**Unfolding Crisis and Great Transformation (2013-2018):**

**from Globalization to Rural Vitalization**

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**Preface**

 Since 2013 China’s economy has been slowing down for five consecutive years, a drop by a third from the peak, a situation unprecedented in 20 years. The prospect of Chinese economy in 2019 is still unclear. However, we should have much expectation on the rural vitalization strategy the government adopts in recent years. It is an effort to turn away from developmentalism which aims at western model of modernization and steer towards an inclusive as well as sustainable development, with the determination to eradicate poverty.

 The current crisis is an extension of the previous crisis after 2008. The weak global demand since 2012 has thrown China into a state of deflation. The ending of the US Federal Reserve’s QE policy at 2013 has had great impact on emerging economies around the world. China is not an exception, though less serious than others. In response to the crisis, the government, however, took measures which were basically pro-cyclical, known as the “supply-side reform”, for example, cutting the industrial production capacity generally in excess. The stock market crashed in 2015. Then China had to put as much as a trillion US dollar of its foreign exchange reserve in the market to stabilize the exchange rate of RMB under pressure.

The most prominent feature of the crisis during 2013-2018 is the government’s failure to reverse the trend of financialization of the economy. China’s money supply mechanism in the last 20 years relied too much on the inflow of foreign exchange reserves. The enormous trade surplus is rendered into rapid expansion of money base. Liquidity increases without corresponding growth in real economy. However, the defective in monetary conductive mechanism makes it hard for the small and medium enterprises in real economy to get credit from banks. With the declining profit rates in manufacturing and real economy, capital is driven into speculative sectors such as stock market and real estates. China has experienced great fluctuation in stock market and real estate bubble in the last five years. This crisis is essentially the institutional cost of China being incorporated into global financialization under the pressure of excess financial capital.

 Then the government adjusts its policy returning to counter-cyclical measures through creating effective demand. Another important policy is to foster 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 over money-supply caused by trade surplus and the inflow of foreign capital.

 In a word, it is China’s proactive effort to steer away from decades of developmentalism aiming at 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. Ecological civilization, rural vitalization, and poverty eradication are among the essential strategies of transformation.

Nevertheless, the USA is also taking major strategic shift while China is transforming. The US launches trade war against China in 2018 as a way to re-develop real economy (manufacturing) in the backdrop of the virtualization of financial capitalism.

 Both China and the USA are pushing strategic transformation as a response to crisis respectively. The result is a seismic shift of the relationship between the two great powers. During the two decades of the golden age of globalization, the two nations are in a state of symbiotic complementarity. Now they are heading toward strategic collision in this post globalization era. This great shift is bringing forth an even more complicate scenario in a world already plagued by recession and political turmoil.

**China’s Current Tenth Major Crisis: Its Background and Characteristics**

 Compared with the past nine major crises since 1949 we have elaborated[[1]](#footnote-1), this unfolding tenth crisis has all the main characteristics but also its particularity in this specific historical moment.

 Similar to the second to fourth crises in the late 1950s to 1960s, China is punished because of insisting relative independency and intact sovereignty and not totally submitting to the dominant hegemony. During the 1960s, China was forced to take the path of self-reliance after the interruption of the USSR aid and the sanction by the West, thereby achieved “delinking.” However, since the early 1970s, China once again introduced foreign capital. By the late 1990s, China was increasingly integrated into globalization. As a result, China’s industry has again become dependent to the West.

 Forty years after China introducing western capital and twenty years being merged into globalization, the USA which still dominates international institutional power and holds currency hegemony is threatening to punish China through “trade war”. At the surface, the reasons are to do with the huge trade deficit as well as allegations like forced technology transfers and theft of intellectual property as well as trade secrets which so far are not supported with solid proof. However, no matter how much China is willing to concede and promises to balance trade and open financial and capital market, the US elites are not satisfied. In fact, imposing heavy tariff on Chinese products would not improve the trade deficits. It would not motivate manufacturing returning to the USA. The imbalance of US economy is the structural problem of advanced financial capitalism. In fact, American enterprises and consumers would not be benefited from the trade war. It has been shown by the rising trade deficits and studies[[2]](#footnote-2).

 The trade war is actually a way to reshape the global economic structure and avoid China’s economic independency by developing technology and fine-tuning international trading structure. Its strategic goal is not different from the Transpacific Partnership (TPP) advocated by Obama administration which aims at remaking global trade rules. In either case, China is in fact given two options: greater submission or being excluded from the new global trade system with the US still at its core.

