

The political economy of reforms and the present Chinese transition

*A economia política das reformas
e a presente transição chinesa*

ELIAS JABBOUR
ALEXIS DANTAS*

RESUMO: O objetivo deste artigo é demonstrar, partindo de uma visão de conjunto das reformas econômicas chinesas, que o surgimento de um largo setor privado e a própria sofisticação e diversificação da manufatura têm demandado contínua reorganização de atividades entre os setores estatal e privado da economia. Neste artigo sustentamos que o Estado passou a caber maior protagonismo nas esferas que envolvem o controle da grande indústria e da grande finança, assim como no nível da coordenação e socialização do investimento pela via do comando sobre as políticas econômica, monetária e fiscal, do comércio exterior e, principalmente, no lançamento de novas e superiores formas de planificação econômica.

PALAVRAS-CHAVE: China; reformas econômicas; Estado; setor privado; planejamento econômico.

ABSTRACT: The main aim of this paper is to demonstrate, through a review of China's economic reforms, that the emergence of a large private sector and the increased sophistication and diversification of industry has required the continual reorganization of activities between the state and private sectors of the economy. We argue in this paper that the state began to play a major role in important industries and in big finance, as well as in the coordination and socialization of investment, such as economic policy (monetary and fiscal), foreign trade and, especially, the launch of new and higher forms of economic planning.

KEYWORDS: China; economic reforms; state; private sector; economic planning.

JEL Classification: O1; O2; P2.

* Professor Adjunto da Faculdade de Ciências Econômicas, Departamento de Evolução Econômica da Universidade do Estado do Rio de Janeiro (FCE-UERJ). Email: eliasjabbour@terra.com.br; Professor Associado da Faculdade de Ciências Econômicas da Universidade do Estado do Rio de Janeiro (FCE-UERJ). Email: alexis.dantas@gmail.com. Submitted: 1/April/2016; Approved: 7/October/2016.

INITIAL REMARKS

Following a path similar to that of the US between the second half of the nineteenth century (consolidating its territories) and the end of the World War II, the robust and sustained economic growth and consequent increasing of influence of the People's Republic of China may be the most important fact (in political and economic terms) of the contemporary world.

Limiting the analysis to the years after the reforms (1978)¹, the average annual rate of GDP growth was nearly 10% per capita (in purchasing power parity terms), increasing from US\$ 250 in 1980 to US\$ 9,040 in 2014. Since 2013, China has had the largest volume of foreign trade, affecting the *demand* and *structure* of almost all national economies. At the same time, China became a strong exporter of FDI (growing from US\$ 0,8 billion in 1990 to \$ 140 billion in 2014²). Inflows of FDI also increased considerably, from US\$ 1,4 billion in 1984 to US\$ 119,6 billion in 2014. Returning to the issue of foreign trade, one can observe the greater weight of its international influence, as well as of its export-led model combined with traces of *modern mercantilism*. In 1978, exports and imports were approximately US\$ 9,75 billion and US\$ 10,89 billion, respectively. In 2014, the corresponding values reached US\$ 2,34 trillion and US\$ 1,96 trillion, respectively. The accumulation of the largest foreign reserves in the world followed the same quantitative logic of foreign trade, jumping from US\$ 1,6 billion in 1978 to US\$ 3,84 trillion in 2014 (NBSC, 2015). In 2014, Forbes magazine included 43 Chinese companies in the top 500 ranking and 20 state conglomerates in the top 250.

The maintenance of high investment rates and, consequently, the anticipated increase in installed capacity combined with the constitution of a modern financial system ensures the national conditions for the construction of “dams against unfavorable historical tides” (Kissinger, 2011, p. 446), as seen in the country's response to the first years of the global financial crisis with an infrastructure investments of approximately US\$ 600 billion. Curiously enough, the extent to which the dynamics of accumulation centered on investment, its weapon of against international crisis, was reason for greater amplitude of the dynamics to the consequent urgency of the tran-

¹ Chinese developmentalism cannot be seen as a tendency introduced by the economic reforms of 1978. Thus, it is more prudent to characterize the economic reforms as the internalization of an Asian type of developmentalism replacing a historically determined growth model, which penalizes the field over the city, thus avoiding the simple negation of the previous period, as sometimes occurs in analyses of *complex historical processes*. It is important to note that between 1953 and 1978, China's average annual GDP growth was 6.6%, lower only than its Southeast Asian neighbors. This period laid the foundation for the achievement of large hydraulic projects (Ertan), nuclear weapons capacity (1964), artificial satellite launches (1971) and Beijing subway construction (1975) using exclusively Chinese equipment. Ignacio Rangel in a unknown article written in 1952, noted (and then confirmed) a paradox in China, as an agricultural country, but an exporter of manufactured goods. On this issue, see Rangel (1952).

² Latin America is a case that combines of structure and demand effects that the increased Chinese share of its export and import tables. See: Medeiros and Cintra (2015).

sition to a pattern centered on the mobilization of resources for consumption. This is a trace under the form of *structural imbalance* that interact with the internal environment forming financial bubbles and resulting in high provincial debt – the harbingers of a financial crisis and expressions of a long internal process of transition.

China's recent development include the history of large jumps, from one imbalanced state to another. With this assumption, the main aim of this paper is to demonstrate that the emergence of a large private sector and the increased sophistication and diversification of manufacturing activities required the reorganization of the state and private sectors of the economy³. The state began to play a major role in the economic, monetary and fiscal policy spheres in the context of foreign trade, and especially in launch of *new and higher forms of economic planning* (Jabour, 2012). In addition, it built a system for managing large and agile interventions in the territory that were associated with the constant monitoring of investment opportunities.

