

Rural Communities and Economic Crises in Modern China

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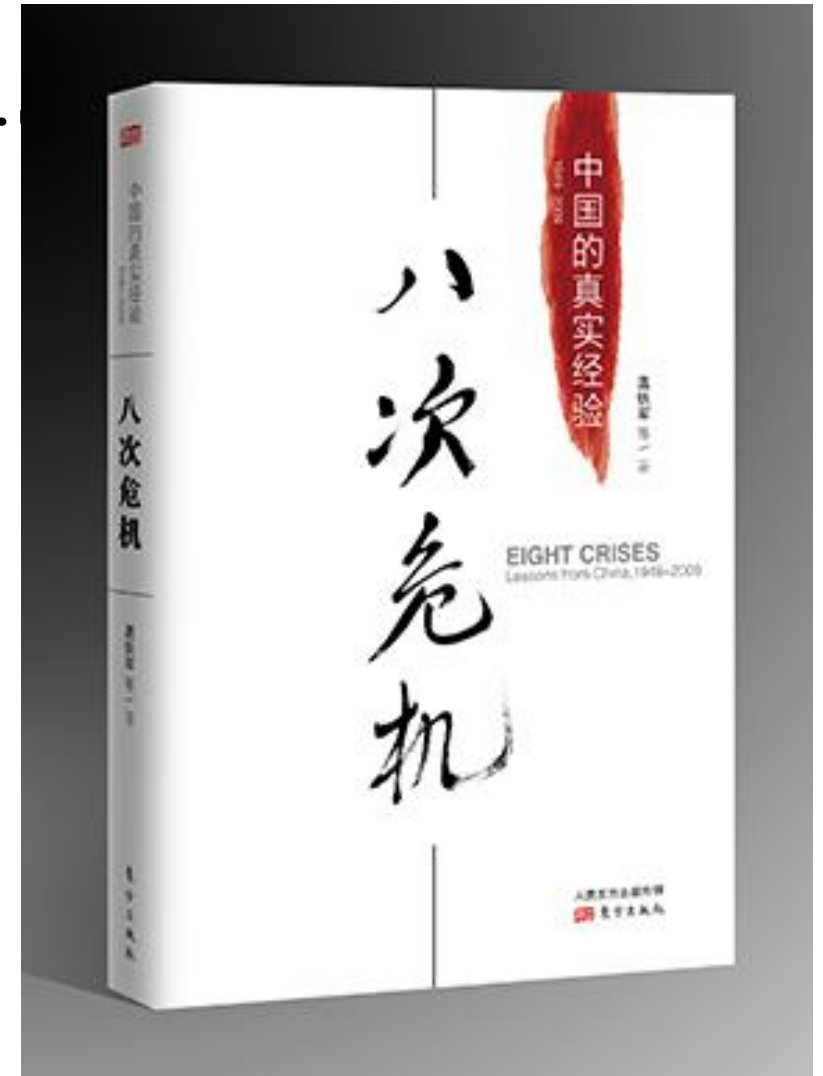


