

# Rural Communities and Economic Crises in Modern China

SIT TSUI, QIU JIANSHENG, YAN XIAOHUI,  
EREBUS WONG, AND WEN TIEJUN

*Tian's ways are constant. It did not prevail due to the Emperor Yao; it did not perish due to King Jie. Respond to it with order and good fortune follows; respond to it with disorder and ill fortune follows. Strengthen the root and regulate expenditures, and Tian cannot impoverish. Bring nurturance to completion and act only when the time is ripe, and Tian cannot sicken. Cultivate the Dao without irresolution, and Tian cannot devastate.<sup>1</sup>*

– Xunzi, “Treatise on *Tian* [Nature or Heaven]”

Throughout China’s nearly 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. We argue that 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* – 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 1960–62, 1968–70, and 1974–76. In the Deng Xiaoping era, the Household Responsibility System was implemented to guarantee collective land ownership and rights of

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**SIT TSUI** is an associate professor at the Rural Reconstruction Institute at Southwest University, Chongqing. **QIU JIANSHENG** is a lecturer at the Institute of Rural Reconstruction of the Straits at Fujian Agriculture and Forestry University, Fuzhou. **YAN XIAOHUI** is a PhD candidate in cultural studies at Lingnan University, Hong Kong. **EREBUS WONG** is a senior researcher at the Kwan Fong Cultural Research and Development Program at Lingnan University. **WEN TIEJUN** is the director of the Rural Reconstruction Center at Renmin University, Beijing. All are founding members of the Global University for Sustainability.

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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 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 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 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 revitalization” and declared a commitment to renewing peasants’ rights of land use for thirty more years.

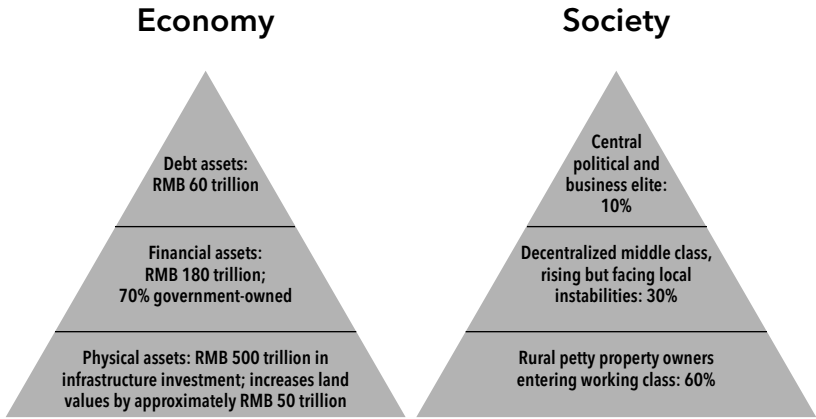
In recent decades China has enjoyed a long period of comparative stability, on the strength of the two pyramidal structures illustrated in Figure 1. The majority, 60 percent of population, are small property owners in rural areas. This is not only the legacy of land revolution, but also the foundation of Chinese society, which acts as social stabilizer during economic crises. We will discuss these issues in detail below.

### **‘Land Revolution Dividend’—Old and New Crises**

The economic turbulence of the early years (1949–52) of the People’s Republic created new problems on top of old ones.<sup>2</sup> In addition to persistent hyperinflation, which had beset the country since the old republic, a new crisis had to be tackled, namely, the contradictions inherent in primary capital accumulation for the development of “national capitalism.” Clearly, for a revolutionary regime whose success was marked by the occupation of cities, the enormous institutional costs of modernization and urban hyperinflation could not be resolved using the same old economic policies.

The fledgling People’s Republic instead sought to resolve this crisis (the result of a half-century of modernization efforts since the late Qing dynasty) by fully restoring the traditional peasant economy through agrarian reform, thus yielding what was known as the “land reform dividend.” Colloquially, this was expressed in the slogan “nine peasants are capable of supporting one urban citizen.” Land reform aimed not only to relieve the crisis of modernization through the restoration of a traditional institution, but also to extend the revolution from its rural base to the surrounding cities. Moreover, it lay the foundation of the tripartite agrarian

Figure 1. Twin Pyramids of Stability in Contemporary China



sector as a means of resolving the urban industrial capital crisis under a persistent dual urban–rural structure.