 In reality, those who are benefited most from China’s incorporation into the globalization are transnational capital (especially US capital) and Chinese capitalist elites. At the great expense of ecological degeneration and extraction of surplus value from labour, China appears to make substantial development. Nevertheless, China’s industry is still highly dependent on the advanced countries. Transnational corporate takes the largest share of the added value created in China. In financial sector, China still insists a relatively more intact sovereignty. That incurs discontents from foreign financial capital which is hoping to seek higher profitability in China.

 Made in China 2025 strategy represents the country’s effort to develop core advanced technology as a way to shake off the status of industrial dependency. It is not a coincidence the US elites decide to launch trade war against China at this particular historical moment. The so-called structural reform the USA requests is in fact a greater submission or structural dependency. (Meanwhile, no country on this planet could impose structural reform on the USA, the structural imbalance of which being a major source of instability in global economy.)

 An overall strategic suppression on China has become the consensus of US top political elites. It is not an issue by the spontaneity of an idiosyncratic leader, nor the preference of a single party.

 We may highlight the major aspects of the background of this crisis, which we cannot analyse in details here.

* From structural complementarity to strategic opposition: despite political disparity, the USA and China have been in fact complementary in economic structure in the first two decades of China’s merging into globalization. That made China dependent on the USA economically and institutionally. However, China is increasingly delinking from the USA after 2008 as the model of globalization has exhausted its momentum. Now the two nations are heading towards strategic collision.
* China’s merging with financial globalization: after the crisis of 1993, Chinese bank sector became commercialized in the Anglo-Saxon model. After two decades of development, China’s financial sector has become one of the biggest interest blocs and increasingly intermingled with the global financial capitalism.
* Incomplete currency sovereignty: accumulating a huge amount of foreign exchange reserve mainly consisted of the US dollar, China’s money supply mechanism becomes exogenous depending on the foreign exchange stock. China’s monetary policy is susceptible to the Federal Reserve’s policy and the US monetary strategy.
* Deindustrialization: the profitability of general manufacturing is declining due to overcapacity. After the Wall Street financial crisis in 2008 and the subsequent crises in the West, global demand crumbled, aggravating the difficulty of manufacturing. China is undergoing a tendency of deindustrialization while its industry is yet to succeed to upgrade to advanced technology with higher added value.
* Radical financialization while the real economy becomes hollow: the financial interest bloc is pushing radical financial reform, thus drawing excess liquidity into speculative sectors, leading to asset bubble and expanding debts.
* Lack of the right of pricing: even though as the biggest importer, China lacks the right to negotiate the price of commodities as the major settlement currency is the US dollar and the international commodity markets are highly speculative. In recent years, China is establishing its own commodity markets to gain the power of negotiation. One effort is the making of the Petro-RMB, which is regarded by the USA as a threat to the Petro-dollar, which has become the corner stone of the US national interests since the 1970s.
* Intensification of class struggle (labour-capital conflict) under crisis.

 What China is facing is a multi-dimensional crisis with exogenous and endogenous factors. How to deal with the problem of deindustrialization as capital is rushing into speculative sector seeking higher profitability? How to avoid systematic financial crisis? How to secure the survival of small and medium enterprises and improve their competitiveness? How to convert the over dependency on international trading by promoting domestic demand? How to prevent the national consumption power from being squeezed by real estate and finance? The key is to let majority of the citizens share the fruit of growth in a more equitable way. It requires containing various interest blocs intricate with power relationship. Decades of developmentalism has brought about severe ecological degeneration, income disparity, class tension and moral hazard. China has to deal with highly complicate relationship: domestic and international, central and local governments, finance and real economy, state and society etc.

**Rural Society as the Condition of Crisis Soft Landing**

 Urban economy comprised of concentrated profit-seeking capital is characterized by risk. In comparison, rural society is based on household and community cooperation, which is an effective means to internalize negative externality. While urban economy is driven by economic rationality which often leads to irrational behaviour, rural community is maintained by cooperative rationality. We have proposed that for decades Chinese rural society has served as the buffer to absorb the negative externality generated by urban economy and as the vehicle for crisis soft-landing (see footnote 1). However, in recent years, the foundation of rural society’s capability to absorb negative externality has been eroded. It is due to several reasons. For decades, production factors (labour, capital, land, etc) are draining out of rural communities. Peasants become disorganized, therefore rural governance becomes deteriorated. Rural household economy becomes underdeveloped compared with capital-intensive urban economy.