《多彩太安 美丽家园》（摄于2012年）

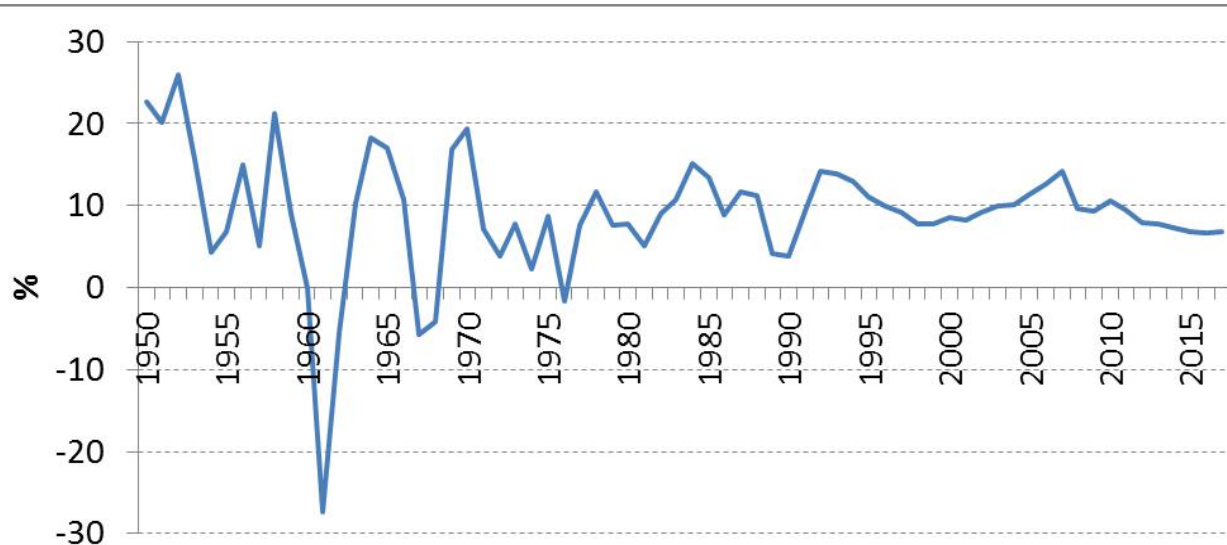
Ten Cyclical Economic Crises

- The First Economic Crisis (1949-1951)
- the Second Economic Crisis (1952-1960)
- The Third Economic Crisis (1965-1970)
- The Fourth Economic Crisis (1971-1975)
- The Fifth Economic Crisis (1979-1980)
- The Sixth Economic Crisis (1985-1989)
- The Seventh Economic Crisis (1991-1995)
- The Eighth Economic Crisis (1997-1998)
- The Ninth Crisis (2007-2009)
- The Tenth Crisis (2013- the present)

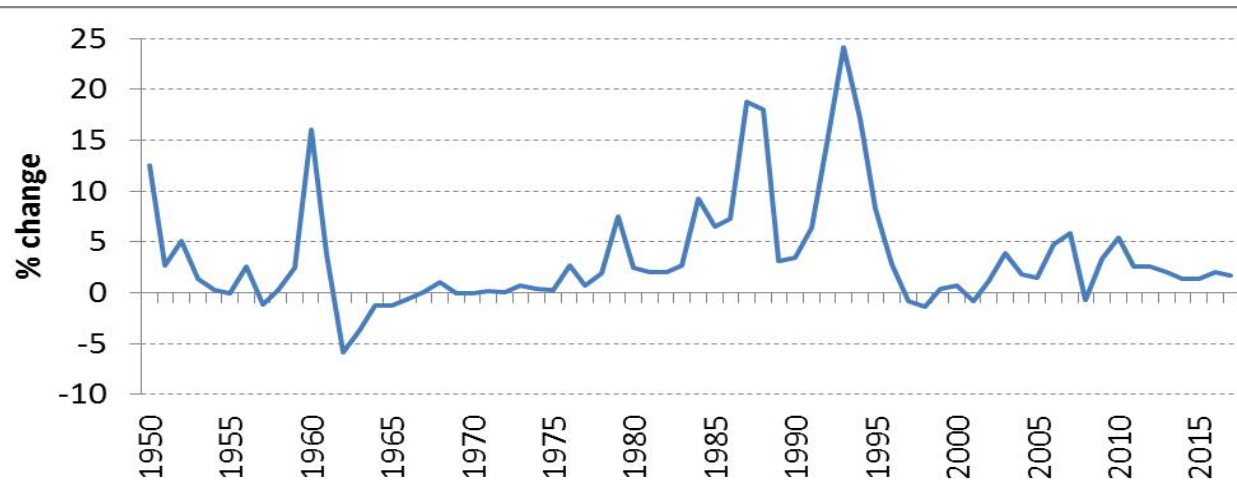
- Wen, Tiejun, *Eight crises: Lessons from China (1949–2009)* (Beijing: Dongfang Publisher, 2012).



