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Introduction

China's experience defies logical self-consistency if deciphered through the discourse forged by advanced countries in the stage of financial capitalism. This book endeavors to contextualize China's 'particular' historical experience in the general process of capitalist development. China's progress in the past 60 years is thus depicted as a completion of primitive capital accumulation and then procession into industrial expansion and adjustment.

In its pursuit of industrialization, China has endured cyclical macroeconomic fluctuation, which is unexceptional to most of the industrialized countries. China has experienced ten such crises since the founding of the New Republic. With the exception of the first crisis in 1949–1950 at the beginning of national founding, which was a continuation of the monetary crisis of the former Republic of China since 1935, the other nine cyclical alternations between economic peaks and troughs since 1958 have occurred during New China's late industrialization. Over the past 60 years, these have occurred in a context where China has been subject to untenable foreign debt pressure on four occasions. It was under a relatively

passive circumstance of debt and deficit crisis that China embraced an “open policy.”

1 Key Concepts

Capital and Government

In the historical stage of capitalism characterized by the western civilization, human beings have created two “alienating products”: capital and government, the former on the side of the economic base, the latter, on that of the superstructure. They are highly costly and in turn put human beings under their yoke. Governments in various forms (including representative democracy or many socialist regimes) serve as the hand-maiden of capital, which expresses the general rule of the superstructure being derived from and submitted to the economic base. In relation to this generality, there is a specific form of capital directly controlled or monopolized by governments, which is known as state capital. It is intrinsically integrated into the government, leading to “government corporatization,” or the capitalization of power.

It should be commonsense. However the elites seem to be puzzled by it. The problem is less about their recognition of this regularity than how the elite bloc takes measures to constrain itself in accord with the regularity.

Urbanization and Cycle of Crises

The development of capitalism and urbanization concur. As capital concentrates in cities, the expansion of capital synchronizes with urbanization. The overspill of capital has a bearing on the evolving urban culture. As governments are stationed in cities, they accelerate the institutional changes brought about by urbanization. Associated with the capitalization of cities, urban culture becomes politicized and developmentalism becomes the politically correct mainstream tenet.

Nevertheless, the accumulation and concentration of capital entails a commensurate level of risk. In its pursuit of the institutional gains by urban capital, the government pushes for urbanization and inevitably increases the risk inherent in the concentration of capital. Periodic crises break out as a consequence. Hence, the acceleration of the deepening of capital in cities and the increasing inherent risk, as well as the outbursts of crises, has forged an alliance of economic, political and cultural powers. As a power-bloc “for itself,” it exerts a universal bearing on other social groups “in itself”.

Elite blocs and other social groups obsessed with developmentalism never get tired of this path even after numerous blows of crisis.

Political Modernization and Debt Crisis

The global crisis caused by the credit crunch on Wall Street, the core zone of financial capital, is the result of an overexpansion of credit, or too large externalities. This expansion of credit is based on currency power, which is a direct combination of capital and government, the two alienated products of human beings in the stage of financial capitalism. On the one hand, it is the aftermath of a rapacious “financialized bubble economy” catalyzed by the virtualization of the economic base. On the other hand, it is also the repercussion of the “debt mechanism” implied in western political system of high cost and therefore high debt. Any developing country that follows the Eurocentric and ideologized model of globalization and blindly duplicates the western political system would face a similar or worse situation.

As early as in 1996, the author pointed out that the over expansion of derivatives by international financial capital was bound to lead to a financial crisis. It is an inevitable law. At that time, China was not ready for this critical point of view. It was only after 1997 when East Asia was hit hard by financial crisis that people learnt the lesson and accepted this regularity.

The third regular pattern revealed here has more or less been recognized by the intellectuals responsible for knowledge production at the critical moment during the 2007–2011 crisis. However, the

interest-distribution mechanism underpinning the discursive system has prevented the discourses from renovating themselves.

The scale of the impact of the 2008 crisis was greater than any previous financial crisis. Financial capital ignited the global crisis by transferring its cost to the real economy. It was an all-round crisis of western capitalist modernization. Once again its cost was being transferred to developing countries.

Theory of Cost Transfer

Capitalism characterized by the West has created crises throughout its different stages. The costs have been transferred to its colonies or developing countries, which is the main cause of the latter's poverty. The theory of cost transfer refers to this general contradiction between the western powers and developing countries. After WWII and the subsequent tide of decolonization, over 100 new nations were born. They generally took the model of capitalism as characterized by the West and pursued a developmentalist industrialization. However, unlike their western predecessors, they could not transfer the corresponding costs to other nations, and therefore most of them got ensnarled in the "development trap". Those countries which succeeded in getting out of the trap usually had the social conditions to transfer the costs internally. Before the Reform, most of the crises in urban China were resolved by transferring the cost to the collectivized rural communities. The crises could therefore take a "soft-landing" in the cities. Afterward, when a crisis took a "hard-landing," the so called "reform" emerged as a response.

