

In Transition to Rural Vitalization: China's Strategy amid the Global Crises*

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Abstract

This article examines how China deals with the global crises. China's policies to counter the crises rely on maintaining investment-led growth, which, however, has incurred an overexpansion of credits and serious debts similar to those of the West entering the era of financial capitalism. The current challenge is whether China can deploy the strategy of rural vitalization to turn to ecological civilization.

Keywords

US–China relations, financialization, dollar hegemony, debt trap, rural vitalization

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US–China Decoupling

In recent years, a cataclysm in the global geo-currency-political setup is unfolding, which is the greatest transformation since the dissolution of the Soviet bloc in the early 1990s. Only by grasping the competitive strategy of the advanced countries can we understand the perplexing situation of the world and see the patterns amid chaos.

Every US administration in modern history, regardless of the party 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 US monetary hegemony takes many forms, from military intervention to ideological pressure, economic sanctions, and 'free trade' agreements. It is no surprise, then, that in 2017, US military spending was \$610 billion, accounting for 35% of the world share (SIPRI, 2018). 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. A crux of this transformation is the decoupling of the US–China relationship. The two states are heading toward confrontational strategic stances and even becoming enemies. In December 2015, the International Monetary Fund (IMF) changed its rules: loans issued by the United States must still be repaid in full, but those by Russia or China not necessarily so (Hudson, 2016). Since 2017, the Trump administration had described China as a strategic 'competitor' and has begun a trade war.

What connected the United States and China, as the most important relationship in the global trade system, was a complementarity between the structural imbalances of the two nations. Despite nearly two decades of ongoing arguments on many issues, it was a peculiar strategic coupling, so as to incubate fancy ideas such as 'G2' or 'Chimerica'. Inside China, some officials and intellectuals did hold high expectations on a so-called New Strategic Partnership of Great Powers, strongly advocating continued development under the wings of the United States. However, not before long, this dream was broken. Since the Obama administration initiated a forth strategic adjustment known as 'rebalancing', the complementarity between the two states has been abating. The spillover effect of US economic recovery on China has been declining, while the domestic imbalance within the latter has become increasingly serious.

One of the consequences is the widening estrangement of the two states. In recent years, the United States has maneuvered large-scale military and political deployment in regions surrounding China, with the earnest support of Japan now administrated by a right-wing government. However, before 2012, the storyline was somehow different. Since the early 2000s, China, Japan, and Korea were envisioning a currency alliance in Asia. Imagine if Asian countries were to trade without the mediation of US dollar. That would definitely not be a desirable scenario for dollar hegemony. Then, Sino-Japanese relationship turned sour, not without fuel added to the flames by delicate geo-political maneuvers by the United States.

Of course, such decoupling does not imply that China has become less valuable to the United States. The transferring of financial and ecological costs from the United States to China would not come to an end. On the contrary, the deepening financialization in the United States is bound to lead to financial crisis. Excessive financial capital must find its way into the real economy to appropriate the added value of the capitalization of the economy. The more the United States is marching on the avenue of financial virtualization, the more it must extract real value from emerging countries to back up the 'virtual value' created in the form of financial products. Therefore, the United States is keen on disarming the target country's power and right to valorize its own financial capital. When the moment is right, international financial capital must sell short of a target country's currency, and force financial de-regulation to facilitate free and wild roaming for profit-making, as during the 1997 Asian Financial Crisis and the Russian Crisis in the 1990s.

In short, during the period of coupling, the interests of US transnational corporations were to guarantee the high profitability of investments in China and make sure that China's huge foreign exchange reserve would keep circulating back into the United States financial market through the bond market. US companies could earn handsome premiums by borrowing money at very low cost in the United States, where the interest rate was suppressed by policy and the continuing influx of dollar. Good profitability and higher interest rates in China made the premium a corporation feast. Therefore, for years, the US transnational corporations had been lobbying the US government to put pressure on China to raise the exchange rate of renminbi (RMB), as it would make the profits in China more valuable after converting into the dollar. However, the Chinese government insisted on currency sovereignty and delayed the liberalization of the capital account. The good dream was broken.

Meanwhile, China has been accelerating its pace of financialization. The RMB has been taking steps toward regional internationalization through bilateral currency exchanges with various countries. Thereafter, the United States and China have become confrontational in terms of respective geo-currency political strategies.