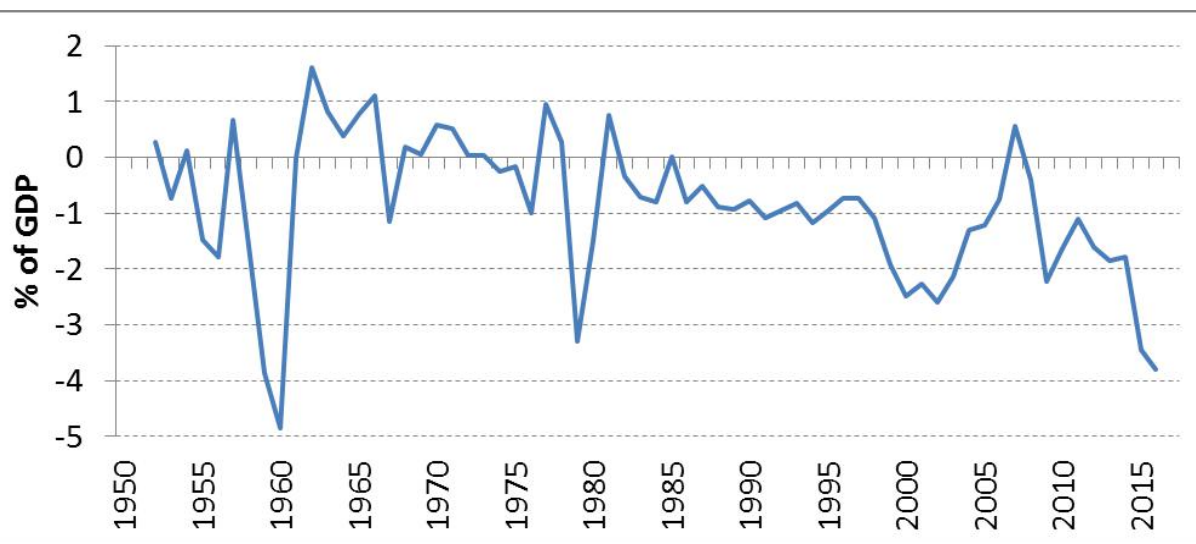
Main macroeconomic indicators of China (1950-2017)



Real GDP Growth Rate



Consumer Price Index



Budget Balance of General Government

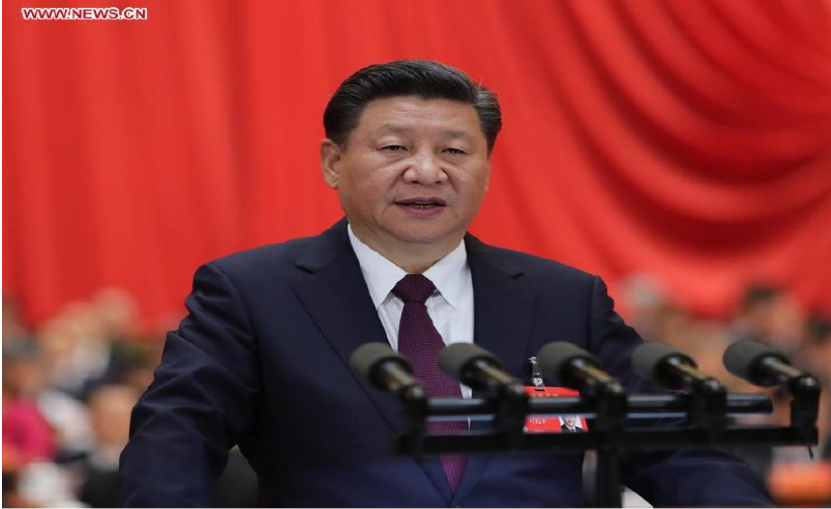
Sources: National Bureau of Statistics of China (NBSC);
State Administration of Foreign Exchange (SAFE)

- Throughout China's seventy-year history of **industrialization and financialization**, whenever the cost of an economic crisis could be transferred **to the rural sector**, capital-intensive urban industries achieved a “soft landing” and existing institutional arrangements were 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 ten economic crises.** It has almost become a rule that Chinese leaders adopt 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, together known as *sannong* (三农) — against the background of macroeconomic crises.