Learning from the history of capitalism in which the West transfers the costs of its capitalist crises to the rest of the world, we have come up with a theory of cost transfer, a basic theory that explains the widening wealth gap in the world economy at different stages of capitalism (Wen 2012).

This theory of cost transfer is the conceptual tool we use to analyze the ten crises that broke out during the four rounds of foreign capital inflow for China's industrialization. We have come up with two viewpoints. First, if less developed countries take the advanced countries

as their target of catching up and emulation, then they must consider if it is possible to duplicate the latter's development path under the same conditions. If it is impossible, then the development experience of advanced countries is not of universal significance. Second, core nations will remain on the institutional path of transferring the cost of global crisis to other countries, which is the cause of less developed countries falling into the development trap. China, as a nation with an aboriginal population of more than a billion making it through the age of classical colonialism, is the only industrialized country which has accomplished primitive accumulation without pursuing the course of external colonial expansion like the West. We are afraid that it is impossible to explain it through western theoretical/ideological frameworks and concepts, which leaves much room for theoretical innovation.

Crisis Soft-Landing and Empowering the Three Agrarian Sectors

China was a “less-developed” country with extreme scarcity of capital. In order to push for national industrialization in the cities, it took various forms of “pro-capital” measures at different stages, first in the primitive accumulation of capital, and then in the expansion of industrial capital. At a particular stage where there was no capital investment, China applied the strategy of “replacing capital with intensive and concentrated labor investment”. In 2005, the “Building New Socialist Countryside” was adopted as a national strategy. After then, a few thousand billion RMB was invested into the rural areas. Tens of millions of peasants have been absorbed into the “non-agricultural” sector for employment. This is the reason why China could make it through the crisis in 2009. It is an important first instance of “win-win” soft-landing in both the rural and urban sectors.

The fifth key concept revealed in this book is still an inference from empirical regularities. It is not a well articulated theory. In challenging the ideological discourse system, the authors have come up with several new innovations. However, we do not believe that analysis based on

economic rules alone can formulate a logically consistent explanation of contemporary Chinese history.

2 Development Trap and China's Experience

In the tide of decolonization during and after the Second World War, many developing countries attempted to push for industrialization by duplicating the model of their former “suzerains” (“developed countries”). However, among them, only a handful of nations succeeded in realizing the goal, thanks to the reconfiguration of geopolitics dominated by two superpowers. Most of the others, following their former suzerains in the path of industrialization, found themselves ensnared in a “development trap” in different ways.

If we are willing to free ourselves from the “ideologized” interpretation of developmentalism after WWII and look into objective experiences, we may find that: amongst countries with an aboriginal population of over 100 million,¹ China is the only developing nation which has accomplished primitive capital accumulation and proceeded into industrial expansion and adjustment. It can be said that China has moved into the later stage of industrialization and in recent years, propelled by industrial capital excess, been leaping towards the stage of financial capitalism.

Before its integration into global competition, China's general industrialization can be divided into three stages according to the general development pattern of industrial capital: primitive accumulation, industrial expansion and structural adjustment. This development is indicated by its 8% average annual growth rate that has been sustained for over 70 years since 1949.

In a global politico-economic setting dominated by advanced countries, New China depended on foreign capital from the USSR for primitive accumulation at the initial stage of industrialization. However,

¹Here “aboriginal” is in contrast to the “colonized”. Accordingly, there are five developing countries with over a hundred million aboriginal population, all Asian nations: China, India, Indonesia, Pakistan and Bengal.

this process was soon interrupted. It became extremely difficult to go on without external capital investment. On the one hand, it had to face serious resource constraints and population pressure; on the other, it had to break through the blockade in the cold war seeking the opportunities pertaining to capital, technology and the market.

We must emphasize this point: China pushed for industrialization during a time when its internal and external circumstances were extremely unfavorable.

Apart from resource limits, China was confronted by two harsh institutional constraints.

