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GREAT EXPECTATIONS

Jane Golley

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THIRD PLENUMS, typically held a year after the instalment of a new team of Communist Party leaders, had delivered major breakthroughs in the past. Deng Xiaoping famously initiated the process that would become known as Reform and Opening Up at the Third Plenum of the Eleventh Central Committee in December 1978. And both President Xi Jinping and Premier Li Keqiang had signalled a strong commitment to reigniting the reform process. The pressure was on.

The Resolution and the Neo-Liberal China Dream

22
23

On 12 November 2013, the Third Plenum of the Eighteenth Central Committee passed a 'Resolution Concerning some Major Issues in Comprehensively Deepening Reform' (henceforth 'the Resolution'). That the Resolution assigned a 'decisive' role for the market in China's economy caused much excitement, with analysts scouring the lengthy document for evidence of how this would be achieved. Writing in the *China Leadership Monitor* in March 2014, Barry Naughton, a specialist in the Chinese economy at the University of California, San Diego, declared that the Third Plenum had 'basically fulfilled the expectations placed on it', becoming 'a milestone in a prolonged process of restoring credibility and momentum to market-oriented economic reform'.

Naughton explained that the Resolution was not a comprehensive blueprint for reform, but rather a 'vision statement plus a To-Do list'. The vision, as he saw it, emphasised 'the need to redefine the relationship between government and market, and to reduce direct government intervention in the economy'. He argued that this was reflected in many of the 'Sixty Decisions' that appear in the Resolution's sixteen sections. These included guaranteeing property rights (No. 5), fair and transparent regulation of markets (No. 9), uniform regulations for the selling of land for development in urban and rural areas (No. 11), perfecting financial market mechanisms (No. 12), accelerating the construction of free trade zones (No. 25) and implementing user-pay systems for resource and environmental management (No. 53). In each of these, and many more besides, the rhetoric of a decisive role for markets has begun to take practical shape, even if the difficult task of implementation remains.

A number of Western (and some Chinese) analysts celebrated the apparent confluence of China's reform agenda with neo-liberal ideas about how economies should be run. There appeared to be enough evidence in the Resolution to enable Daniel Rosen from the Centre for Strategic and International Studies in the United States, for example, to conclude that: 'Overall, the Plenum results present a necessary but not a sufficient



Joe Hockey at the meeting of the G20 finance ministers
Photo: cairnspost.com.au

roadmap to economic development convergent with the interests of other economies, including the United States.’

Yet there is no perfect consensus about what these interests are, despite the frequent use of language that implies there is. At a meeting of the G20 finance ministers in Washington DC in March 2014, Joe Hockey, the Treasurer of the conservative ruling Australian Liberal Party, said that all nations should be urging China to move to full deregulation and open trading of its currency, claiming that ‘*We all want it to move quicker...* ’ (my italics)

Ronald McKinnon, Emeritus Professor of International Macroeconomics at Stanford University, however, argues forcefully that exchange rate stability, not flexibility, is optimal for China. He also contends that floating the RMB would do little to improve macroeconomic problems elsewhere. For McKinnon, the possibility that the Resolution might not produce ‘dramatic breakthroughs’ on interest rates, the exchange rate and the capital account (the net change in private and public investments flowing in and out of the country), as Naughton suggests is likely, may not be such a bad thing after all.

While the Plenum provided some degree of satisfaction for the neo-liberal camp, as Daniel Rosen put it, ‘there is plenty of language in the Plenum Decisions which is less consistent with this *happy story*’ (my italics). If you read the Resolution hoping to find evidence that China is on the ‘right path’ as defined by neo-liberals, you’ll be disappointed. It isn’t.

The Resolution and China’s Political-Economic System

The first section of the Resolution lays out the guiding ideology for reform. It stresses that the process of reform and opening up is a ‘new magnificent revolution’ to ‘develop and strengthen self-confidence in the system of Socialism with Chinese Characteristics under the leadership of the Party’. The comprehensive deepening of reforms must take guidance, it insists, from Marxism-Leninism, Mao Zedong Thought and Deng Xiaoping Theory, as well as the Three Represents (Jiang Zemin’s theory that the Party must develop the advanced productive forces in China’s economy, promote advanced socialist, Marxism-based culture and serve the ‘People’) and Scientific Development (which emphasises balance in the construction of a Socialist Harmonious Society). It not only acknowledges the ideological contributions of all of Xi Jinping’s predecessors, but insists that they not be ignored.