Following this introduction, this paper is divided into three sections. The second section will discuss the political economy of reforms in order to characterize the pattern of accumulation beginning with the economic reforms in 1978 and the role of *inner catch up* and prior to the internalization of the model based on the combination of export-led growth and high investment rates. In addition to the (re) construction of the essential *power pact* and the progress of economic reforms expressed in the subversion of the “Soviet Model” of industrialization in favor of agriculture and farmers the towns, led to the consequent reordering of rural enterprises based on a regional markets connection strategy and even Chinese international integration. The third section analyzes the macrodynamics process of reforms using readback data to show the shift in center of gravity during the 1990s, from industrialization pressured by new consumer habits to the configuration of a centrum investor and exporter. In the third section, we also address the transformation of economic development into territorial development as an expression of a defined *national strategy*, beyond the roles of the state and major national finance institutions in the process. In the conclusion we summarize the important points of our analysis – and, of course outline shape to the main challenges facing Chinese governance today.

THE PRIMARY IMPULSE

The launch of economic reforms in 1978 coincided with a series of events whose meaning is expressed in a new *international division of labor*. The eco-

³ The perceived on the need for reorganization of activities between the state and the private sector concomitantly with certain level of development of the country is very present in the works of Ignacio Rangel with virtuous effects on elaborations of Bresser-Pereira on the topic. This dynamic reorganization of activities works as an *objective law* of the development process to be observed under the risk of dogmatization and the adoption of strict and ideologized ways of approaching. See Rangel (1981) and Bresser-Pereira (1989).

conomic and political losses of the USA (German and Japanese economic rise, military defeat in Vietnam and a loss of influence in the Third World) allowed a counter-offensive on an international scale. The perception of China's backwardness nearby developed states, including Hong Kong and Taiwan⁴ (two important historical disputes post-1949), and even the emergence of a new technological paradigm in its historical rival, Japan, were key to the achievement of the economic reforms. Concerning the *real existing socialism* field, it is tempting to link the decline of Fordism with the decline of USSR's economic dynamism, as well as that of its partners in the Council for Mutual Economic Assistance (CMEA), some of whom entered at the phase b of the Long Cycle⁵ initiated in 1973 with the political crises linked to the Mexican debt crisis in 1982, especially those of Poland and Yugoslavia.

From the point of view of *domestic policy* the main factor in the modernization was the restoration of the power pact established in 1949, but nearly dismantled due to the logic of so-called *socialist primitive accumulation* and the radicalism of non-market logic related to campaigns such as the Great Leap Forward (1956-1961) and the Cultural Revolution (1966-1976)⁶. In, correct, Deng Xiaoping's point of view the same forces (farmers) that led the Communist Party of China (CPC) to power in 1949 would be the starting point of economic reforms focused, in principle, on reestablishing an internal food supply system that would overcome food production shortages, and guaranteeing minimum conditions for the emergence of a large domestic market for the consumption of manufactured goods. Policy, strategy and economy should combine – initially – to invert the logic of rural-urban relations of the typical Soviet Model, which is unfavorable to agriculture⁷. Classical patterns of *social division of labor* initially required a process – characterized as *liberalization without privatization*.

By the logic of the *great strategy* and the political importance of rural areas, the first goal of economic reforms was the implementation of the *contract of responsibility* between peasant families and the state, including the introduction of production quotas to be delivered by families to the state, with permission to commercialize any surplus⁸. Because of this policy, 1984 saw record production of cere-

⁴ In 1978, Taiwan had a per capita income 19.7 times greater than that seen in Mainland China (Jabbour, 2006, p. 57), which made any political intent towards the reunification of the country unsustainable.

⁵ We refer to Phase B of Kondratieff's Long Business Cycle.

⁶ The power pact that led the CCP to power in 1949 included peasants and the vast majority of the population in the main support base.

⁷ On the Soviet model of development/socialist primitive accumulation, see Domar (1972).

⁸ It is not uncommon to associate the responsibility agreements established in China after the reforms with accumulation mechanisms based on the short Russian experience with the New Economic Policy (NEP), proposed by Lenin in 1921. Domenico Losurdo (2004, p. 57) classifies Chinese reforms as a "great NEP". In our view, the existence of unemployed resources is a prerequisite for development, and in an agrarian society, agriculture itself is the source of unemployed resources whose full

als – 407,3 million tons – an increase of 33.6% compared to the harvest in 1978 (Rong et al., 1992, p. 375). In this sense, the characterization of the early years of economic reform in China, perhaps an example of “growing out of the plan” (Naughton, 1996), is an expression of recomposition of the *small commodity production* into a kind of *laissez-faire* peasant production, generating economic development as a consequence of the expanding market economy. Expansion occurred not only by replacing static and outdated forms of planning that were characteristics of the agroindustrial complex of the communes established during the Mao Tsetung era, but also because of the pressure exerted by this new market economy on the *natural economy*.

The faster pace of production in the primary sector of the economy in the early years of the reforms had political, as well strategic, repercussions that were not clearly perceived. It is difficult not to relate the broad rural support for the regime to the maintenance and legitimation of the CPC during the process of the Soviet Union’s dissolution, the end of the socialist experiments of Eastern Europe and the upheavals that shook Beijing between May and June of 1989. Rural reforms have created political boundary that are, thus far, well connected to the strategic project of Four Modernizations (agriculture, industry, science and technology and national defense) announced by Zhou Enlai in 1974 upon which the idea of Socialism with Chinese Characteristics, was build and launched by Deng Xiaoping in 1982⁹.