Now, in the US–China decoupling, the core interest of the United States remains to maintain dollar hegemony, blocking with all necessary means potential usurpers (be they the Yen, Euro, or RMB) from rising and preventing ‘de-dollarization’ in certain regions. For this purpose, on the one hand, the United States has to consolidate its currency and military alliance. On the other hand, it has to prevent other potential competitors from forming similar alliances.

Furthermore, the United States has to be alert with regard to the formation of quality asset pools priced in RMB, both international and domestic in China. If RMB-priced assets become competitive safe-haven assets for international investors as an alternative to US financial products, the value of the latter will likely be under pressure. From this viewpoint, the best scenario for which transnational financial venture capital can hope has changed. It now takes advantage of potential systemic risk during China’s accelerating financialization to attack the RMB exchange rate. In case of economic unsteadiness in China, they are ready to add fuel to the fire to ignite a financial crisis much larger in scale than the 1997 crisis to plunder China’s huge foreign exchange reserve, and then take over China’s best assets when the price crumbles. In short, they hope that what happened in Russia during the early 1990s and Asia during the 1997 crisis will again take place in China. If successful, it would be one of the largest financial loots in history.

However, before that, an important step has to be taken: the safe reflux of the US dollar. To complete the cycle of global dollar flow as described above, a favorable condition must be created for the dollar leaving the United States in the form of trade deficits and held as foreign exchange reserve to circulate back into the US market. This may explain the weak dollar since the end of 2016, when the dollar index was around 103. At the beginning of February 2018, the index fell below 89. This means that within 14 months the dollar depreciated by more than 14%. Then, the Trump administration reversed the trend and pushed forward with heavy tax cuts to attract the reflux of US corporation funds overseas. The dollar index was nearly 96 in mid-October 2018.

Of course, the precondition of these scenarios is free transfer of capital across the border. Therefore, the pressure put by the US government on the liberalization and de-regulation of China’s capital

account and capital market are not out of the impartiality of the free-market tenet, but rather in line with the core interest of transnational financial capital. What we are expecting is nothing less than a new financial imperialism. Politically, the vested interest bloc is pushing the 'de-nationalization' of China, hoping that the Chinese government loses its ability to regulate the economy. Eventually, the autonomous monetization of China's resources and real economy by RMB would be replaced by US dollar or other Western currencies. The major part of seigniorage, which should be enjoyed by Chinese government, would be siphoned out of the Chinese economy through Western currencies.

In other words, the advanced countries in the core must make use of hard as well as soft power to 'de-nationalize' the nations in the semi-periphery and periphery, demolishing the credit system of 'value-endowing of national currency through sovereignty', in order to achieve re-colonization and complete the dollarization of the world economy.

Debt Trap

China has now been at a most critical moment since 1993. The economic, social, and political situations are extremely complicated. In the summer of 2015, China underwent a series of severe stock market crashes under the attack of international and internal financial vested interest blocs. The gyrating exchange rate of RMB was draining China's foreign exchange reserve (estimated to have reached one trillion US dollars, about one fourth of its total reserve). The real economy was declining, while China was facing capital flight and decreasing employment growth. We call it the third exogenous crisis since the 1990s, which increasingly exhibits the characteristics of globalization where international and domestic capitals show no behavioral difference and often go hand in hand in profit-seeking.

The current crisis-facing developing countries like China with a predominantly real economy have not been caused by isolated internal factors. In other words, crisis of this kind is not endogenous but rather exogenous. Since the 1980s, the advanced core countries in the world capitalist system have been leaping, one after the other, to a higher stage of financial capitalism. While international monopoly financial capital becomes increasingly virtualized, geo-currency strategy becomes more militarized. The marriage between military power and geo-currency strategy aims to create crisis in real or resource economies to facilitate

the chance for speculation and looting of public wealth around the world. The militarization of the geo-currency strategy of core states is undermining the prospect of peace around the world.

After the 2009 global crisis, China has shown a trend of ‘de-industrialization’ with a sluggish manufacturing sector since 2011. Since 2014, the Chinese real economy has, in fact, slid into recession. Meanwhile, with excessive liquidity thanks to the US Fed’s quantitative easing (QE), China’s asset markets are dangerously exuberant. In 2015, a series of stock market crashes hit hard on the financial system. In recent years, the inflating real estate bubble is putting weight on people’s livelihoods and even threatening the stability of the economy. China has been ensnarled into a ‘debt trap’. The central government’s counter-cyclical economic measures of increasing investments come up with local governments relying heavily on land financing for local fiscal budgets. Real estate developers and investors take the surge to create bubbles. As a result, the economy becomes over-indebted.

