

WEN TIEJUN

Chinese Strategic Transformation and Its Relationship to Industrialization and Capitalization

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

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

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

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

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

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

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

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

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

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

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

Two Similar Phenomena in the Socialist Camp

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

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

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

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

Strategic Transformation Under Changing International Conditions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Three Important Changes of the System

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

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

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

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

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

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

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

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

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

Is There a Third Path for China to Follow?

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

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

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

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

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

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

Discussion

Samir Amin:

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

Wen Tiejun:

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

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

Samir Amin:

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

Wen Tiejun:

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

Samir Amin:

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

Wen Tiejun:

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

Samir Amin:

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

Wen Tiejun:

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

Question:

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

Wen Tiejun:

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