Chinese Leaders

- 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 1960–62, 1968–70, and 1974–76.
- 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.
- **Hu Jintao** announced a multiyear initiative dubbed the New Socialist Countryside, including “an 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

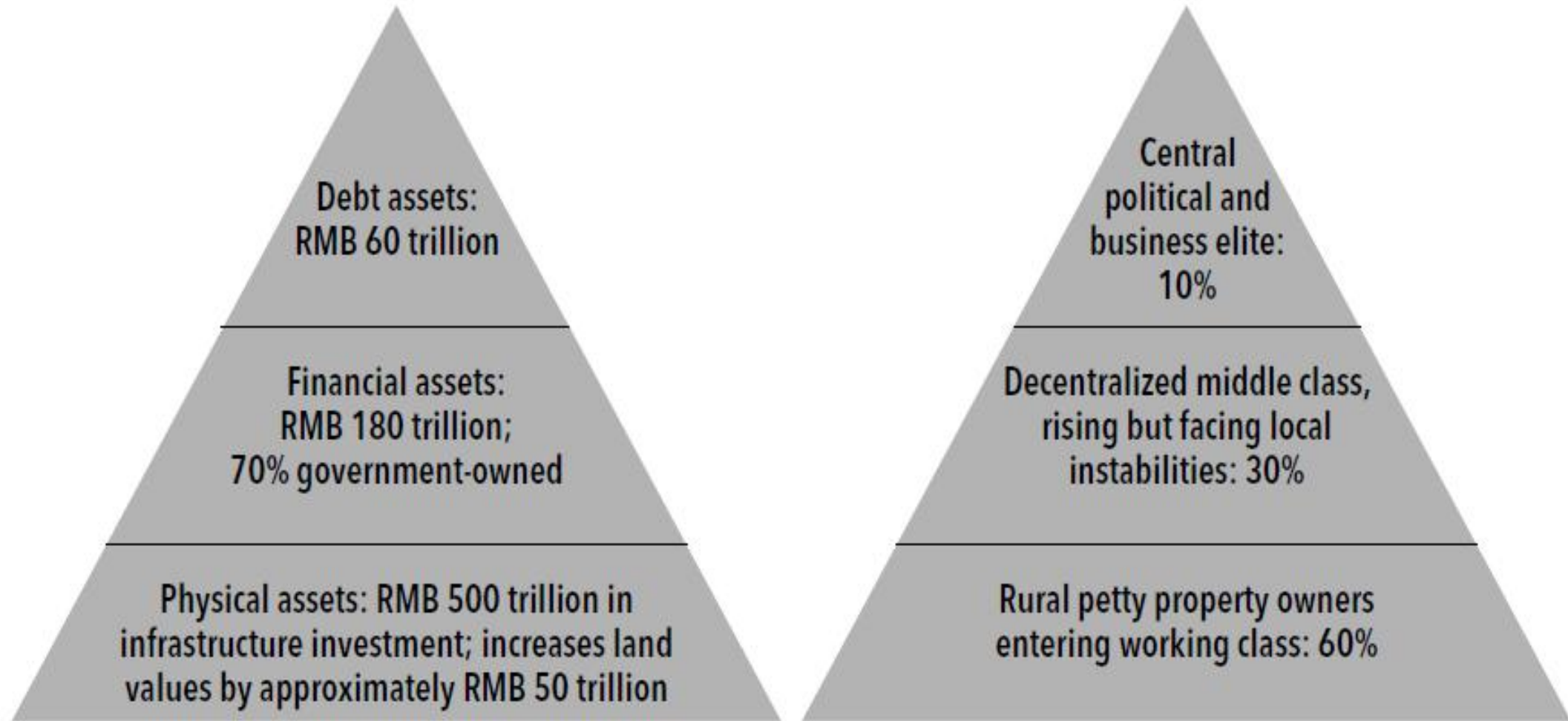
The Policy of “Rural Vitalization”



- **Xi Jinping**, who promoted Amazing China in 2012, nostalgia for the home village in 2013, new rural governance by local talent in 2014, and precise target 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 vitalization**” and declared a commitment to renewing peasants' rights of land use for thirty more years