The substance of the land revolution in China is even distribution of land and tax exemption, which every founding emperor sought during dynastic changes. As long as the rulers maintained the basic economic institution of “land to the tillers,” rural society “could secure about two centuries of stability in a dynasty cycle.” This historical experience was once again embodied in mainland China in the twentieth century. The land revolution, which had been interrupted by the Second World War and then resumed during 1946–49, can therefore be called the Third Agrarian Revolutionary War.<sup>3</sup>

The new post-revolutionary government instituted agrarian reform across the entire country, achieving even distribution of land for nearly 90 percent of the population. Nevertheless, to extract agricultural surplus for industrialization, the central government deliberately delayed tax exemption, which most new dynasties had immediately implemented.

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 victory.

China also faced a new crisis, however. The old crisis of developing national capitalism, as led by the Kuomintang, was yet to be overcome as the Communist government faced an internal crisis in the effort to develop its own version of national capitalism. It was old wine in a new bottle, and led to the same problems.

Under the pressure of imperialist invasion, previous modern Chinese governments would unswervingly pursue modernization, whatever its ideology. Nevertheless, as long as the institutional costs incurred by the primary accumulation of capital necessary for industrialization could not be transferred outward, internal crises were bound to occur.

The social structure of so-called New Democracy, as promulgated by the new government, was aptly represented by the national flag of the People’s Republic of China. The large star signified the leadership of the Communist Party (including party-controlled state capital). The other four stars represented the working class (less than 5 percent of the population), the peasant class (petty landowners or rural small property owners, 88 percent), the urban petty bourgeoisie, and national capitalists. State capital, private capital, and small property owners constituted the major political sectors of the country. Workers and the urban poor, which according to classical Marxism would lead any socialist revolution, were less than 7 percent of the total population.

In short, China had long been an agricultural country composed mainly of geographically scattered peasants. What took place in 1949 was thus a pre-capitalist peasant revolution, as asserted by both the Soviet-led Communist International and the Chinese Communist Party. Both agreed that China should develop national capitalism (that is, capitalism of and for the nation, as opposed to domination by foreign capital). Only after establishing industrial mass production could China be transformed into a socialist country.

Accordingly, the new government, which was midwived by a violent revolution to overthrow the oppressive old system, not only openly advocated national capitalism (as Mao said, “New Democracy is national capitalism under the leadership of the Communist Party”), but also took accelerating industrialization for granted, just as regimes since the late Qing dynasty might have pursued modernization. China therefore

inevitably had to face the internal contradictions of a peasant country striving for “socialist primitive capital accumulation” with a scarcity of resources, no matter how this predicament was presented ideologically.

In fact, the new republic managed to resolve the crisis through three institutional arrangements, along with the interaction of three sectors: politics, economy, and society. First, the overall land reform let peasants delink from the urban crisis of modernization and return to the traditional peasant economy. An extensive and vastly diversified physical economy took shape in rural regions. China thereby managed to resolve the hyperinflation crisis. From then on, rural regions became the preferred vehicle for the kind of economic “soft landing” discussed above. Second, a national fiscal-financial system was built upon the rural real economy. This system was directly connected to the policy of physical goods and supplies distribution, enabling the government to perform counter-cyclical economic regulation. Third, the government used military means of the lowest direct cost, with the aid of a political campaign, to suppress the speculative behavior of urban private capital. It successfully prevented the exacerbation of the economic crisis by private enterprises that would have followed the economic cycle to seek profits and avoid losses.

To summarize, in the years after the success of the revolution, China faced severe crises in the cities, where capital was concentrated. It was a great challenge to the new regime, whose supporters included many peasants moving into cities. At the same time, the government struggled with political problems including bureaucratization and cadre corruption, which could be viewed as the internal crisis of peasantry politics.

Subsequent political campaigns were derived from this fraught situation. The hyperinflation resulting from budget deficits and money oversupply was quickly contained, partly because about one-third of the oversupplied money was absorbed by the peasant household economy. However, as a result, the rural economy was monetized and polarized, which would lead to problems within the cooperative movement.

### **‘Self-Reliance’ and the Third Front**

In the late 1960s, known in China as the “ultra-leftist period,” the third cyclical crisis (1965–70) since the post-1949 industrialization took place. Beyond general economic factors, the origins of this crisis lay in the reaction of the superstructure to the economic base. At the time, China was operating under a complete blockade, but the administrative structure built during the 1950s according to the Soviet management model of heavy industry proved incompatible with the guiding principle of “self-reliance and recalcitrant struggle,” which relied on the laboring masses.