An essential aspect to understanding Chinese economic reforms relates to the particular process of its development. China post-1978 can be perceived as a variant of the “American Path”¹⁰, *i.e.*, a process of industrialization supported by a broad market economy that expands from the field to the cities whose institutional framework induces the transformation of small and medium producers into potential industrial producers, in a kind of *accumulation without dispossession* (Arrighi, 2007,

utilization requires institutional changes as a starting point for the accumulation process, qualitatively affecting, the economy as a whole. This is the case in China’s economic reforms. On NEP, see Lenin (1921 [1964]).

⁹ Deng (1992). We will not discuss the concept or the theoretical validity of “market socialism” as an analytical category in this paper. We observe the category as a “distinct socioeconomic formation” or “Modern Mode of Production” (Gabrielle and Schettino, 2012). Moreover, market socialism should be observed as a *complex mode of production* that reflects the survival and strengthening of traditional socialist type institutions under the scope of a national strategy with a socialist character working and directing the national and social body in the *social formation* (where different modes of production not contemporaneous live in territorial and social contemporaneity) under the hegemony of the large state-owned socialized, backbone of the economy and Chinese society itself. In this case, the view of *historical totality*, which is very important for the science of political economy, can replace to a certain degree, the primarism and Neoclassical vices that characterize the Chinese experience of development as one more case of a straight transition from socialism to capitalism or an Asian developmental state variant or as a simple example of state capitalism.

¹⁰ On the “American Path of Development” see Lenin (1915 [1964]) and Moore Jr. (1966).

pp. 366-367)¹¹, which is both a cause and consequence of the very *gradualist* nature of Chinese reforms. This gradualism is expressed in a combination of the following processes led by the state: 1) market dominance by the state; 2) which in turn liberalizes trade for its benefit, creating opportunities to deepen higher forms of *social division of labor*, and concomitantly with the plan; 3) drives energy toward the formation of an internal consumer market; 4) initiates industrialization based on peasant entrepreneurship; 5) induces extensive competition among small, medium and large companies and encourages education to mitigate the effects of the market itself on the social body; and 6) plan jumps first into industry itself and then into foreign trade, not the traditional, but a *public good, planned and state conducted*.

In China, this process is closely linked to rural reforms, stimulated by two increases in agricultural prices and consequent increases in productivity and income. The authorization – since 1983 – of peasants to look for labor opportunities beyond their villages also plays a role. This is the beginning of a new configuration of the *social division of labor*, as well as of regional schemes articulated for both national and international economies.

The main example of this dynamic is embedded in the transformation of the nature of employment in the country and its direct relationship with the greater power of economic decision making of the provinces, the liberation of excess labor from agriculture and the strengthening typical rural industries known as *Township and Village Enterprises* (TVEs). One of the fundamental characteristics of the recent Chinese development process is the rural character of the great manufacturing expansion in the 1980s. Increasing income and agricultural labor productivity, as well as the consequent increase in demand for industrial goods, shifted excess labor not into the large coastal cities but into the surroundings, the village. Thus, a broader *social/regional labor division* founded on the transfer of industrial activities was first located at the *community complex* level of the village. The main features of the expansion of the *market economy* increased in importance, namely: 1) productive specialization; 2) differentiation between agriculture and industry; and 3) overcoming barriers to the connection of regional markets with the formation of an integrated *national market*.

The expansion of TVEs supports the *social division of labor* as one of the nodal categories of analysis to understand Chinese development. In 1978, the total number of employees in TVEs was 28,265,000 workers, tripling in the first ten years of economic reforms to 93,667,000 and reaching 138,661 million employees by 2004 (NBSC, 2015). Between 1978 and 2004, the share of agricultural employment in China decreased by 242%, while rural non-farm employment rose by 471% in industry, 582% in construction industry and over 3.000% in services sector (Kang, 2006, p. 291). This transfer of activities had direct impact on the

¹¹ The notion of “accumulation without dispossession” as a way to characterize the initial stage of China’s economic reforms can serve to demonstrate whose own dispossession had already occurred in 1949. On this issue, see Oliveira (2005).

income structure of peasants: in 1978, 7.92% of income came from non-agricultural activities, jumping to 30.61% in 1996 with a consequent drop in income from agricultural activities (falling from 90.08%)¹². It should be noted that concomitant with this industrial expansion, cereal production has been continuously growing since 2004 as a result of institutional reforms that included the abolition of all taxes on income and agricultural production, as well as clear processes of mechanization and productive specialization¹³. In 2014, cereal production reached a record 607,1 million tons (NBSC, 2015).

TVEs were an essential element of the reorganization of the *social division of labor* and the unification of the Chinese domestic market. However, their scope of action followed the state strategy itself, becoming the bridge for the international insertion of the country, especially around the 1990s. By the end of that decade, TVEs accounted for 40% of all industrial production (Masiero, 2006, p. 432) and 27% of the country's export (Kang, 2006, p. 137). In 1989, exports of textiles and footwear by TVEs corresponded to 47.7% of exports of these products, a number that fell to 29.1% in 2002 and 23% in 2007, while the share of exports of consumer durables increased from 14.4% in 1989 to 29.1% in 2002 and 30.3% in 2007 (NBSC, 2008). Examples of the global expansion TVEs are numerous, including Haier, which represents 50% of the US small refrigerator market; Galanz, 33% of the global microwave market; Legend, 20% of the world market boards for computers and China International Marine Containers 40% of the international market for refrigerated containers (Masiero, 2006, p. 441).