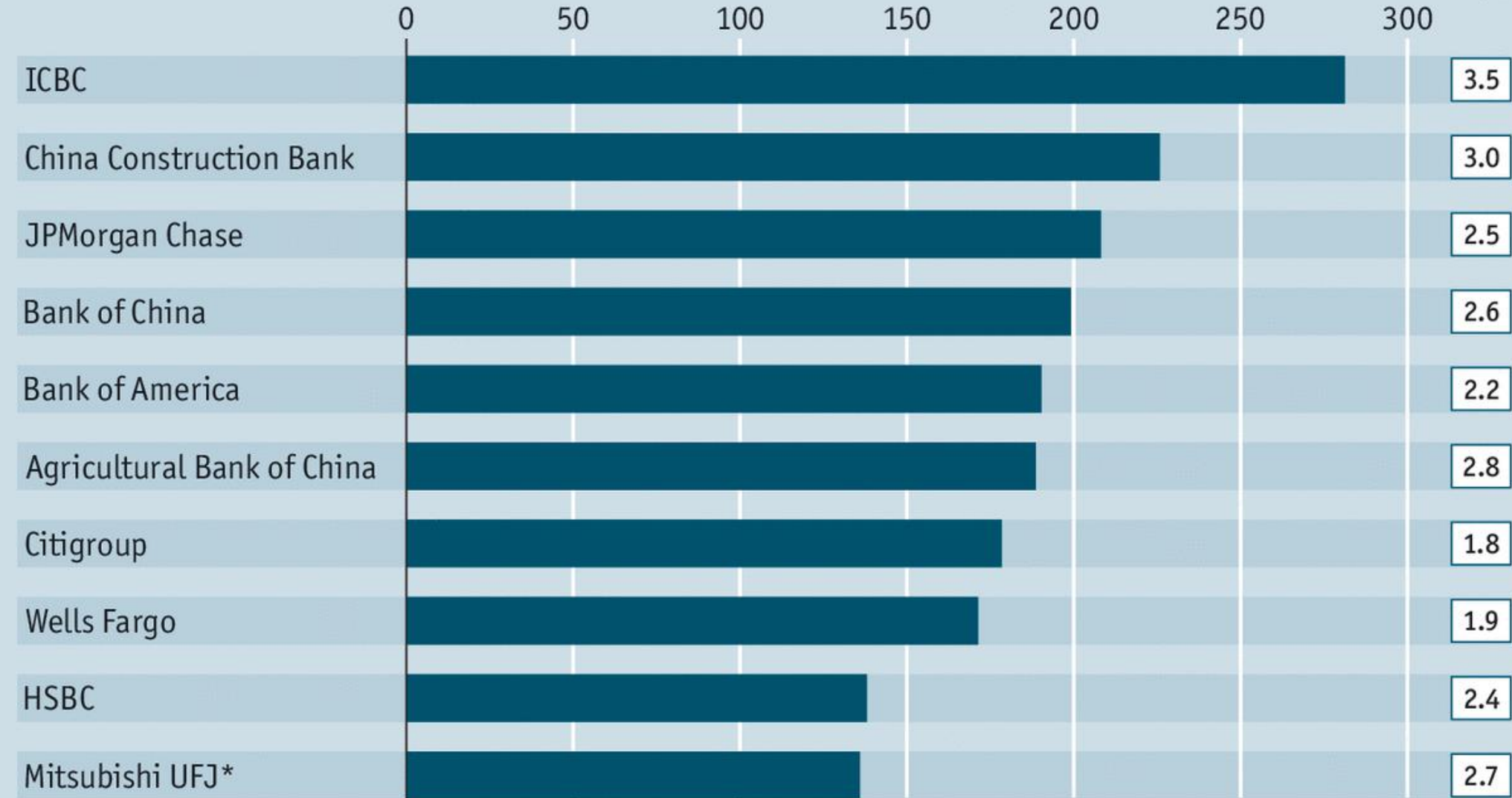
Figure 1. Twin Pyramids of Stability in Contemporary China

Economy **Society**



World's biggest banks

By Tier-1 capital, December 31st 2016, \$bn



Source: *The Banker*

* March 31st 2017

1949 Land Revolution



How to Resolve the First Economic Crisis (1949-1951)

- The transformation of property relationships by means of revolutionary war achieved three results.
- First, it created a vast and diversified physical economy, allowing about 100 million rural households to return to traditional agricultural structures and delink from modernization, so that the subsistence of urban residents (then about 10 percent of the total population) could be secured. It accordingly greatly ameliorated the hyperinflation that had prevailed in China's cities since the last years of the old republic.