As China moved to reorient its economy from Soviet investment toward national autonomy, the external geopolitical situation and internal bureaucracy proved to be barriers. Under these pressures, and after paying off an enormous foreign debt, the urban economy suffered from a third crisis in the form of “fiscal deficit plus unemployment.”

After the abortion of the Second Five Year Plan due to the withdrawal of Soviet aid in the early 1960s, Communist leaders began discussing a Third Five Year Plan. Some officials responsible for economic policy suggested that the plan’s guiding principle should be balancing the weight of agriculture and light and heavy industries in economic development, at a time when China’s industrial structure was dominated by military manufacturing and heavy industry.

Given the necessity of economic reconstruction, this strategy was entirely understandable. However, the most pressing problems China faced were geopolitical. During the Cold War, China had become entangled in a series of regional “hot” confrontations, including the plan of counter-attack 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. To many observers, China seemed to be on the verge of “hot” war with the USSR and the West.

For this reason, Mao’s ideas came to dominate policy discussions in the early 1960s, despite the diversity of opinions about China’s economic construction. 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 layers of front lines, whereas regional industry comprised three layers of minor front lines.

Meanwhile, the National Planning Committee responsible for the Third Five Year Plan was replaced, and proposals to transplant a foreign planned-economy model – as proposed by officials and experts who had studied in the USSR – were aborted. The economic divisions established in the time of Soviet investment were now totally blocked. Without foreign investment or external markets, the system clashed with the new principle of “self-reliance and recalcitrant struggle.” This urgently called for a reconstruction of the Chinese economy along different lines.

According to later cost-efficiency analyses, the construction of the Third Front was extremely expensive and yielded few economic benefits.

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.<sup>4</sup> Yet the Third Front structure was merely a spatial reallocation of national industrial investments without adjustment of the economic structure. Based on military considerations, new industrial facilities were transferred deep into the hinterland or to the mountain regions. It was therefore difficult to form a comprehensive industrial chain in any one region. Accordingly, the cost of infrastructure during the 1960s increased dramatically, resulting in higher fiscal deficits, which would lead to economic crisis. Their cost, after all, had to be transferred to the rural sector.

### **Educated Youth Going to the Countryside**

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. Consequently, it could barely maintain a relatively high accumulation rate.

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. It was a process of intensively substituting labor for capital, which had become extremely scarce. Large quantities of economic resources were invested in large-scale infrastructure necessary for national industrialization, which in turn created the demand for state-owned machinery and equipment manufacturing.

Under Mao, the state used an incomplete system of rural land ownership to institute a collectivized rural economy. The project was not motivated by productivity considerations, nor was it obviously beneficial to the interests of individual peasants. However, in practice, collectivization provided an unexpected boon to primary accumulation for national industrialization. What was formed in the rural areas was a so-called “peasant socialism with Chinese characteristics.” Its main feature was equal and even distribution of land without an incentive mechanism. It contained characteristics of the traditional village community and small peasant system, in which external risks could be resolved through internalization.

During 1968–70, millions of educated youth were sent to the countryside, in part to deal with the problem of insufficient employment in cities. New employment was limited to military industry and construction of the three-layer front line structure. The industrial economy in the coastal

regions was maintained in a mode of simple reproduction. 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.

The recovery of 1962–63 was not due to urban industrial growth and increased employment, as is widely supposed. It was instead attributable to the fact that peasants could “retreat.” Crisis compelled the government to adjust the policy of collectivization. The traditional peasant economy was partly allowed to retreat from the highly collectivized economy serving the state’s industrial capital.

First, the overarching people’s commune system was transformed into a production brigade-based village economy. Production brigades were formed with the village as the basic unit of accounting. This meant that traditional village economies could partly withdraw from the collectivized economy at the county level.

Second, peasants could engage in autonomous production within a production brigade. This too permitted elements of the traditional peasant household economy to retreat from the strictly controlled collectivized economy. In practice, the state relaxed the total control it had wielded over the peasants since the “all-round Sovietization” of the 1950s. Peasants took back about 15 percent of the arable land at their disposal in the form of “reserved land,” “marginal plot,” and “courtyard.” Agricultural production subsequently resumed and output increased.<sup>5</sup>

### **Recovery of the Rural Economy<sup>6</sup>**

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.