The first steps of economic reforms have created the material and political conditions for strategic steps that determined the active choices the country faces given growing global production and financial integration. US banks began to accumulate the power to manage the international reserve currency with increasing force in the intense process of financial liberalization, especially in countries whose currencies are not convertible (Belluzzo, 2012, p. 130). This same mobility was given to productive capital to seek better reproductive conditions across borders in North America directly because of monetarist policies affecting the cost of money. It is important to remember that in the early 1980s, interest rates reached unprecedented double digits levels in the US (Galbraith, 1987, p. 247). Moreover, the North American offensive against the macroeconomic conditions of the Japanese economy (Plaza Accords of 1985) accelerated the process of reconfiguration of the *international division of labor* under the command of big finance, promoting geographical rearrangements that ultimately benefited mediation of Chinese strategic objectives and policies aiming the internalization of technologies and advanced methods of production management.

The political economy of reforms in China also reflects the history of the cre-

¹² Ministry of Agriculture: *Agriculture Development in China, 1995-1996*.

¹³ On the process of productive specialization and mechanization in Chinese agriculture, see Espindola (2007).

ation of objective conditions for the solution of historical disputes with Kong Kong, Macao and Taiwan. It is not surprising that the primary targets aimed, financing projects and the formation of large *joint ventures*, mobilize the sizable financial resources of Chinese people from overseas. A *Chinese international circle* was formed and became *positive externality* before the foreign direct investments (FDI) influx from United States, European Union and Japan. It (the Chinese international circle) became the first step to Asian production integration centered on China rather than ancient Japanese center. Between 1990 and 2008, 45% of FDI into China originated in Hong Kong/Macau, followed by the US and Taiwan, with 9% and then Singapore with 6%. Germany and France represented 2% and 1%, respectively (Jabbour, 2012, p. 238). Taking Hong Kong/Macau, Taiwan and Singapore as a whole, more than 60% of FDI in China are performed undertaken by Chinese. These are fundamental aspects of previous analyses: the export boom and the increase in the GDP/investment ratio occurred in the second half of the 1990s, especially after the historic visit of Deng Xiaoping in 1992 to the prosperous provinces in south. A *financial and productive movement* from the Chinese diaspora became effective. The inexorability of economic reforms, with the fall of the Soviet Union, became a political and strategic fact with the proclamation of *market socialism* as the regime's main objective in 1993.

THE MACRODYNAMICS AND FORMATION OF A FINANCIAL POWER

The early stages of the economic reforms were characterized by an increase in peasant income accompanied by increased demand for consumer goods. The high growth rate that occurred between 1978 and 1984 was accompanied by structural changes in consumption patterns (Medeiros, 1999, p. 96). The expansion of consumerist horizons was guided by the acquisition of televisions, refrigerators, watches and washing machines, with the consequent explosion of domestic production of these goods, especially by TVEs¹⁴.

Thus, the primary sector increased from 28.2% of GDP in 1978 to 32.1% in 1984, while the share of the secondary sector fell from 47.9% to 43.1%, with a little growth in the tertiary sector (from 23.9% to 24.8%). The growth of the primary sector relative to the rest of the economy continued until 1990 when its contribution to overall GDP growth was 41.7%, while industry plus construction had 41% share and services had 17.3%. This trend was only superseded after 1995, when the contribution of agriculture to the GDP growth fell sharply to 9.1%, industry plus construction totaled 64.3% and services 26.6%. In 2007, the primacy of investments in total demand was increasingly clear with agriculture decreasing

¹⁴ This discussion of changing consumption patterns and the consequent increase in domestic production of goods for mass consumption is well developed in Singh (1993).

further to 3.6% and industry (plus construction) reaching 54.1% and services 48.2% (NBSC, 2008).

The transition from a growth pattern based on consumption (in the early 1980s) to another combining rapid increases in output via exports and investment was consolidated in the mid-1990s. Gross fixed capital formation in the 1980s average 35.7% reaching the current level – above 45% – only in 1995 and peaking at 48.7% in 2011¹⁵. Exports increased from 10% of GDP in 1978 to 17% in 1984 and 45% in 1995. At the international level, the share of Chinese exports (in relation to the world) in 1978 was 0.75%, reaching 3% in 1995 (Medeiros, 1999, p. 96), 6% in 2007 and 11,3% in 2013 (WTO, 2014). In the first 15 years of reforms, inflation followed the trend of a consumer economy expanding under low oligopolistic control, price liberalization and great utilization of installed productive capacity (i.e., TVEs). Inflation fluctuated wildly between 1978 and 1995, with peaks in 1981, 1985, 1988 and 1994 when it reached 24% (Nonnemberg, 2010. p. 207). The high rate of investment was a very important factor in inflationary equilibrium. Between 1996 and 2014 the average was less than 4%, including the possibility of the current disinflationary trend.

Returning to the behavior of the investment rate, its rise coincides with two movements: the first is a function of the change of the pattern of accumulation, which was initiated in the 1990s (export-led growth); the second, the need to integrate small markets into regional and national market. This in turn moves in the direction of a large domestic market that is still in the process of consolidation. In this sense, the developmentalism and its adaptation to a continental economy should be observed over time and perceived as part of the strategy whose path expresses the strategy itself.

Strategy and regional dynamics

The release of market forces engendered in its content a new set of configurations of economic planning that only take shape and content in the early 2000s with an intense process of mergers and acquisitions in the state sector of the economy. Additionally, the formation of an institutional and financial environment capable of cementing both a strategy for international insertion and internal jumps from one imbalance to another.

Preparing the Chinese territory to take advantage of the trends among large corporations to obtain increasing returns to scale and cost reduction was the first major test of the country's readiness for sovereign admission into global value chains. Part of a complex set that relates internalization of export-led model to the necessary construction of financial sovereignty (foreign exchange reserves); both aims were central to achieving a long-range policy based on the mechanism of

¹⁵ In 2014 this rate was 46,1%.

socialization of the investment¹⁶. These mechanisms have been shown over the past 30 years to be the central pillars of coordination between state capital, concentrated and centralized, and the intense capillarity and importance of the private sector of the Chinese economy. It is a positive characteristic that explains the dynamism of the Chinese economy expressed in the maximization of state and private sectors and the relationship between top-level planning and an increasing role of the market in firm level decisions.