After decades of competition in globalization, China has developed the largest and most complete industrial system in the world. However, everything has come with a dear cost. The environment and eco-system in China are seriously devastated. Social welfare for workers has been systematically suppressed to maintain competitiveness in labor costs. Therefore, some researchers conclude that China has been developing by taking the advantage of ‘environmental rent’ and ‘labor welfare rent’. This development path has come to a blind alley. China is now plagued by two major contradictions: environmental degradation and social conflicts owing to uneven wealth distribution. The society’s rifts are found along four structural imbalances: uneven regional development, urban–rural disparity, inequitable wealth distribution, and disequilibrium among economic sectors.

The Chinese economy is now troubled by the double impacts of overcapacity and excessive liquidity. While real economy is struggling in deflation, debt is ballooning in a liquidity trap.

Overcapacity and Excessive Liquidity

First, there is overcapacity. Since 1998, China has faced the problem of overcapacity, similar to what happened to the West during 1929–1933. China’s solution is also similar to the US New Deal. Through the expansion of public debt, overcapacity is being channeled into infrastructure

construction in the hinterland. Such measures have sustained China at a high growth rate for nearly 15 years. During this period, the world has witnessed several major crises, while China has managed to maintain a relatively high growth rate, the reason for which has been 'state intervention'.

Nevertheless, solving the problem of overcapacity by internal investment as a remedy to the export-led economy is, in fact, a way to overcome short-term overcapacity by long-term overcapacity. Furthermore, infrastructure investment requires expropriation of resources, especially land, which often leads to social conflicts. In some cases, building infrastructure brings about environmental disaster.

In short, after two decades of export-led strategy (or globalization), the old development path has reached its dead end, both in terms of external and internal conditions. China could no longer sustain its growth rate by continuing to export to advanced societies. Meanwhile, the advanced economies keep their path dependence on rent-seeking by credit expansion.

However, in the advanced countries, the increasing virtualization and exclusiveness of the economy has narrowed upward mobility, the symptoms of which include a lasting high youth unemployment rate and social polarization (shrinking of the middle class, or the M-society). This, in turn, leads to a vicious circle: the middle and lower classes rely increasingly on debt to maintain their living standards; public debt soars as tax revenues decrease under pro-capital policies; total public and private debts rocket; society and culture get more reactionary, while radical, right-wing populism burgeons, with a possible re-emergence of fascism. Eventually, political leaders might once again seek recourse in large-scale wars to consume the overcapacity and 'write off' debts, as was the case of World War II (WWII).

Furthermore, the carrying capacity of the earth's eco-systems has reached its limit to support further expansion of a global economy based on mass consumption.

In 2015, China's top leadership proposed the so-called 'supply-side reform', which is actually a way to announce that the marginal benefit of the old counter-cyclical measures applied in the last two decades, which accordingly can be dubbed as a 'demand-side increment' (through public debt expansion), has reached its limit. It is estimated that, prior to 2008, a proportional increase of one RMB in debt would yield one RMB in GDP growth. But now it requires at least four RMB of debt in order to create one RMB of GDP growth. The traditional troika of 'investment,

export, and consumption' is hard to further expand. Promoting investments through monetary and debt expansion has reached a dead end. Export growth is slowing down. Domestic consumption is limited by the structural constraint of income distribution.

Therefore, China has to shift to structural optimization to replace the old model of quantitative increase of money. That means China has to upgrade and optimize its industrial structure, cut down overcapacity and integrate different sectors of production. Investment has to be diverted into fields like environment protection, renewable/clean energy, new technologies, and social welfare such as housing, medical care, and education. Rather than merely focusing on increasing money income and GDP growth, national welfare as a whole should be improved. Then, China may have a chance to find a new momentum of development in the next stage.

China has put forth the One Belt One Road (OBOR) initiative in order to make the most with its overcapacity. However, it would be superficial to think that the OBOR is just a way to boost export. China is more ambitious with it. First, what are spreading along with OBOR are not just made-in-China products but China's model of industrialization and industrial standards. Second, it is vital for the internationalization of RMB, which is an essential strategy for China's further financialization.

One Belt One Road

In late 2013, Chinese President 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 OBOR. Along with the Asian Infrastructure Investment Bank, 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 overcapacity crisis of the 1930s in the West that precipitated WWII 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 prior to World War I, 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, since the Han Dynasty (206 BC to 220 AD) and Tang Dynasty (618–907 AD), China's trade with the West had motivated the Islamic world to expand its influence along the trading routes of Central and West Asia, forcing Europe—under the pressure of a silver crisis caused by continued 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 project was merely 'one road', it would be little more than a traditional land-power strategy, but OBOR opens up secondary maritime power along China's coast, backed by the vast expanse of the country's landmass.