The four key principles of Socialism with Chinese Characteristics are: single-party rule, public ownership of land, a dominant role for state ownership and state economic planning. All of these resonate throughout the Resolution. I do not see this ideology as being purely rhetorical. It provides a fundamental basis for understanding where China is headed.

The principle of single-party rule is not open for discussion. The document reiterates the centrality of the Party’s leadership roles in sections such as ‘Strengthening the Construction of the Socialist Democratic Political System’ (VIII), ‘Strengthening and Restricting Supervision Systems for

中国共产党第十八届中央委员会第三次全体会议



The Third Plenum of the Chinese Communist Party's Eighteenth Central Committee concludes in Beijing
Photo: Xinhua

the Operation of Power' (X) and the final section on 'Strengthening and Improving the Party's Leadership over the Comprehensive Deepening of Reform' (XVI).

This final section calls for the establishment of a Communist Party Central Leadership Small Group (LSG) for the Comprehensive Deepening of Reform, which will have responsibility for the general design, overall co-ordination and implementation of reform. This LSG model has already spread throughout the Chinese political system — the provinces, prefectures, cities and central ministries — with Xi expecting the government to take the lead in economic reform at all levels (see Introduction 'Under One Heaven', p.vi)

Naughton describes the LSG model as 'mobilising through Communist Party channels in order to ensure that the government does less'. He then comments: 'This is a peculiar approach to economic reform, and *it might not work*' (my italics). Reflecting on nearly four decades of gradual and experimental reforms that, under its rule, have generated the longest period of sustained growth in history, the Party could be forgiven for thinking that it just might.

Section II of the Resolution on 'Persisting in and Perfecting Basic Economic Institutions' explicitly calls for 'persisting in the dominant posi-

tion of public ownership'. The section lays out the range of reform measures that will be directed towards 'incessantly strengthening the vitality, control and influence of the state-owned economy'. These include establishing clearly-defined property rights, strengthening state-owned asset supervision, raising the share of state-owned income to be returned to public finances and improving company governance structures.

Public ownership of land, like state ownership of the means of production, is an anathema to neo-liberals. For the Party, however, privatisation of land is not an option. The Resolution grants greater autonomy to rural households to increase their income from land rights, so they can invest in and expand their on- and off-farm enterprises. Under the principle of 'persisting in the collective ownership of rural land', farmers will enjoy greater rights with regard to the possession, use, profit, transmission and mortgaging of land — but notably and explicitly not ownership.

Not everyone in the world finds this problematic. Peter Ho, Professor of Chinese Economy and Development at Delft University of Technology in the Netherlands, for example, maintains that China's evolving land management system stems from endogenous interactions between state and other market participants. He asserts that 'despite the lack of formality, security and transparency, land has been and still is a core driver of China's capital accumulation and development over the past decades'. Whether you accept Ho's argument or not, and regardless of the many flaws in this system (on which more below), reforms simply will not lead to full-scale private land ownership in the foreseeable future.

Finally, the entire Resolution will inform the next Five-Year Plan (to be released in 2016): it is in itself a critical component of China's state economic planning, the fourth principle of Socialism with Chinese Characteristics.

So, does the Third Plenum represent a milestone in China's reform and development of the last three and a half decades? Does a decisive role for market forces as promoted in this Plenum mean much more than the 'fundamental' role they were given in the Third Plenum of 1993? Wasn't

The Rise of Chinese Internet Finance

by Aiden Xia

One area of applied science and business where China is a world-leading innovator and early adopter of new technologies and ideas is Internet-based financial services. These range from 'wealth management products' 理财产品 to mobile phone payment systems.

Baidu 百度, Alibaba 阿里巴巴 and Tencent 腾讯 (aka the BAT companies, see Chapter 3 'The Chinese Internet: Unshared Destiny', p.106) all operate mobile phone apps by which users can send money electronically to friends, or pay taxis, restaurants and shops.