In the early 1980s, primary accumulation in rural industry and commerce mainly depended on the mechanism of internalization within the rural community and peasant households. It was a process of intensive accumulation through labor force self-exploitation, using labor to substitute for capital. This stood in contrast to the state-owned industrial sector, which required national revenue and loans. In the 1980s the demand for consumer goods in China’s market generally exceeded supply, giving rural enterprise room for growth. The comprehensive development of the rural economy increased peasant incomes, which in turn stimulated



the national economy to allow a rapid recovery. In 1981, the state recorded no fiscal deficit, but instead a revenue surplus of RMB 3.74 billion.

With the outbreak of a new crisis in 1981, the government could no longer transfer urban surplus labor to villages through ideological mobilization as it had during the 1960s and '70s. Instead, the tens of millions of educated youth who had been sent to the countryside returned to the cities. The crisis was thus bound for a "hard landing" in the cities. At the same time, the Communist Party had embraced rural reforms to increase rural productivity. 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.

During this process, three features of the Chinese polity stood out. The first was the peasant population. Their rising purchasing power as a result of increased cash income made up for diminished demand in the urban sectors. The booming rural economy buoyed the national economy as a whole. After sharing the initial benefits of reform, the peasants increased investment, in expectation of higher returns. This pushed up demand for industrial goods and supplied many downscale consumer goods. Increments in circulation of physical commodities absorbed the monetary expansion and fiscal deficit which otherwise would have led to inflation.

The second factor was the village community. In the 1980s, about two-thirds of villages still owned collective assets and the right to distribute gains. Rural collectives, making use of the factors of production (collective capital, high-quality labor force, and land resources) newly under their control, could begin industrial primary accumulation at low cost by internalizing the external risk, a traditional feature of rural communities.

The third factor was the market. Market reforms and China's preliminary economic opening led to an explosion in demand for downscale consumer goods. The urban industrial sectors were then still lopsided in favor of military and heavy industries and not yet able to meet this demand. Almost free of major rivals, rural industry could therefore take a large share in production for the downscale consumer goods market.

Many studies have concluded that China's reforms during the 1980s represented an incremental adjustment. In fact, the reform was a physical assets adjustment, whether viewed in terms of land reform (which fundamentally altered property relationships) or changes to the national distributive structure. In essence, it was a sea change in the physical assets structure.

If any aspect of this process can be called incremental, it is the marginal returns on investment to the rural sector, which were much higher

than those for the urban industrial sectors. Given a chance at autonomous investment and capital support, the rural economy could generate far higher rates of return compared with urban industry, with the same amount of fiscal infusion.

Despite a macroeconomic policy that favored urban industry, this autonomous rural development soon showed its institutional advantage. From the rural industrialization in the late 1970s until 1988, the output from TVEs generally grew at an annual rate of over 30 percent, 10 percent higher than that of state-owned industry and nearly 10 percent higher than the general social gross production growth rate. It was the major driving force behind rural development and national economic growth in general.

In summary, during the 1980s, rural regions had completed primary capital accumulation for industrialization. So-called primary capital accumulation is generally a bloody process. Yet in the 1980s, the rural industrialization process in China was far from violent, though no less laborious. Even petitions were very rare at that time. That was because peasants had the right to autonomous development, which brought them higher income, and in turn drove the domestic consumption growth that helped the urban economy. Therefore, it could be said that for a time, the country suffered no serious urban–rural disparity. Yet toward the end of 1980s and into the 1990s, new policies began to erode peasants’ right of autonomous development.

### **Rebalancing the Three Major Disparities**

The government’s counter-crisis measures relied once again on transferring institutional costs to rural society. 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.

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 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 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.

The government's response to the crisis had been based on policy proposals by China's senior economists, including Justin 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 had 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-thirds 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 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.

### **The Sannong New Deal of 2006**

In the late 1990s, macroeconomic fluctuation led to a deterioration and crisis in rural governance.<sup>7</sup> 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.

Thereafter a series of pro-rural policies were implemented, the rural sector was given a chance to recover, and the regulatory function of its labor 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, labor surplus, disparities between coastal regions and the interior, rural-urban polarization, and income inequality) and enhanced the sustainability of China's development. They did so in three major ways.

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. It substantially increased the capital stock in the rural capital pool, and brought infrastructure investment that greatly increased local nonagricultural employment opportunities. The once weakened regulatory function of the rural labor pool was thus restored.