At the turn of the twentieth century, the English geographer Halford John Mackinder (1904) 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. 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' (Mackinder, 1996, p. 150). 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 transcontinental 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 Communist Party of China (CPC) clique—to reassert its influence over China's future development policy. Indeed, in this respect, the United States has already had much success: China's 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 United States leadership in the global order. Nevertheless, there is little doubt that the United States will adjust its diplomatic strategy with regard to OBOR.

Accelerating Financialization

While the core countries are moving toward a higher level of financial capitalism, nations in the semi-periphery and periphery are not immune from the core's financial expansion as long as these nations are integrated into globalization.

Not only is China the largest real economy but it is also the largest state, which manages to safe guard its currency sovereignty while being integrated into globalization. There are two mechanisms driving China to accelerate financialization. On the one hand, the Chinese authorities actively push forward the monetarization of the national economy. Sovereignty is the credit foundation of endowing value to the national currency. As resources and physical assets are monetarized on an increasingly deeper level, the domestic capital market is being constructed to absorb the growing liquidity. On the other hand, China is being 'passively' financialized, as huge amounts of direct foreign investment are flowing in. At the beginning of the twenty-first century, excessive liquidity was created through a specific monetary mechanism by which foreign exchange was being rendered into base money supply.

As a developing country, foreign exchange was once a very precious resource for China. Therefore, the authorities mandated that all foreign exchange going into China must be sold to the central bank and converted into RMB. As a result, any foreign exchange flowing into China led to an increase in money supply. Before 2000, money supply in China was basically endogenous. However, during 2001–2008, at the high time of globalization, the money supply became 'exogenous'. As China accumulated an enormous amount of foreign exchange, base money supply

was rocketing regardless of the basic conditions of the economy. During 2009–2011, when the world market was flooded by excessive liquidity owing to the US Fed's QE policy, an astronomical amount of hot money kept flushing into China. In 2009, the base money supply increase owing to foreign exchange purchases by the central bank reached the highest level. After 2012, the closing of QE reduced the marginal easing of liquidity and new foreign exchange purchases by the Central Bank slid. Therefore, after 2013, the money supply mechanism driven by foreign exchange purchase failed to provide enough liquidity for the economy, which became the source of deflation in the real economy.

As money supply was 'passively' increased by this mechanism, China's central bank balance sheet and M2 volume topped the scale in the world. Under this mechanism, China was caught in a dilemma. The central bank's monetary policy has long been 'hijacked' by exchange rate policy.¹ As a result, the bank system was flooded with excessive liquidity, while the non-financial sector faced credit contraction.

It could be said that the source of all of these was China's double export to the United States in terms of low-cost consumer goods and capital, which has, in turn, facilitated the reflux of US dollar capital making huge profits through this institutional arrangement with the lowest cost. If these funds were to stay in China, they would have helped Chinese enterprises to develop. However, they ended up in the hands of US capitalist blocs at very low cost. Then, US transnational corporations were well equipped with capital to take over China's strategic industrial assets.

Assets Bubble, Over-Leverage, and Debt Expansion

The systemic excess of liquidity in the banking system greatly facilitated fixed asset investments. As the marginal profitability of manufacturing was dropping, liquidity was channeled into assets markets. At the peak in June 2015, the total value of stock markets in China was up to \$10 trillion (about 100% of GDP), the second largest in the world next to the US market. Bubbles also appeared in the real estate sector.

Another reason for the emergence of the real estate bubble is that under the current tax system half of the local tax revenues go to the central government. Local governments, therefore, have strong incentives for rent-seeking in the real estate sector to make up the funds needed for

running the government. Land selling becomes an important source of tax revenues for local governments (in recent years about 40%–60%). While other sectors like manufacturing face credit contraction, the real estate sector is favored by bank credits which add fuel to fire.

Going hand in hand with base money supply increase, bank credit was also expanding quickly. According to the Institute for International Finance, between the fourth quarter of 2008 and the first quarter of 2018, China's gross debt exploded from 171% to 299% of GDP (Wolf, 2018).