The establishment of Special Economic Zones (ZEEs) as part of a national global economic integration strategy (creating a zone of economic convergence between China-Hong Kong and China-Taiwan) was a first and important step toward the reunification of the country under the banner of the “one country, two systems” policy. The first five experiments conducted between 1982 and 1984 were chosen strategically: Shantou, Shenzhen and Zhuhai on the border with Hong Kong and Xiamen, in Fujian Province (in “front” of Taiwan) and the entire island of Hainan, the southernmost and closest to the dominant Chinese ethnic enclaves in Singapore and Indonesia. Shanghai was restored as “head of the dragon”, that is, as the new industrial and financial center of the country and headquarters of the Special Economic Zone in Pudong – which is located on the east bank of the Pudong River and formed to shelter R & D offices of the world’s largest industrial and financial corporations (Oliveira, 2003, p. 9).

The design of this gradual territorial dynamic is a development step vis-à-vis with the law of uneven development where one can see the formation of a dynamic center that incorporates its periphery. This pattern is common in countries at the mid-level development stage and that exhibit high levels of catch up. This is has been the official regional policy of the Chinese state since the Seventh Five-Year Plan (1986-1990) engendering – sequentially – considerable territorial income concentration.

The ZEEs had their experience prolonged along the whole coastline (1987). In 1992, more than 2000 border towns were open; in addition, 30 provinces were authorized to draw up their own liberalization policies (Demurger et al., 2002, p. 157). The first major reversal of those positive policies on the coast was the assumption of Chongqing, located in the midwest at the bifurcation/T-junction of the Yangtze River, as a condition of municipality, such as Beijing, Shanghai and Tianjin. This movement is similar to that seen in the second half of the nineteenth century in the United States when its westward expansion strategy centered in Chicago, which was located in the midwestern part of the country and functioned as a rail and road transportation junction. Between January 2001 and December

¹⁶ Regarding the notion of the “socialization of investment”, according Keynes (1964, p. 378): “[...] the state will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways [...]. I conceive, therefore, that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative”.

2010, US\$ 1,8 billion per month were allocated in Chongqing under a clear strategy aiming to make this municipality the “Chinese Chicago” to provide training and the develop of similar institutions to those that were set up in the US in the last third of the nineteenth century, namely, the Tennessee Valley Authority, the Civilian Conservation Corps and the Interstate Highway System (Jabbour, 2006, p. 78).

The “Development Program of the Great West” (1999) aimed the consolidat its large national market to connect the Mainland Chinese economy with those of its neighbors. Approximately US\$ 100 billion was allocated between 1999 and 2005 to long-range infrastructural projects. The two main projects were the West-East gas pipeline (Xinjiang-Shanghai) and the Qinghai-Tibet railway (Jabbour, 2006, p. 60). Objectively, investments in fixed assets – as a ratio of the GDP – fell from 54% to 41% between 1998 and 2013 in the eastern region. At the same time, the levels of 8%, 18% and 17% in 1998 increased to 10%, 25% and 24% in the Northeast, West and Central regions, respectively (NBSC, 2015). Per capita income in the west, as a proportion of the national level, was 90% in 1990 but fell to 81.3% in 1998, after which it began to recover approach the national level, reaching 84.2% by 2013 (Morais, 2015, p. 247). From the investment package announced in November 2008 (approximately US\$ 600 billion), 73% was allocated to the interior regions of the country.

From implementation of the first coastal ZEEs and the ambitious “Development Program of the Great West” in 1999 – followed by similar investment programs aimed to break some market bottlenecks that which were launched toward the Northeast (2002) and Central (2004) of the country – , the configuration of a continental economy (pursuing the formation of a large unified national market) keeps correspondence to increase Chinese influence in the world, and especially on its neighbors. Establishing a Chinese presence beyond its borders is clear goal of the ambitious project launched by Chinese President, Xi Jinping. To build a New Silk Road (Ren, 2015), investments of US\$ 2,5 trillion are planned until 2020 (Tiezzi, 2015). The aim is an economic belt connecting the Chinese market from the coast to the whole of Central Asia in clear response to United States objections in the Middle East and former republics of the Soviet Union.

Regional development axes have been encouraged, institutionalized and specifically planned since 1982. The design of development steps is associated with the trend of regional dispersion of investment and industrialization after the second half of the 1990s. It is also a process of transformation of economic development in territorial development, and the implementation of a major national strategy to strengthen the legitimacy of the political power installed in October 1949. In this sense, the growing demand for Chinese hydrocarbons coincides with the discovery of major oil and gas reserves in Xinjiang, making this autonomous region strategic both as a supplier of energy and as a bridgehead between China and its oil producing neighbors in Central Asia. Tensions with the Huigur ethnic group in this region worsened in the 1990s and at the beginning of this century due to historical momentum of investments of US\$15 billion in infrastructure made between 1990

and 2001 and efforts to transform Xinjiang into the largest petrochemical complex in Asia by 2020 (Bandeira, 2013, p. 125).

The dynamics and the role of the state

There is no doubt about the centrality of the state's role in the concentrated modernization effort or about China's ascension into the group of major economic powers. However, this role can be analyzed in a stylized way based on static notions of the process. In this regard, we reiterate the cyclicity of the state's role in China, as well as – dynamically – the perception of different roles during the process, directing the development/implementation of new and higher forms of economic planning vis-à-vis the management core of mechanisms of socialization of investment.