The technology and platforms are already in place for large numbers of Chinese people to use their phones as virtual wallets. The only obstacles are government regulations and the reluctance of companies and merchants to accept a new form of payment. There is enthusiasm in some quarters of the government for the innovation that technology companies will bring to finance: the big Internet companies are successfully applying for a growing range of licences that permit them to operate credit cards and other financial services. However, the very newness of the industry means regulators remain wary; for example, in March 2014, the central bank demanded Tencent and Alibaba halt their mobile payments systems, citing concerns over the security of their verification procedures. As of publication of this *Yearbook*, those payment systems are working again, but the authorities have not issued clear guidelines for such services.

The BATs also all offer online investment products that have so far yielded better interest rates than bank savings accounts. Alibaba's Yu'e Bao 余额宝, launched in 2013, was the first Internet-based fund. By June 2014, it claimed one hundred million users with 574.1 billion yuan under management. The company says most investors are under the age of thirty, and that they enjoyed an average annualised yield of 5.5 percent. The funds are friendly to small investors: some individuals invest as little as one hundred yuan. The companies invest a large part of the funds in intermediate- or long-term deposits at commercial banks to take advantage of high interest rates.

Many traditional funds that hold a portfolio of shares in listed Chinese companies have begun to offer investment packages via online marketplaces like Alibaba's Taobao. As for the Internet company products, minimum entry requirements for these are also very low.

Another category of Internet finance is peer-to-peer or P2P lending. Websites such as PPDai.com allow investors with cash to connect with individuals and small businesses who need loans.

Finally, China has a thriving market in Bitcoin. The Central Bank barred financial institutions from handling Bitcoin transactions in December 2013, ending a speculative boom by making it difficult for Chinese people to get cash into or out of the Bitcoin system. But the cryptocurrency itself is not illegal and there are still enthusiasts and startup Internet companies offering related services such as the Bitcoin marketplace BtcChina.com.



This building in Shenyang, Liaoning province, is known as the Square and Circle Mansion. It was envisioned by its Taiwan designer C Y Lee & Partners to convey the city's financial aspirations. It is in the shape of an ancient Chinese coin, known as a *bi* 币

Photo: Aaron Sorell/Flickr

the Party's decision to reform and open up the economy from 1978 all about strengthening the role of markets anyway? The details contained in the Resolution lead Naughton to conclude that: 'In ways that we are just beginning to fathom, China in 2014 is very different from China in 2012.' For me, the continuity with the past is just as striking despite the ambitious and comprehensive reform agenda that the Resolution sets out.

My line of reasoning above is consistent with that of the political economist Christopher McNally of Chaminade University of Honolulu, who has analysed China's efforts to rebalance its political economy — which is essentially what the Third Plenum reform agenda is all about. As he notes, many observers, including Yasheng Huang 黄亚生, whom I discussed in last year's *Yearbook*, believe that only free markets can create an efficient, equitable and sustainable political economy. Yet as McNally points out:

Local Government Debt: 'No Money. Really, No Money', by Jeremy Goldkorn

China has a total of 41,636 towns and townships, fourth-level administrative units under counties and districts. Collectively, these have outstanding debts of 307 billion yuan, and owe 11.6 billion yuan in guarantees and 46.1 billion in aid payments, according to a report released by the National Audit Office in August 2014. The report also showed that 3,465 town and township governments have debt ratios (the ratio of total debt to total assets) exceeding one hundred percent.

The extent of local government debt has been in the news for some time. On 4 August, Xinhua's *Economic Information Daily* 经济参考报 described how this has become a dangerous problem. In visits to ten provinces across China, newspaper reporters discovered not only that the old practice of land-based borrowing is proving unsustainable in a cooled-down economy, but also that some local authorities, who are struggling to repay old outstanding debt, are unable to borrow more in order to deliver basic services. One reporter described hearing the head of an urban district in northern China tell a creditor: 'There's no money. Really, no money. If you don't believe me, check it out with the finance bureau.'