- Second, as long as peasants could be mobilized by the ideology of land reform, sufficient material products could be collected and transported to the cities; this represented the first triumph of state capital over private capital through revolutionary mobilization.
- Third, the state established its fiscal and financial system, which was necessary for economic regulation of the real economy. The experience gained in the process became the foundation on which the state constructed its basic economic institutions. Land reform thus represented an economic diversification of the revolution, from villages to cities.
- It was the institutional heritage of so-called **rural socialism with Chinese characteristics**, which took shape through developing real economy by self-reliance in the “liberated” regions long before the Communists’ final

The Third Cyclical Crisis (1965–70)

- A complete blockade by the West (US) + the withdrawal of Soviet capital in the early 1960s
- During the Cold War, China had become entangled in a series of regional “hot” confrontations, including the plan of counterattack by the Kuomintang regime in Taiwan, the Korean War, the Sino-Indian War, repeated incursions by U.S. battleships and aircrafts into Chinese territorial waters of China, and threats of a nuclear attack by the United States and the Soviet Union



The Third Front 三线

Mao felt that the country should focus all its technological power on building a nuclear bomb. Meanwhile, basic industrial facilities in the coastal regions were transferred to the hinterland, to minimize the consequences of military attack, even at significant economic cost. The result **was an economy preparing for war**. The overall structure of national industry was marked by the development of a Third Front, referring to three major



“Self-reliance and Recalcitrant Struggle”

自力更生 艰苦奋斗

- From 1965 to 1975 (including the Fourth Five Year Plan period), half of domestic infrastructure expenditures went toward the construction of the strategic hinterland.
- It is estimated that from 1964 to the 1980s, investment in the Third Front cost about RMB 205.2 billion. Yet the Third Front structure was merely a spatial reallocation of national industrial investments without adjustment of the economic structure.

Educated Youth Going to the Countryside 知青上山下乡

- Since the beginning of national industrialization in 1958–60, China had emphasized decentralization as a means of mobilizing domestic resources to replace lost foreign capital investment.
- An experience that emerged out of this period involved the total mobilization of the whole nation through the popular idea of “class struggle” and the instrumental concept of “continuous revolution.” Peasants, workers, intellectuals, and officials alike were involved in the process of primary accumulation for national industrialization.

- During 1968–70, millions of educated youth were sent to the countryside, in part to deal with the problem of insufficient employment in cities.
- In sum, the third urban crisis caused by fiscal deficits had found a “soft landing,” once again by transferring surplus labor to rural communities.
- This “**peasant socialism**” system accepted 40 million educated youth sent to the countryside in three waves over twenty years. During these movements, China’s tripartite agrarian sector silently shouldered at least three times the enormous costs of cyclical economic crises caused by the state capitalist system concentrated in cities.

Three waves of sending a total of 40 million (unemployed) educated youth to the countryside, respectively in the years of 1960-1962, 1968-1970, and 1974-1976 【The Cultural Revolution (1966-1976)】 .



Recovery of the Rural Economy

- When the state withdrew fiscal support for the rural society, it returned to the peasants the right to the rural surplus, together with the right to capitalization of resource factors like arable land and labor.
- Since 1982, the rural economy had been growing rapidly, especially before TVEs were suppressed by unfavorable policies serving the vested interests of the urban sectors. Indeed, after 1984 the TVEs became the main thrust of economic recovery.



Coastal Economic Development Strategy

- In the name of coastal economic development strategy, TVEs were asked 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, it was devastating to TVEs still at an early stage of development. Furthermore, state investment in public goods such as education, medical care, and local governments and party organizations was cut.
- 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 be integrated into the global capitalist



RUSSIA

KAZAKHSTAN

MONGOLIA

Qiqihar

MANCHURIA
Harbin

Changchun

Shenyang

Beijing

Dalian

NORTH KOREA

SOUTH KOREA

JAPAN

CHINA

Xi'an

Tianjin

Taiyuan

Jinan

Qingdao

Zhengzhou

Nanjing

Shanghai

Wuhan

Hangzhou

Fuzhou

TAIWAN

Guangzhou

Hong Kong

VIETNAM

LAOS

MYANMAR

THAILAND

Gulf of Tonkin

HAINAN

South China Sea

Philippine Sea

PHILIPPINES

RAND McNALLY

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RUSSIA

Lake Baikal

Amur

Karamay

Ürümqi

Kashi

TAKLA MAKAN
DESERT

Hotan

Yumen

Baotou

Golmud

Lanzhou

Huang
(Yellow)

Chengdu

Chongqing

Guiyang

Kunming

Yangtze

Xiang

Mekong

PLATEAU
OF TIBET

Brahmaputra

Lhasa

NEPAL

BHUTAN

BANGLADESH

INDIA

0 100 200 300 400 miles

0 200 400 600 km.