The orthodox argument suggests a liberalizing pattern: dismantling rural communal complexes, land concessions made to peasant families and consequent restoration of small commodity production (peasant *laissez-faire*). Liberalization spread to industry and services, which establish their own pricing system, opening up the country to FDI and accession to the World Trade Organization (WTO) in 2001. Extensive privatization of state assets occurred between 1994 and 2000 and private property was recognized, legitimized and supported by laws and regulations (Naughton, 2006, p. 2). Concomitantly, the number of bankruptcies in the state sector reached 1,232 companies in 1995, 4,198 in 1998 and 5,429 in 2001 (Imai, 2006, p. 5).

Between 1998 and 2007, the share of state-owned enterprises in China fell from 39.2% of all enterprises to 6.1%, while the private sector grew from 6.5% of the total to 52.6% over the same period¹⁷. The labor-intensive character of many state-owned enterprises led to a unequal fall in relation to that found in industrial/urban companies. During this period, the number of workers in the sector decreased 168%: in 2007 state-owned enterprises were responsible for 29.5% of all jobs while the private sector increased from 2.6% in 1998 to 28.6% in 2007 (Jabbour, 2012, p. 238). There is no doubt that, from a purely hypothetical-deductive perspective, these data give strong support and argument to orthodox economists (facing the large number of bankruptcies of state enterprises and increased importance of the private sector).

The absolute importance of increasing process of the private sector is greatly associated with (and even essential to) the shaping of a broad market economy. Growing surpluses in agriculture served as a commercial niche occupied by TVEs, whose dynamism has produced strong negative impact on mainly small and medium-sized state-owned enterprises engaged in the production of consumer goods. These state owned companies were hampered by a central and weak scheme of

¹⁷ Here we consider only companies with full state or private capital. A multiplicity of forms of property exists, notably *mixed forms*.

Soviet-style production planning, characterized by rustic, outdated and inefficient methods substituting for economic calculation and lacking upstream or downstream links from the company itself to its subsidiaries and consumers. On the other hand, the quantitative reduction of the state sector involved social compensation by creating millions of jobs in rural and urban areas, as well as a dynamic class of domestic capitalists that are hugely important to the functionality of national and international strategy in China.

In addition, the key player in this development strategy is the state itself. The combination of the concentration of the markets and the decentralization of the plan (Medeiros, 1999, p. 109) has many facets resulting in a unique combination of market mechanisms and planning that characterizes the Chinese development approach to the present day, forming new and deeper forms of social division of labor. More power to make decisions has been given to the provinces, and almost complete freedom of action has been given to TVEs. In 1980, tax reforms favoring provincial revenue retention resulted in increasing fiscal deficits until 1994¹⁸. The transition from a centrally planned economy to a more flexible economy as well as the strategic trend of mergers between large companies and large banks, demanded reforms to optimize macroeconomic control mechanisms (Ki and Yuk Shing, 1994, p. 769). In China, these reforms preceded the necessary transformation of the industrial state sector by, creating appropriate institutional conditions, for example, addressing the current international financial crisis. In this sense, the rise of the market role and the greater participation of the private sector, even replacing the state sector in certain areas, began to have strong counterpart, leading to the announcement in 1994 of reforms of tax system that pointed toward a strong process of recentralization and concentration. Fiscal recentralization and greater state power over key macroeconomic mechanisms are the first steps toward coordination and socialization of investment. China has taken a decisive step toward the internalization of a modern monetary economy.

With exposure to tough competition from TVEs and a vibrant emerging private sector, the need for reforms in state-owned enterprises became urgent in order to legitimize their supporting role in the complex business system designed in the mid-1990s as a strategic objective of the socialist market economy. At least two major moves in this direction should be highlighted: 1) the centralization and concentration of large state capital, and 2) the deepening of the process of separation between management and ownership paving the way for various forms of public ownership.

¹⁸ It is a difficult not to relate this greater local autonomy to the struggle between reformers and conservatives within the CCP. This conflict ended with the complete victory of the reformist wing led by Deng Xiaoping and enshrined in the 14th National Congress of the CPC (1992). More autonomy was granted to local leaders to implement reforms and economic experiments without ideological moorings beyond the People's Liberation Army support (ELP) in exchange for greater entrepreneurship autonomy which formed the two political pillars that made possible the maintenance and deepening of economic reforms in the early 1990s. On this exciting political process, see Marti (2002). On fiscal debit accumulated between 1979 and 1994, see Ki and Yuk-Shing (1994).

The industrial state sector of the economy accumulated annual losses between 1991 and 1999 of approximately 0.6% of GDP, which was completely reversed in 2007 with earnings of 4.2% of GDP (Gabrielle, 2009, p. 7). The comparison of labor productivity/income per worker between state and private companies is indicative. In 2007, this ratio¹⁹ for state-owned enterprises was 58.3/84.7; for TVEs, 41.2/24.8; for private enterprises 48.1/32.5 and for state conglomerates 68.7/90.8; in the mixed capital companies with majority state ownership, 88.0/99.2, and in the mixed capital companies under private control, 41.6/90.8 (Jabbour, 2012, p. 190). Moreover, although the vast majority of Chinese enterprises are controlled by the private sector, economic power remains firmly concentrated in state hands. An example is the close relationship between private corporations and the state through equity participation of the state itself in credit and full state contribution to their internationalization strategies.

The transition, as already mentioned, was from a command economy to one with a greater role for the market. In this new system, the state becomes the core policy manager of the socialization of the investment, which was shaped with by the formation in 2002 of the SASAC (State-Owned Assets Supervision and Administration Commission). This commission created to represent the interests of the state and its shares in the 149 major companies in the country, which are concentrated in sectors characterized by a high degree of oligopoly/monopoly²⁰. This means the transformation of these corporations into the major performers of official state policies. For example, the important roles of these companies in the sizable investment programs implemented to resist the effects of the international financial crisis.