First, the peasants were geographically highly dispersed. After three agrarian revolutions in the early twentieth century, China finally succeeded in setting up the foundation of nation-building. However, in 1950, it was a country with peasants making up 80% of its population, 500 million strong. The main economy revolved around traditional agriculture, a mode of production that ran against the logic of industrialization. 100 million rural households were involved in small-scale farming and animal husbandry. As the state pushed for industrialization, it had to rely heavily on extracting a considerable surplus from the rural sector. With the peasants so dispersed spatially, the transactions cost was extremely high.

Second, capital was absolutely scarce in China. In such a condition, China had to open itself up to attract foreign capital in order to pursue its industrialization. To attract foreign capital, it had to construct its superstructure and ideology to build an institution adaptable to the operation of foreign capital. For a nation that had bathed in blood for nearly a century to restore its full sovereignty, the institutional cost of such measures to attract foreign capital was enormous.

Compared with those advanced countries that accomplished primitive accumulation through colonization, China had to face the above two constraints. In the course of its industrialization, crises broke out frequently as a feature of the interaction of economy and politics.

After a century of invasion and internal turmoil, the Chinese believed that they had to follow the path of industrialization of western powers in order to maintain its sovereignty. However, they were well aware that China lacked the proper conditions for industrialization. For this reason,

the leaders of the Communist Party of China proposed the tenet of New Democracy in 1947 and the *Common Program* in 1951 which was equivalent to a constitution. The basic policies were to advance gradual industrialization under national capitalism. The idea was to promote private industry and commerce in cities, develop middle-class peasants and preserve the well-to-do rural households in rural areas, so as to form a commodity circulation between light textile industry in cities and the rural sector. The industrial base would be expanded gradually to facilitate primitive accumulation for large industry. At that time, Mao Zedong emphasized that he opposed populism or “peasant socialism” and stressed that only after the completion of industrialization and socialized production would the Communist Party push for socialism with the consensus of the people.

These thoughts, which were in line with the economic pattern of developmentalism in less advanced countries as well as the guidelines of national capitalism in developing privatization and market, are still praised today. So the younger generations would believe that the CPC later gave up this reasonable development strategy of New Democracy simply because of the faults of leftist heeling. And this book will argue that it is not that simple.

After an analysis of historical materials and statistics, we find that there have been ten rounds of major economic crises in China since 1949. The book is entitled as *Ten Crises* because of the following considerations.

Firstly, the first crisis of hyper inflation during 1949–1950 was a continuation of the inflation the Republic of China faced after the 1929–1933 crisis in the West. In 1935, the Chinese government had to adopt a paper currency reform due to a lack of precious metals after the 1929 crisis. The consequence was long-term serious inflation. Therefore this crisis was not directly related with the other nine crises (six endogenous periodic crises before and three exogenous crises after China integrated into the global system) associated with China’s industrialization in contemporary history.

Secondly, the nine crises of alternating peaks and ebbs after 1958 were attributed to the fact that Chinese leaders in different periods introduced foreign capital which resulted as foreign debts. The playing out of the economic cycle was common in many less developed countries in the

process of industrialization. The interpretation of contemporary Chinese history as a series of periodic economic crises is not a totally new innovation. It is the conclusion of two decades of research after the author proposed the “theory of crisis” in 1988, which had drawn controversies and criticism.

In fact, continuous and steady long-term economic growth during industrialization is impossible for any country. Periodic economic fluctuation is a normal pattern, even for those advanced countries which had succeeded by exploiting colonies.

What this book attempts to do is to reveal the ideological discourses for what they are and to proceed in step-by-step fashion to come up with a theoretical innovation: the generality of the “theory of cost transfer,” *i.e.*, the costs of crises in urban industrialization are transferred to the rural sector, which is a condition for the “soft-landing” of the crisis in cities.

It is a theoretical innovation in the studies of critical policy. Although based on Immanuel Wallerstein’s world system theory and Samir Amin’s dependence theory, we do not confine ourselves to one school. We take political economy as our analytical framework and the transaction cost theory of new institutional economics as an auxiliary tool. We endeavor to make the theory of cost transfer a theoretical tool to de-construct the economic histories of contemporary China and world capitalism.

The analytical object of Immanuel Wallerstein’s world system theory is the modern capitalist world system rising from Europe in the sixteenth century. Its contents include capitalist world economy, inter-states system and geo-culture. He believes that since human history moves into the stage of capitalist civilization as stated by Marx, all nations and people in the world are being incorporated into a world economic system by the core nations, forming a “core—semi-periphery—periphery” structure. Through unequal exchange, the surpluses from the semi-periphery and periphery are being channeled into core regions. In this process, the dominance of the core nations is fortified while the periphery is debilitated (Wallerstein 2004).