 Developing cooperative economy is the key to rebuild a robust rural society, which may once again serve as an antidote to the risk-accumulating urban economy. Based on cooperative economy, the peasants can organize themselves, which in turn can consolidate the foundation of rural governance. The localized capitalization of rural resources based on cooperatives may help to shape a strong and healthy domestic demand.

**The Valuation of Rural Ecological Resource and Cultural Assets**

 After a few years of futile policy, China proposes the strategy of rural vitalization in 2017. The government has adjusted its policies in several aspects:

1. Diverts from the policy of accelerating urbanization in recent years. Emphasizes the priority of agriculture and the rural.

2. Asserts that rural vitalization is the most creative aspect of China’s development in the 21st century.

3. Abandons the path dependence of quantitative growth and turns to eco-friendly (quality) growth.

 Despite the limit in discourses, the policy-makers do turn their perspective to rural China and once again emphasize the importance of the rural sector. Can it save China again as in the past crises? Facing the current crisis, we should remain cautiously optimistic.

 China’s current M2/GDP is up to 200%, among the highest level in the world. However, we should not simply conclude from this that Chinese economy is shaky due to money oversupply. Compared with other advanced economies, China is characterized by a feature: many assets in rural regions have not be valued and priced, or their value remains implicit. Capital in urban sector currently at a state of excess is seeking the opportunity of resources yet to be capitalized. The trend of capital going down to the rural sector seems to be irreversible. Viewed in other perspective, it may be a chance to reverse the decades long draining of production factors (labour, capital and land) out of rural sector. The problem becomes how to avoid malicious and destructive enclosure of rural resources by capital and finance. Cooperative is a key element in this process. Supported by the national strategy of ecological civilization and rural vitalization, rural community cooperative can act as an effective agent of the valuation of ecological and cultural assets. Through appropriate institutional innovation, a part of the property rights can become exchangeable assets on a well-designed special market, while the fundamental ownership of vital resources like land still belongs to the community cooperative. This may attract capital flowing into rural sector in a healthy and constructive way. Factors like labour, capital, technology and land may contribute to localized rural vitalization. On one hand, the fiscal pressure of eco-infrastructure and rural construction can be partly relieved through this special finance. On the other hand, excess liquidity in urban sector can be channelled into rural sector, promoting peasant income growth while preventing the risk of financial bubble in national economy. Income increment can serve as a foundation for economic reproduction, the provision of public service for rural community, the protection of ecology and the improvement of rural governance. As long as the institutional arrangement and innovation is appropriate, the valuation of implicit cultural and ecological assets can easily absorb the money stock which otherwise will turn into excessive liquidity leading to financial bubble.

**From Globalization to Rural Vitalization**

 In the post-globalization world, China is facing double excess in industrial capacity and capital. Chinese political and economic elites therefore have great impulse to expand their presence in the world. However, the world has changed. After decades of globalization and neoliberalism, worldwide social reactions (Polanyi’s Double Movement) have raised vociferous and strong protest against its progress. Ecological degeneration and climate catastrophe have signalled the limit of the prevalent growth model. Even if these Chinese elites emphasize that China is merely seeking equal and bilateral cooperation for development opportunity, the unipolar power, unchallenged for nearly 30 years and indulging in the ingrained Thucydides trap, naturally regards it as a challenge to its hegemony. Every move such a big country like China takes will be taken as a transgression against the presence of the dominant geopolitical power. Advancing with expansion strategy in the post globalization age China has to face vicious competition and even a new cold war. Admittedly, the alternative option is not isolationism or closed country policy. However, an indispensable and more intelligent strategy is to turn introvert by ameliorating the gap between the urban and the rural, the rich and the poor, different regions, and different sectors.

 If China persists with the strategy of rural vitalization, determined to pursue the path of ecological civilization, its foundation to deal with the global crisis may still have a chance to stay intact.

1. See Wen Tiejun, *Ten Crises—the Political Economy of Modern China’s Development*, forth-coming. [↑](#footnote-ref-1)
2. See, P. D. Fajgelbaum, P. K. Goldberg, P. J. Kennedy, A. K. Khandelwal, ‘The Return to Protectionism’; Trade Partnership Worldwide. LLC, ‘Estimated Impact of Tariffs on the US Economy and Worker 2019’; M. Amiti, S. J. Redding, D. Weinstein, ‘The Impact of the 2018 Trade War on U.S. Prices and Welfare’. [↑](#footnote-ref-2)