The national big finance

The growing political and economic influence of China in the world is strongly relates to its large foreign exchange reserves and its current position as the largest net creditor in the world, with loans worth US\$ 1,97 trillion or 20.8% of GDP (Cintra and Silva Filho, 2015, p. 426). The country changed its *international strategy* to involve the merger of *big business* with *big finance*, exploring the degree of maturity reached by its financial system and raising, the country, to *financial power* level.

Becoming a global financial power was a logical consequence of a *modern mercantilist* process that transformationed China into a commercial power and known as in the great *factory of the world*. Remodeling state and private functions allowed the creation of institutions at the level of SASAC. The financial counterpart was the establishment of a *modern monetary economy* replacing the old financial system (based on the Soviet Model) whose role was to be a mediator

¹⁹ 10,000 yuans per unit.

²⁰ On the principles and actions of SASAC, see Naughton (2006).

of a *forced savings*. The process of continued institutional development shaped big finance, which was important to the strategic objectives of the state. The combination of coordination of investment (through SASAC) and a state system of financial intermediation leads to a higher level of state performance, for example, with the state as the *lender of last instance* and as the *first instance investor* (Burlamaqui, 2015, p. 47).

The Chinese financial system is a element with varying degrees of functionality that intersect: 1) the decisive impact on the increasing complexity of finance in the economy and, consequently, on the level of spending of the agents affecting real economic variables such as output and employment (Paula, 2014, p. 2) and 2) the increasing degree of state intervention in a continental economy, subject to constants market bottlenecks, which in turn involves the intersectoral transfer of resources. This role is the main weapon against constant and varied imbalances, both social and regional, and as well as different sectors of the economy. Examples of imbalance include the contradictions in the evolution of the financial system, including the spreading of parallel finance and unregulated, off-balance sheet activities of commercial banks. These problems are key factors deepening imbalances in an economy still heavily guided by investment and facing changes to its dynamics of accumulation²¹.

The institutional developments followed and even anticipated the economic reforms demands, including overcoming the high degree of *financial repression*. Between 1978 and 1984 the Bank of China stepped into its own role in financial regulation, while the four sectoral banks were formed (the so-called Big Four) to meet the requirements of the agriculture, urban construction, infrastructure and exports and imports financings²². Issues such as increasing urbanization, including the financing of major events such the Olympic Games in 2008, western development policies and coordinated responses of the central and provincial governments to the 2008 crisis – demanded the ex ante formation of major provincial and municipal development banks.

Regarding the accelerated institutional development of the 1990s, reforms occurred partly in anticipation of events such the trade agreements China-United States trade agreements and China's accession to the WTO in 2001. Evidence of this anticipation is observed in the successive rounds of capitalization of state commercial banks by issuing bonds and purchasing the junk credits by newly created

²¹ We refer to so called “Shadow Banking”.

²² As previous described, the People's Bank of China is responsible for regulating the financial system commissions such as the China Banking Regulatory (CBRC), the Regulation of China Securities (CSRC) and the China Insurance Regulatory (CIRC). On institutional and People's Bank of China policy, Burlamaqui (2015, p. 50) states: “[...] It is an administration with ministerial status, which operates under the leadership of the State Council. [...] there is no Central Bank independence, but institutional links with other political bodies, under a pilot agency, the Politburo, which in turn is subordinate to the CCP”.

companies, to improve their management and promote their recovery²³. Both movements preceded the slow process of opening of the Chinese financial system to competition and the IPO itself. Moreover, the Asian financial crisis alerted the authorities of the country to the limits of large domestic finance institutions.

By 2015, the financial system had gone through an important test, with sharp declines observed in domestic exchanges, accelerating speculation that a financial crisis knocked at the country's doors, which until then had been unthinkable to the rest of the world. Would it have been the great requiem song of an "unsustainable model" that fell due to the fragility of internal finance susceptible to political injunctions rather than to "technical faults"? We argue that this is a superficial narrative, preferring to place the issue in perspective, as in the beginning of the paper based on the long-term dominance of a dynamic of accumulation guided by low interest rates and greater power for the provinces to implement broad infrastructure programs in the middle of an international crisis.

It is suggested that this problem is situated at the very field of *structural imbalance* and requires the interpretation of complex phenomena. For example, imbalance as a precondition for the main variable / category of theoretical validation in the field of economics, namely, planning. Under this approach, institutional changes – such as those that preceded recent changes in the economic basis of the country – would no longer be in progress.

FINAL REMARKS

Considering the analysis above and the recent history of China's development process, what could one suggest about its future and challenges?

This paper argued that a fundamental characteristic operates the political/institutional changes needed to implement national strategy goals in the long run. The main change was the transmutation of an economic base shaped by the typical institutions of the *Soviet model* to a modern monetary economy able to provide the state and its agents with a large capacity for *coordination* and *socialization of investment* and, therefore, with a range of political and financial capabilities to launch *new and higher forms of economic planning*, such as those verified in regional development policies, expansion and major coordination actions regarding the major financial control mechanisms and their newly exposed weaknesses.

The country is currently experiencing a transition in its development dynamics that brings not only the vicissitudes of an extensive process but also absorbs an

²³ According to Cintra and Silva Filho (2015, p. 404), "In fact, successive rounds of capitalization employed by the state prepared the big four for open your capital – what happened from the mid-2000s [...]. In 2005, the CCB went public and raised US\$ 9,23 billion. In 2006, BOC raises US\$ 11,2 billion, and in October 2006, ICBC held its initial public offering of shares in the amount of US\$ 19,1 billion [...]". Further elaboration of this interesting and planned process can be found in Allen et al. (2012) and Brillant (2011).

important set of contradictions and imbalances in the form of environmental crises, social inequality and territorial issues and, explosive income growth, consumption indices far below those of developed countries. External challenges include the slow internationalization of its currency and active foreign policy based on massive investment in infrastructure around the world, especially in its Asian surroundings (including the New Silk Road), Africa and Latin America.