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 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 percent in GDP.<sup>8</sup>

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 globalization, 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 1997–98 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.

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 1997–98 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. Two of the three factors of production (namely, capital and labor) have flowed back into the rural sector in a significant way and partly restored the regulatory function of the rural labor pool. Moreover, a second capital pool (the first being in the urban sector) was under construction in the rural economy at the county 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 industrialization. For the first time, China's secondary industry comprised more than 40 percent 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 industrialization, the socioeconomic structure of rural China, which had served as the stabilizing foundation and regulator of economic development, was undergoing drastic and fundamental change.

### 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. Previously peasants were happy to give up their rural 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 attractions, have all become more valuable, in turn generating value for physical properties. In 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 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.

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 doubt that these major banks could go bankrupt. That is because over 80 percent 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.

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 percent 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 civilization" 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.<sup>9</sup> 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.

The 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 reorganization 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 has 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.<sup>10</sup> This project has brought increased

land transportation construction, to connect China to neighboring countries and stimulate development of resources and energy; infrastructure investments to transfer appropriate industries and technologies to less developed countries, as well as to stimulate nonagricultural employment and sustainable development in labor-rich countries; and cultural exchange to facilitate economic integration and resolve geopolitical conflicts. The second major policy is the integration of “a Beautiful China” with Ecological Civilization, to alleviate environmental and social crisis. It aims to reduce the disparities in urban-rural development, in development between regions, and in living standards. It also ensures an equitable access to basic public services and good living environment, as well as well-established social governance system.

Furthermore, 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. 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 structuralized 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 low-stratum rural society differed substantially from the upper-echelon system of centralized imperial control. The latter realized 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 revitalization, an essential task should be the revival of rural self-governance.

### **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 fundamentally change this institution.

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 and rural revitalization.

## Notes

1. Xunzi, “Treatise on Tian.”
2. Wen Tiejun, *Ten Crises: The Political Economy of China's Development* (forthcoming).
3. The Third Agrarian Revolutionary War or War of Liberation (1945–49), thus follows the The First Revolutionary War or National Liberation War (1924–27), and the Second Revolutionary War or Agrarian Revolutionary War (1927–37).
4. Caihua Li and Jiang Dayun, “Historical Experiences and Lessons of the Policy of ‘Construction of Third Front,’” *Northeast Normal University (Philosophy and Social Sciences Edition)* 4 (2005): 89.
5. Wen Tiejun, “An Analysis of Cyclical Economic Crisis and Its Responsive Policies.”
6. Wen Tiejun, Dong Xiaodan, Qiu Jiansheng, and Du Jie, “China's Real Experience: The Crises with Subsequent Soft Landing after the Reform of 1978,” in *China's Economic Dynamics: A Beijing Consensus in the Making?* (New York: Routledge, 2014): 42–72.
7. Xiaodan Dong and Wen Tiejun, “Macroeconomic Fluctuations and Crisis of Rural Governance,” *Management World* 9 (2008): 67–75.
8. Huang Hui, “Building a New Socialist Countryside—The Countryside Is a Neglected Dynamic Element of Domestic Consumption,” *Outlook Weekly*, 2005.
9. Wen Tiejun et al., “Ecological Civilization, Indigenous Culture, and Rural Reconstruction in China,” *Monthly Review* 63, no. 9 (February 2012): 29–35.
10. Sit Tsui et al., “One Belt, One Road: China's Strategy for a New Global Financial Order,” *Monthly Review* 68, no. 9 (January 2017): 36–45.

## MONTHLY REVIEW *Fifty Years Ago*

This analysis suggests two things: (1) It is extremely difficult, and may even be impossible, for a genuinely revolutionary party with roots in the masses to flourish if the institutions of bourgeois democracy are functioning more or less as they are intended to. (2) As the general crisis of capitalism-imperialism deepens, the ruling classes of the advanced capitalist countries may find that they can no longer afford bourgeois democracy and they may feel obliged to move toward increasingly repressive regimes. If so, parties representing the interests of the workers would perforce become more and more illegal and less and less likely to be absorbed within the existing social order. If this is indeed the trend of things, then the time to take it into account in planning the revolutionary movements of the future is surely now.

—LEO HUBERMAN AND PAUL M. SWEETZ, “Reflections on the French Upheaval,” *Monthly Review*, September 1968

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