strengthening South–South solidarity. Thus, a sustainable human safety can be secured.

The purpose of the rural reconstruction 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 are committed to the three Ps (the three Peoples' Principles): People's Livelihood, People's Solidarity and People's Cultural Diversity. They emphasise peasants' organisational and institutional renewal—the implementation of local comprehensive experiments with the application of grassroots knowledge.

In nearly 20 years of its practice, the rural reconstruction movement has helped advance ecological civilisation as a people's endeavour to promote village cooperatives, organic farming and eco-architecture. The effort also encourages migrant labourers' organisational 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.

Throughout the 20th century, China had been through several political regime changes, yet regardless of who was in power the main pursuit was always modernisation for the benefit of a small elite group and to the detriment of the majority of the population. However, if rural China can be sustained for the cultivation of interdependent and cooperative relations within and among communities not only will this protect the livelihoods of the majority of the population, it will also function as a resistance to external crises derived from global capitalism. In that sense, the historical and contemporary manifestations of rural reconstruction, which are based on the small peasantry and village communities, provide an alternative to destructive modernisation.

Acknowledgement

Research support was provided by the China National Social Science Foundation (14 ZDA064). Translated from the Chinese by Alice Chan.

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest with respect to the research, authorship and/or publication of this article.

Funding

The authors received financial support from the China National Social Science Foundation (14 ZDA064).

Notes

1. Refer Frontier Strategy Group (2015)
2. https://www.thebalance.com/what-are-the-fragile-five-1978880
3. http://www.ftchinese.com/story/001062504
4. The earliest attempt in 'shorting' China is the 'China Collapse' theory after the disintegration of the USSR and East European Bloc, and was strongest during the 1997 East Asian Financial Crisis. It lasted until 2001 and quieted down at the time when the USA itself had eruption of the crisis due to collapse of the IT bubble.
5. The activities of PeaceWomen Across the Globe focus on strengthening links between women peace activists, supporting their work by providing them with practical tools and making their commitment visible. http://www.1000peacewomen.org
6. For the details, please refer the following links: https://our-global-u.org/oguorg/en/the-first-south-south-forum-on-sustainability/; https://our-global-u.org/oguorg/en/the-second-south-south-forum-on-sustainability/; https://our-global-u.org/oguorg/en/the-third-south-south-forum-on-sustainability-july-2016/; https://our-global-u.org/oguorg/en/the-fourth-south-south-forum-on-sustainability-4-6-july-2017-2/; https://our-global-u.org/oguorg/en/the-fifth-south-south-forum-on-sustainability-june-2018/

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