Bay of Bengal

The Eighth Economic Crisis (1997-1998)

- 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 had been Justin 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 ones who bore these costs were the rural peasants and the urban industrial workers.

Unbalanced Regional Development

- 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.
- 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

- Beginning in 2003, the ruling party reiterated the importance of the *sannong*, 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
- First, during 2003–08, investment in the rural sector (including agriculture, forestry, irrigation, meteorology, agricultural infrastructure, agricultural technology, and rural aid) totaled over RMB 1,473.1 billion. The fiscal investment into the three agrarian sectors during 2003–09 amounted to RMB 3,096.752 billion—averaging RMB 15,000 per household.
- Second, pro-rural investment stimulated rural consumption demand. During 2000–03 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

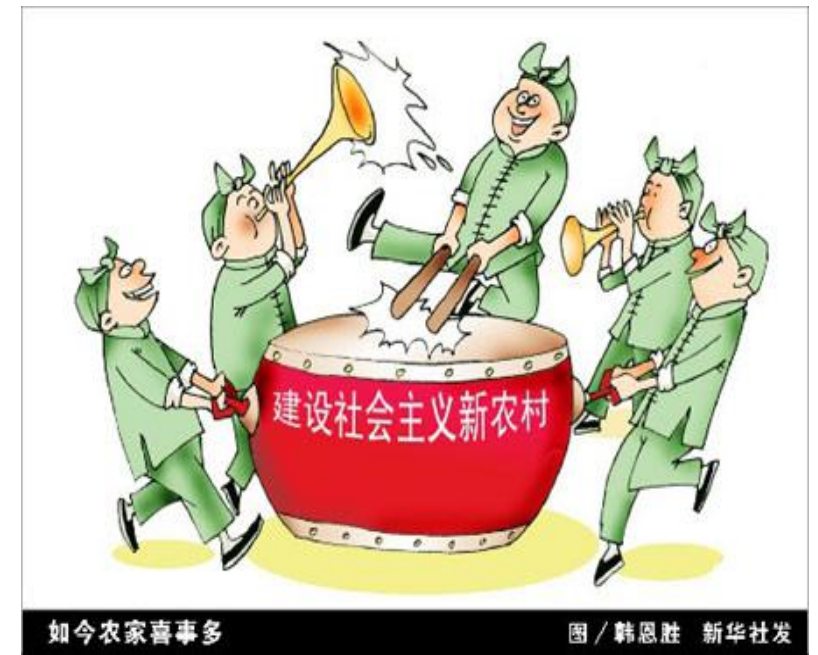
A Comparison of Responses to the Crises of 1997 and 2008

- Both the Asian financial crisis of 1997–98 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.
- Despite their success in resuscitating the economy, the rescue measures of 1997–98 were skewed in favor 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 2008–09 emphasized investments in the rural sector, a continuation of the government’s *sannong* policy, in place since 2003.



Rural Land Resources

- 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 percent 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.
- The government's direct investments in infrastructure, meant to address the problem of overproduction, have greatly