World system theory is not based on China’s experience. However, the persisting non-equilibrium structure of “core—semi-periphery—periphery” has deteriorated into a “lose-lose” game if China’s situation is taken

into further consideration. Peripheral or semi-peripheral countries like China (also known as “emerging” or “developing” countries) are feeding core nations through two channels. On the one hand, China delivers physical products to the West. The trade surplus in turn increases its money supply. China, on the other hand, can only use its accumulated foreign exchange reserve to purchase the bonds of western governments. In this way its trade surplus is channeled into western capital markets to create a bigger financial bubble.

Accordingly, the global economic crisis incurred by the credit crunch in the capitalist core zone in 2008 tallies with the general historical pattern of capitalism marching into the stage of financial capitalism.

The integration of China into the world system should be reflected by questioning: what is the status of China (or less developed regions) that is being incorporated into the world economic system? By whom is the system being dominated? The Anglo-American financial empire taking London-New York as its axis may come straight to the point: since the 1990s, they have succeeded in integrating the dismantled Soviet Union, Eastern Europe and the developing China into a western currency system. Any physical economy being incorporated will bring new blood into this failing system.

The concept of “delinking” in this book is taken from Samir Amin’s dependence theory. In the 1960s China succeeded in pushing for industrialization on its own after the disruption of foreign investment and support. Amin sings high praise for China’s experience. However, what he refers to is the stage of autarkic industrialization. If we take the late 1990s into consideration, that becomes a different story. The increasingly excessive industrial capacity is the sword of Damocles hanging over the capitalist world. Driven by capacity excess, China joins globalization. No matter how it is dressed ideologically, this integration is in essence a “re-linking” and afterwards an output of surplus through new dependence.

After China’s integration into the world economy system, any researcher who investigates the situation from the perspective of developing countries will find that the “core-periphery” relationship in the capitalist world system was of a “dominance-dependence” structure. Peripheral countries function as suppliers of raw materials and primary

products. Their domestic industries heavily rely on advanced (mainly western) industrialized nations. Those countries that adopted a strategy of import substitution would find the strategy ineffective when on the one hand confronting the tariff barriers of advanced countries and on the other hand challenged by domestic conservative interest blocs, thereby finding themselves under the thumb of others.

After completing the primitive accumulation for industrialization and undertaking industrial capital expansion, China made an effort to partake of what in recent times has been popularly known as ‘globalization’. A painful process for China as it is, it is not peculiar. When most of the politicians in the world yield to the vulgar political pressure of justifying their political legitimacy by economic growth, we must understand level-headedly that the past 70 years of China’s historical trajectory has been a choice without alternatives.

3 China’s Economic Crises and the Conditions of “Soft-Landing”

Industrialization is less about an economic process of yielding industrial products through input of factors such as capital, labor and technology, as propounded by economic theories, than a political goal of post-colonial nation-states striving for sovereignty. Most of the developing countries have constantly faced extreme capital scarcity. By the criteria of economic efficiency under the premise of general market equilibrium, it is difficult to comprehend why these countries have implemented ‘pro-capital’ policies and provided institutional arrangements to the extent they have in order to accomplish primitive capital accumulation for industrialization at all costs, let alone to be judged by the ideological discourse in service of global financial capital expansion dominated by developed countries.

China’s industrialization involved internally extracting surplus from the agricultural sector to support industrial accumulation. Nevertheless, the dominant dynamics in China’s industrialization have been subject to the shifting parameters of the global geo-political and economic landscape. It is because of these geopolitical shifts that China has been

afforded the opportunities to break with the usual development obstacles. Indeed, although access to foreign capital accrued debt, it also provided much needed capital and technology for industrialization. Still, the accrual of debt meant that China has continually had to confront the danger of being caught in a “development trap”.²

New China's two waves of industrialization can both be attributed to catching up with the unprecedented historical opportunities of industry transfer from developed to developing countries after WWII. The first occasion was the Korean War in the 1950s. On the condition of getting itself involved in the war, China was in return offered aid in the form of a transplant of military-heavy industry from the Soviet Union. The second wave of industrialization took place after the 1970s when China undertook a rapprochement with the West and Japan. To a certain extent China had taken advantage of its rising geopolitical importance in the Asia-Pacific when the USA and the Soviet Union struggled for supremacy in the region. China could therefore complete its structural adjustment from an economic structure too weighted to military-heavy industry before the Reform to the production of consumer goods.