A development zone official in Liaoning province told the newspaper: 'Because of falling land prices, our financial revenue this year will drop by at least twenty-five percent. And we're not the worst-off — lots of places are in worse shape than us.' The newspaper named as an example a new prefecture-level city in southern China that was established just twelve years ago but was already 700 million yuan in debt by last year. One official

Instead of a singular reliance on liberalization measures, the Chinese government seems to be intent on statist solutions, including efforts to recentralize, standardize and better regulate various aspects of the political economy. This parallels earlier major reform initiatives in China that have consistently balanced liberalization measures with concerted effort to sustain and strengthen state control. I therefore argue that Chinese policies ... are highly unlikely to follow a liberal US-inspired approach, as advocated by Huang and many observers in the West. Quite to the contrary, China is pursuing a model of state capitalism.

McNally tells it how it is, rather than how he thinks it should be. He describes 'Sino-capitalism' as a hybrid political-economic system that combines socialist and capitalist principles with Western neo-liberalism, Asian developmentalism and 'Dengist gradualism' in ways that reflect Chinese

said: 'Without any money, we have to sell land, even if the price is low. If the capital chain is broken, and we're blacklisted by financial institutions, we'll be even worse off.'

Thanks to stricter lending regulations, loans are difficult to come by even for governments that are in relatively good financial shape. This is not necessarily a bad thing in the context of the 'bad loan problem'. But it is hard on local governments. As the vice-mayor of a prefecture-level city in Hunan told the newspaper: 'Bank financing is increasingly hard to get, which forces the government to spend all day searching for additional collateral... . Lots of places are being forced to use intermediary agencies with grimly high interest rates, as high as fifteen percent for short-term bridge financing. The money you get lands in the account minus interest, and the rest goes to repay the old [loans].'

To deliver services, officials revealed, county, city and district governments are levying fees, collecting excessive taxes and performing other financial trickery.

There's no easy solution in sight.



Local government debt in China has reached crisis point. Some local authorities are unable to borrow money to deliver basic services since they have old debts that they cannot afford to pay

Source: bwchinese.com

historical legacies and cultural norms. The resulting dual system is centred on the three ‘institutional spheres’ of the state, political *guanxi* networks and globalisation. It combines a top-down, state-controlled economy with a bottom-up, market-driven private economy and constitutes a unique form of ‘state-led, state-co-ordinated and state-guided capitalism’. The concept of Sino-capitalism is compatible with, but also more comprehensive than, the four principles laid out in ‘Socialism with Chinese Characteristics’. As such, it provides an excellent basis for forming realistic expectations about where China is coming from, and where it is headed.

The ‘National New-Type Urbanisation Plan’ (2014–2020)

China’s particular pattern of urbanisation — referred to as ‘Urbanisation with Chinese Characteristics’ by party officials, or what I call ‘Sino-capitalist urbanisation’ — provides further insight into the challenges facing China’s leaders in 2014 and beyond, as they try to reform the system without fundamentally changing it.

In 1949, official party ideology claimed that ‘cities would lead the countryside’ in both economic and political terms, with industry leading agriculture and workers leading peasants respectively. Initially, the Party conceded that rural–urban relations would be unavoidably exploitative and unequal. In the (unspecified) longer term, these inequalities would disappear. The introduction of the *hukou* 户口 system of household registration in the late 1950s cemented these inequalities, strictly separating Chinese people into two distinct groups — those with rural *hukou* residency and those with urban *hukou* residency. By preventing rural to urban migration, this system limited urban population growth.

Another critical feature of the Maoist economic system was the public ownership of land. All urban land was state owned. Rural collectives could possess, use and benefit from the rural land assigned to them, but could

not dispose of it. According to the first Constitution of the People's Republic (adopted in 1954), the state had the right to expropriate collectively owned rural land if it was deemed in the public interest. In the decades that followed, industrialisation proceeded without urbanisation: in 1980 just 19.4 percent of China's population lived in urban areas, even lower than the 19.7 percent in 1960, while industry's share of GDP increased from 28.3 percent to 43.9 percent over the same period.