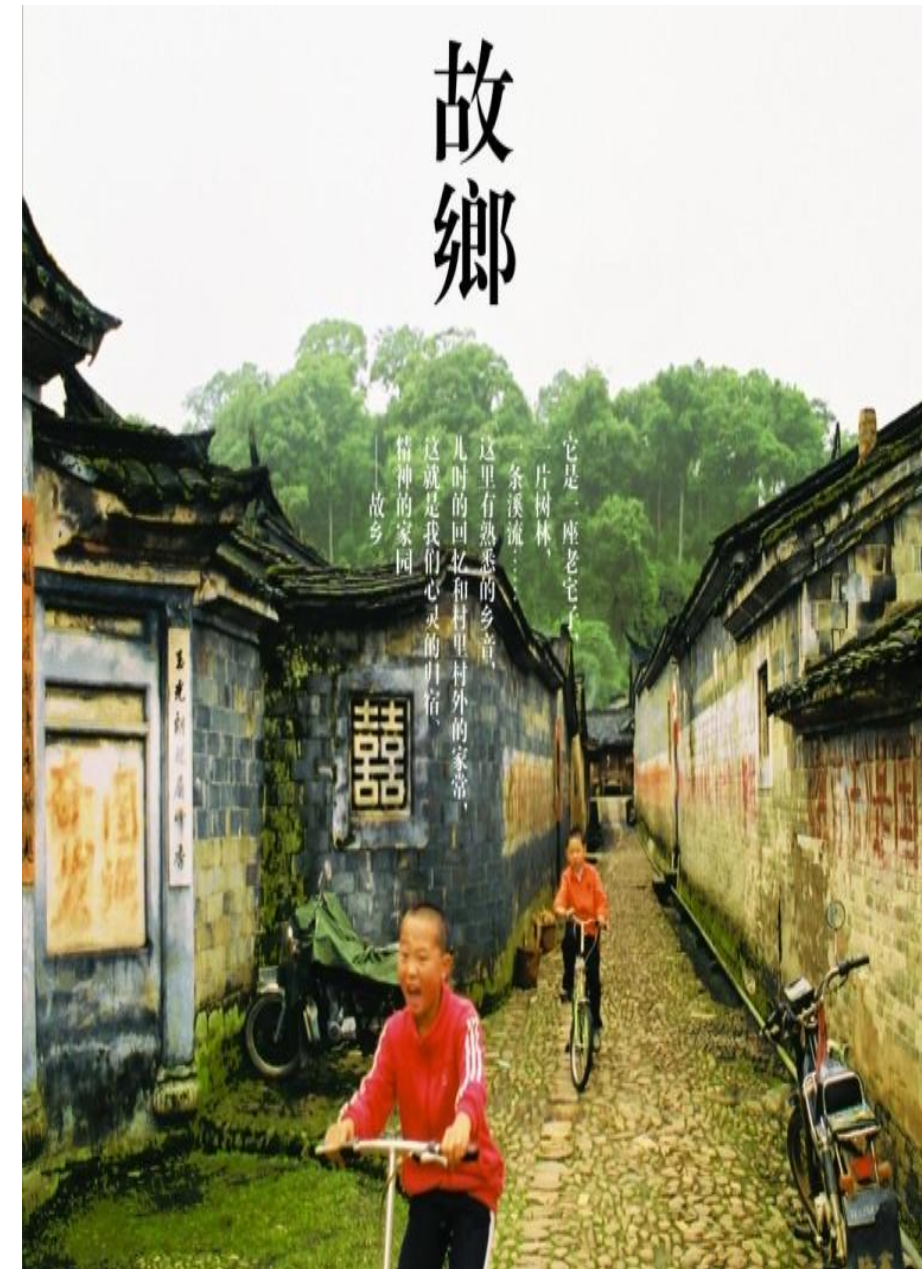


Rural Land Resources

- The increase in 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, are 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.**

Rural Self-Governance

- In the 19th Congress report, the emphasis is no longer rural direct elections, but on 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, multi-faceted interactions among diverse groups.
- Good governance requires the establishment of structuralized relationships among diverse social groups, through diverse economic and cultural activities built upon the natural diversity that arises from



Concluding Remarks

- The policy of redistributing agrarian land to rural households has long been an effective means of resolving urban crises, implemented not only in 1950 by Mao, but also thirty years later by Deng Xiaoping. Clearly, the dual rural-urban structure remains of basic importance. Those dynasties that implemented a policy of land distribution and tax exemption generally sustained long-term stability. Only neoliberal reformers in mainland China have attempted to



- As China has entered the global capitalism system, the key factors in its economic success have been the capacity of the central government to enact counter-cyclical measures, as well as the ability of low-level governments to sustain the rural base to ensure a “soft landing.” This in turn is why China is now seeking to address lingering deficiencies in its development, from reforming the supply side in industries and agriculture to going further toward realizing the state’s major strategies of ecological civilization