Deleveraging, therefore, becomes a tedious task. However, compared with many advanced and emerging countries, China is still standing on more solid ground to deal with the problem. Viewed in another way, China's debt problem has been much sensationalized by the Western media and international institutions such as IMF. It seems that the debt problem becomes another new version of the 'China Collapse' story. Paradoxically, the experiences of dealing with financial and debt crises in the West seem to show that strong and decisive actions by the authorities are essential in preventing the situation from deteriorating. However, while the West has urged China to deal with its debt problems, the heavy intervention of Chinese authorities in the economy is much criticized. China's insistence on economic sovereignty has often been a target of criticism. There seems to be a self-contradictory double standard held by the West on this issue.

Two Pyramidal Structures

The global liquidity can be represented by an upside-down pyramid, in which the value of financial derivatives of all sorts amounts to almost 10 times the world GDP. Such excessive liquidity is the source of global financial instability.

In comparison, China for a long period has been underpinned by two stable pyramidal structures (see Figure 1).

China's social structure has been shaped by general agrarian reform after the victory of the revolution in 1949. Arable land was evenly distributed to most peasant households. Rural society is actually comprised of tens of millions of small property owners. Peasant households practice farming and run mixed business on their land at a small scale, which is the foundation of social stability and ecological civilization. In the early 1990s, surplus rural labor flocked to the cities for cash income. The land ownership based on this agrarian relation

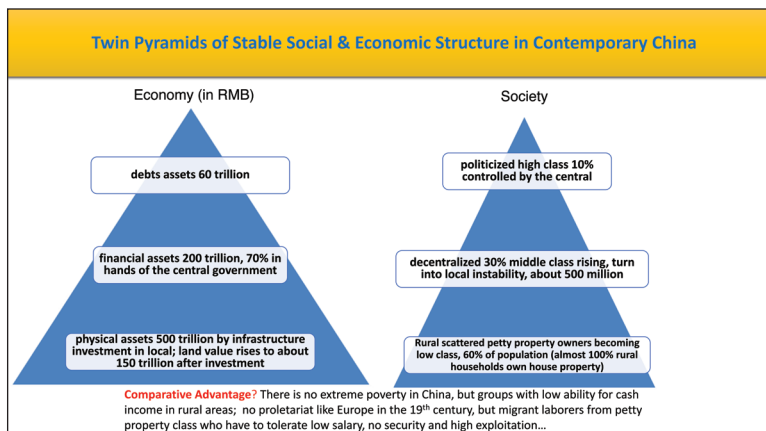


Figure 1. Twin Pyramids of Stable Social and Economic Structure in Contemporary China

Source: Authors' own.

made the migrant workers into a hard-working, disciplined, and non-confrontational labor force for manufacturing.

Such is the prerequisite of China's competitiveness in global trade and also the condition of crisis-resolution when the society is faced with the negative externalities of modernization, urbanization, and globalization. Even in the cities, a large number of citizens own properties. That implies 60% of the population are small property owners, unlike the situation of many developing countries where the majority of lower class citizens are impoverished. This forms the base of social stability in China. Thirty percent of the population are middle class or medium property owners. The top well-off class including capitalists and executives amounts to less than 10% of the population.

Corresponding to this social structure is an economic structure in which physical assets form the base of the nation's wealth, which by our estimates amounts to about RMB 500 trillion. Above this are financial assets of about RMB 200 trillion. On the top of the pyramid is about RMB 60 trillion of government debts. Financial assets and debts are about half of the total accountable social wealth. Such a pyramidal structure is still relatively stable.

This double pyramidal structure has bolstered the stability of China. Therefore, without external soft power or geo-currency strategy, it would not be easy to destabilize China by merely internal short selling.

Now, as the financial interest blocs in China are growing bigger, the financial elites are keen to deepen financialization, with an expanding derivative market and all sorts of financial innovation. If financial assets and debts become disproportionate as in the case of core countries, the real economy will be hijacked by the virtual economy in financial alienation.

Financialization is a special form of modernization for the minority. It requires a hyper-modernized superstructure to sustain it, with increasingly enormous institutional costs. In retrospect, financialization in the West is concomitant with the rapid expansion of public debts. If the institutional cost of the superstructure is over-expanded, characterized by rocketing public debts, the economic base would fail to support the upside-down pyramid structure, then economic, political, and social crises will strike. It applies to the West, as much as to China.

Deepening financialization will necessarily change the fundamental property relationship of a society. What concerns us here is the rural land ownership system in China. Community collective ownership has been the foundation of social stability in China for a long period. The prevalent discussion of land ownership reform, under the cloak of various economic theories and ideologies, is all about the monetarization, commodification, and financialization of rural land. Once ownership is changed, so will be the social relationship. Changing the rural land ownership will necessarily affect the function of the rural sector as social stabilizer for decades.