The particularity of China's industrialization and the later Open-up lies in the following facts. At the end of 1950s the Soviet Union withdrew investment from China. During the subsequent crisis, which lasted from the late 50s to the early 60s, China eventually achieved ‘delinking,’ unlike many developing countries under similar circumstances where industrialization was directed under the aegis of foreign power and when the process was forced to intermit; on some occasions this might lead to social disasters. The delinking allowed China's primitive accumulation for industrialization while paying back foreign debts to the Soviet Union,

²After WWII, developing countries were under a submissive geo-political position. Their developments were often determined by the shifting of international geo-political strategies dominated by their economic “suzerains.” Developing countries in pursuit of industrialization generally had to depend on foreign investment due to lack of domestic capital and technology. The sovereignty debts in the South were mainly results of pursuing industrialization by foreign debts from developed countries.

For most developing countries, that might be the beginning of disaster. Unlike most developed countries they could not externalize the institutional cost of primitive accumulation. More dangerously, whenever international geo-politics changed, foreign investment and aids might break off abruptly. That might lead to economic crisis, political and social turmoil, and even human disaster. It could be regarded as a development trap.

thus breaking its economic and political dependency. Such a dependency on the “suzerain” or foreign investor was a common fate among many Third World nations.

Hence, the study of China’s development experience brings forth a question which is worthy of reflection. In as much as China had suffered from various serious economic crises, how could it manage to avoid a chain reaction of political and social turmoil, even total breakdown, and therefore escape the ‘development trap’?

The analysis of world-system theory, which divides up the world in terms of “core—semi-periphery—periphery,” according to their respective positions in sharing the benefits from global production, basically coheres with Mao Zedong’s conclusion about the “Three Worlds.” Both elaborate the underlying mechanism by which the costs and benefits of the global economic system are distributed: the institutional costs of economic growth and social development in developed countries are typically transferred to developing countries by way of dominant institutional arrangements overseen by the core countries.

As for the question of how China has managed to avoid the “development trap” faced by many developing countries, generations of politicians in the East have scribed the answer in their praxis. Yet most of the theories that have emerged from the west seem to have neglected what is essential and as such, misinterpreted China’s experience.

In principle, the different subjects of urban and rural sectors should have their own representatives in the government to represent their interests. However, any late industrializer facing extreme capital scarcity has had to embrace pro-capital policies. Those who represent the interests of the urban sector where industrial capitals concentrate have long exerted considerably more influence on governmental policy-making than their rural counterparts. Even though the central government sometimes embraces positively pro-rural policies, their implementation has often been difficult under constraints of institutional transition, which represents the interests of industrial capital.

Nevertheless, traditional rural China has been prone to stability in contrast to the situation with modern Chinese cities. Since the early twentieth century in China, economic crises endogenous to industrial civilization have tended to break out in the cities. The impact of the

crises of capitalism on the urban sector have depended on the extent to which their costs could be transferred to the rural sector and to peasants, since unlike the USA, China could not transfer the institutional costs of the crisis abroad.

During the breakout of economic crises, based on the basic institutional contradiction of a dual structure (urban and rural), China can thus diversify its various economic and social costs. Although enormous costs have been borne, an uninterrupted industrialization has been essentially maintained.

It has been observed throughout China's 70-year history of industrialization that as a rule whenever the cost of crisis could be transferred to the rural sector, the capital-intensive urban industry sector could achieve a "soft-landing" and the existing institution could be maintained. When the cost of the crisis was not transferable to the rural sector, it manifested as a "hard-landing" in the urban sector, giving rise to major reforms in the economic system.

China's economic reform therefore originated from policy adjustments in response to economic crises. Nevertheless, because of the obfuscations caused by ideology, people have failed to see the problem from this perspective.

In terms of social stabilization, Rural China (comprising three irreducible dimensions: the peasants, the rural areas and the agriculture, known as the "*sannong*", the three agrarian sectors) has played an important role as a shock absorber to the cyclical economic crises (approximately one in every ten years) caused by urban industrial capital in the last 70 years. This has been the case especially in the last 40 years of reform, which has seen China turning crises into opportunities. This is the crux of this book, which elaborates on China's 70 years of industrialization during which there were four occasions of serious indebtedness, ten crises and their subsequent soft-landings and hard-landings.

At the initial stage of industrialization, China's understanding of the regularity of crises was simplistic while its reaction to them was passive. In the crisis of 2008–2009 we saw the **Chinese government proactively implementing a pro-peasant policy with an increased infusion of fiscal fund. The three agrarian sectors again appears to be forged as a vehicle of soft-landing in the event of crisis.**

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