By contrast, during the reform period, the pace of urbanisation has been dramatic: the urban population increased by 47 million in the 1980s, 110 million in the 1990s and 211 million in the 2000s. In the space of three decades, the percentage of China's population living in the cities went from 19.4 percent to 49.9 percent. The unleashing of market forces and the globalisation of China's economy have both played important roles in this, particularly in coastal provinces where rapid industrialisation has attracted millions of rural migrant workers and billions of dollars of foreign direct investment. These have fuelled export-led economic growth, while setting in motion a cumulative process of urban expansion.

By both shaping and constraining the pattern of urbanisation, the state has managed, by and large, to avoid some of the problems that have plagued other urbanising countries — such as high urban unemployment, urban poverty and urban slums. But Sino-capitalist urbanisation has also

Urban construction

Photo: Aaron Webb, Guangzhou/Flickr





created some major, unresolved problems, of which China's top leaders are well aware. In March 2014, the Central Committee and the State Council released 'The National New-type Urbanisation Plan' for 2014–2020 (henceforth 'The Plan'). Building on the directives contained in the Third Plenum and a joint report by the World Bank and the Development Research Centre of the State Council of China ('Urban China: Toward Efficient, Inclusive and Sustainable Urbanisation'), the Plan considers urbanisation key to the country's modernisation drive and at the centre of its ongoing efforts to rebalance the economy towards domestic demand.

The Plan candidly acknowledges some of the major contradictions that the reform process has created for the pattern of urbanisation to date. Chief among these is the *hukou* system, through which the state assigns or denies people the right to live legally in one place or another. This prevents rural migrant workers from integrating properly into urban areas, for without urban *hukou*, they have limited access to basic public services in education, employment, health care, pensions and housing.

Even though some 260 million migrant workers have made their way into Chinese cities in recent decades, because of the *hukou* system many of these have been 'temporary' or circular migrants, eventually returning to their rural homes to raise families or care for 'left behind' children and elderly parents. Hundreds of millions of other would-be migrants are either unable to or discouraged from migrating in the first place by their ineli-



Local governments have expropriated more than 4.2 million hectares of rural land for urban growth between 1990 and 2008

Photo: Lee Wu (Western Regions)/Flickr

gibility for urban *hukou*, despite the lure of higher wages in urban areas. The *hukou* system is therefore a major contributor to rural-urban income inequalities today. It has also limited the pace of urbanisation, which at fifty-four percent in 2013 lies well below that of other countries with similar levels of per capita income (counting only those that have permanent urban residency, the rate is even lower at just thirty-six percent).

The second major contradiction is that ‘land urbanisation’ has proceeded at a faster rate than ‘population urbanisation’. City-level governments have relied excessively on the expropriation of rural land to promote urban construction. As a result, development zones and industrial parks that cover vast areas proliferate: between 2000 and 2011, urban ‘built-up’ areas expanded by 76.4 percent, far higher than the urban population growth of 50.5 percent. This poses risks to local government finances, results in sub-optimal population densities, and significantly reduces the amount of arable land, threatening national food and ecological security.

Sociologist Sally Sargeson pushes this contradiction even further with her view that China’s urbanisation process constitutes ‘violence as development’. Her argument begins with the revenue shortfalls and economic

growth targets of local governments, which prompted them to expropriate more than 4.2 million hectares of rural land for urban growth between 1990 and 2008, making eighty-eight million villagers landless. While acknowledging that many villagers became landless by choice, Sargeson vividly depicts the various forms of ‘violence’ that have accompanied China’s urbanisation process. These range from the physical and sometimes forceful removal of people from their land to disruptions to their ‘socially-expected life course, capacity to contribute to their families, social and familial standing and self-respect’. This suggests that at least some of China’s urbanisation process has not been driven by market forces from the bottom up, but by a number of forces operating from the top down instead.