Counter-Crisis Measures

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: 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 2006–15; 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.²

Moreover, the government's counter-crisis measures relied on transferring institutional costs to rural society. In the name of coastal economic development strategy, Township–Village Enterprises (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, and local governments and party organizations was largely cut.

From 1989, peasants' per capita cash income declined for three consecutive years. A huge number of rural laborers had no choice but to move to cities to seek employment. By 1993, the outflow of rural labor had soared to 40 million. At the same time, local governments and grassroots organizations 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 toward 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 globalization and become 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 stabilize economic growth, the central government directly issued national debts to support investments.

In 1998, China's economy was being rapidly reshaped by the commercialization 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 totaling 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 the 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 in 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.

From Sannong to Rural Vitalization

Throughout China's 70-year history of industrialization and financialization, whenever the cost of an economic crisis could be transferred to

the rural sector, capital-intensive urban industries could achieve a 'soft landing' and existing institutional arrangements could 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 favor of the small peasantry and promise to defend the agrarian sector—comprising three irreducible dimensions: 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 TVEs played a major role. Jiang Zemin followed suit. Then, Hu Jintao announced a multiyear initiative dubbed the 'New Socialist Countryside', including 'integration of the city and the countryside' in 2002, 'scientific view of development and harmonious society' in 2004, 'new countryside construction' in 2005, 'multi-function agriculture' in 2006, 'ecological civilization' in 2007, as well as 'inclusive and sustainable growth' in 2009. Further annual programs followed under Xi Jinping, who promoted 'amazing China' in 2012, 'nostalgia for the home village' in 2013, 'new rural governance by local talents' in 2014, and 'precisely targeted poverty alleviation' in 2015.

At the 19th Congress of the CPC in 2017, with the country's economy burdened by industrial overproduction and financial instability, Xi urged 'rural vitalization' and declared a commitment to renewing peasants' rights of land use for 30 more years. Generally speaking, in recent decades, China has enjoyed a long period of comparative stability. The majority, 60% of the population, are small property owners in rural areas. This is not only the legacy of land revolution, but also the foundation of Chinese society, which acts as social stabilizer during economic crises.

After 2003, when the central government emphasized 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 targeted at correcting the urban–rural imbalance in development. Outside certain pockets of poverty, more than 98%–99% 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 household registration 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 attractions, have all become more valuable, in turn generating value for physical properties. In the late 1990s, the value of real properties of peasants totaled 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 the value of physical properties also brought another opportunity, in the form of a provision for the central government to greatly increase the 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 monetization 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. 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 top five world banks are Chinese (Bird-Mendes, 2018).

Most Chinese would not worry that these major banks would go bankrupt. That is because over 80% 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 criticize in such a system of state financial capital, but one point in its favor is stability. If it becomes bankrupt, that means the state's credibility is itself bankrupt.

Since 2017, the government has adjusted its policy by returning to counter-cyclical measures through creating effective demand. Another important policy is to foster an 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 excess money supply caused by the trade surplus and the inflow of foreign capital.

In short, the current moves on the economic front constitute China's proactive effort to steer away from decades of developmentalism in line with the 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.

Concluding Remarks

In terms of social stabilization at large, rural China had played an important role in absorbing the shocks to the cyclical economic crises that were caused by urban industrial capital as well as foreign capital over almost seven decades. The agrarian sector was likely to be forged as a vehicle of soft landing in case of crisis.

It is apparent in China's case that an unbalanced domestic economy that was increasingly integrated into the global economic system would once again have to bear risks associated with its over-dependency on overseas markets. The capricious flows of capital in and out of the country would have repercussions for its domestic economy and politics. These would pose a formidable challenge to the sustainable development of China's economy and society.

From China's experiences in dealing with global 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 to regulate economic uncertainty. The importance of the recent strategic policy of rural vitalization to human security and sustainable development in China is without question.

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Notes

1. In international economics, Mundell–Fleming trilemma theory states that a country could not achieve the free flow of capital, fixed exchange rate, and independent monetary policy simultaneously. However, Rey (2015) shows that, under a global financial regime, a country actually faces a dilemma instead of a trilemma: either capital account control or independent monetary policy.
2. The earliest attempt in ‘shorting’ China is the ‘China Collapse’ theory after the disintegration of the Soviet Union and the East European Bloc and was strongest during the 1997 East Asian Financial Crisis. It lasted until 2001 and quieted down at the time when crisis erupted in the United States itself due to the collapse of the IT bubble.

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