Not all rural communities have fared so badly. In ‘The Guangdong Model of Urbanisation’, the authors Him Chung and Jonathan Unger, depict village collectives that have retained collective ownership of their land by converting Mao-era socialist units into shareholding companies. The companies have capitalised on the rising value of their land, partly the result of rapid inflows of foreign direct investment into the province. While some villagers have become incredibly wealthy in the process, this



Haphazard and chaotic construction of slum-like apartment buildings
Photo: Mark Tuinier/Flickr

model is not without its problems — for example, the ‘haphazard and chaotic construction of slum-like apartment buildings’ in the hundreds of emerging ‘villages in the city’. The result has been a ‘major reassertion of collective economic initiative’, as shareholding companies juggle their multiple roles: ‘The first is as the representative

of all indigenous villages. A second is as a power broker situated between the government and the former villages, and the third is as a business firm wanting to undertake profitable activities.’ This is an excellent example of Sino-capitalist urbanisation at work, and illustrates how it differs from other models of urbanisation.

The Plan outlines a comprehensive reform agenda for better integrating urban and rural development in the future, but not in strong convergence with neo-liberal ideals. For starters, there are no plans to abolish the *hukou* system. Instead, the Plan sets a numerical target for urbanisation of sixty percent by 2020. This will involve the ‘orderly transformation’ of the rural population into ‘urbanites’ with a target of granting a total of one hundred million migrants urban *hukou* by 2020. To accomplish this goal, the Plan divides cities into four categories. In ‘fully open’ small cities and ‘orderly’ mid-size cities, there will be a relaxation of the *hukou* system to allow more people access to it, while large cities and megacities will continue to manage their *hukou* strictly as in the past. The government has no intention of leaving rural-urban migration completely to the market yet.

This is understandable given the enormity of the challenges in dealing with the largest migration flow in global history. A ‘big bang’ approach to granting urban residency to anyone who wanted it, in any city they wished to live, is not a realistic option. The pressure on cash-strapped, city-level governments would be far too great. Although new ways for them to raise funds are under way — including tax system reforms and the establishment of financial institutions to support infrastructure and housing — these will clearly take time.



260 million migrant workers have moved to Chinese cities in recent decades

Photo: Don/Flickr

Instead, *hukou* reform is likely to continue in the gradual, piecemeal and experimental way that has characterised China's long transition towards a more market-based economy. Chengdu, for example, announced a new system of land credits in 2010 that enables farmers to swap their rural land for urban housing, allowing all Chengdu citizens, including five million farmers, to move freely into the city and register as urban citizens, receiving all the benefits that go with that privilege. As Tom Miller points out in his 2012 book *China's Urban Billion*: 'If the Chengdu government is as good as its word, this would represent a huge breakthrough for *hukou* reform'.

Other experiments include the use of points systems for migrants, first introduced in Shanghai in 2004 and then in Guangdong in 2010. Migrants who achieve a certain number of points based on their employment, education and other attributes can gain an urban *hukou*. Although points systems may appear efficient, they are likely to create an underclass out of (already second-class citizens) rural Chinese who don't make the grade.

Land management reforms, meanwhile, will be directed towards stringent farmland protection and conservation, safeguarding farmers' land management rights, protecting the livelihood of farmers whose land has been requisitioned, and limiting the construction of new urban areas. Privatisation of the land is still off the agenda.

Realistic Expectations May Be the Greatest Expectations

Both the 'Resolution Concerning Some Major Issues in Comprehensively Deepening Reform' and the 'National New-Type Urbanisation Plan' indicate that the Party is well aware of the many challenges it faces in guiding China towards more balanced and sustainable growth in the decade ahead. Yet, as Yu Yongding 余永定, former Director of the Institute of World Economics and Politics at the Chinese Academy of Social Sciences,



Urbanisation in Chengdu
Photo: blichb/Flickr

pointed out: ‘Although the resolution’s general message is encouraging, a shopping list of reform objectives is not a strategic analysis of the contradictions that are undermining China’s development, let alone an action plan for responding to these contradictions. Indeed, for China’s new leadership, the successful completion of the Third Plenum is only the first step in a new long march toward a more stable, prosperous future.’ There will never be perfect consensus on just where that long march should finish, either within the ranks of the Party or beyond. Still, the policies of 2014 are not so different from the past. It is more useful to have realistic expectations about what the Xi–Li era can and will deliver, rather than great expectations that may well result in disappointment.

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