There are long-term political impacts to be considered in the analysis, such as the relationship between this growing and flourishing private sector and the state. To what extent will the state be able to balance the general interests of society with the particularistic interests of the private sector? Given the intense capillarity and importance of this sector, as well as its expansion, will the state be able to – in the long run – limit its own ability to coordinate large investment decisions?

This is an array of interconnected imbalances. What is in question, in fact, it is not only the destiny of the economy but of the Chinese Revolution itself.

REFERENCES

- ALLEN, F.; QIAN, J.; ZHANG, C.; ZHAO, M. (2012) “China’s financial system opportunities and challenges”. *NBER Working Paper* 17828.
- ARRIGHI, G. (2007) *Adam Smith in Beijing – Linkages of the 21th Century*. New York: Verso.
- BANDEIRA, L. A. M. (2013) *A Segunda Guerra Fria – Geopolítica e Dimensão Estratégica dos Estados Unidos*. Rio de Janeiro: Civilização Brasileira.
- BELLUZZO, L. G. (2012) *O Capital e Suas Metamorfoses*. São Paulo: UNESP Editora.
- BRESSER PEREIRA, L. C. (2006) “Estratégia Nacional e Desenvolvimento”. *Revista de Economia Política*, 26, 2 (102): pp. 28-42.
- BRESSER PEREIRA, L. C. (1989) “O caráter cíclico da intervenção estatal”. *Revista de Economia Política*, (9) 3: pp. 28-42.
- BRILLANT, G. (2011) “Système bancaire chinois: entre controle de l’État et adaptation aux normes internationales”. *Revue d’Economie Financière*, 102: pp. 43-56.
- BURLAMAQUI, L.; SOBREIRA, R.; VIANNA, M. (2015) *The Present and Future of Development Financial Institutions*. Rio de Janeiro: Minds.
- CHEN, L. (2014) “The world’s largest companies: China takes over the top three spots”. *Forbes*. 07/05/2014.
- CINTRA, M.; SILVA FILHO, E. (2015) “O sistema financeiro chinês: A grande muralha”. In, CINTRA, M.; SILVA FILHO, E.; PINTO, E. (2015) *China em Transformação: Dimensões Econômicas e Geopolíticas do Desenvolvimento*. Rio de Janeiro: IPEA.
- DÉMURGER, S.; SACHS, J.; WOO, W. T.; BAO, S.; CHANG, G.; MELINGER, A. (2002) “Geography, economic policy and regional development in China”. *Asian Economic Papers*, 1 (1): 146-197.
- DOMAR, E. (1972) “A Soviet model of growth”. In, NOVE, A.; NUTI, D. M. *Socialist Economics*. Penguin.
- ESPÍNDOLA, C. (2007) “Notas sobre o agronegócio de carne na China”. *Revista de Geografia Econômica*, Edição Piloto: 210-219.
- GABRIELLE, A. & SCHETTINO, F. (2012) “Market socialism as a distinct socioeconomic formation internal to the modern mode of production”. *New Proposals: Journal of Marxism and Interdisciplinary Inquiry*. v. 5 (2): 20-50.
- GALBRAITH, J. K. (1987) *Economics in Perspective: A Critical History*. New York: Hardcover.
- JABBOUR, E. (2012) *China Hoje: Projeto Nacional, Desenvolvimento e Socialismo de Mercado*. São Paulo: Anita Garibaldi/EDUEPB.

- JABBOUR, E. (2006) *China: Infra-estruturas e Crescimento Econômico*. São Paulo: Anita Garibaldi.
- KANG, H. (2006). *China's Township and Village Enterprises*. Beijing: Foreign Language Press.
- KEYNES, J.M. (1936 [2003]) *The General Theory of Employment, Interest and Money*. Basingstoke: Palgrave MacMillan.
- KI, S.; YUK-SHING, C. (1994) "China's tax reforms of 1994: Breakthrough or compromise?", *Asian Survey*, (34) 9: 769-788.
- KISSINGER, H. (2011) *On China*. New York: New York Penguin Press.
- IMAI, K. (2006) "Explaining the persistence of state ownership in China". *Institute of Developing Economies, Discussion Paper* 64 (5):1-23
- LENIN, V. (1921 [1964]) "The tax in kind (the significance of the new policy and its conditions)". In, LENIN, V. (1964) *Collected Works*. Moscow. Progress Publishers. v 32: 326-365.
- LENIN, V. (1915 [1964]) "New data on the laws governing the development of capitalism in agriculture – Part One: Capitalism and Agriculture in United States of America". In, LENIN, V. (1964): *Collected Works*. Moscow. Progress Publishers. v 322: 13-122.
- LOSURDO, D. (2004) *Fuga da História? A Revolução Russa e a Revolução Chinesa vistas de hoje*. Rio de Janeiro: Revan.
- MASIERO, G. (2006) "Origens e desenvolvimento das Township and Village Enterprises (TVESs) chinesas". *Revista de Economia Política*, 26 3 (103): 425-444.
- MEDEIROS, C. A.; CINTRA, M. R. V. P. (2015) "Impacto da ascensão chinesa sobre os países latino-americanos". *Revista de Economia Política*, 35, 1 (138): pp. 28-42.
- MEDEIROS, C. A.; CINTRA, M. R. V. P. (1999) "Economia e política do desenvolvimento recente da China". *Revista de Economia Política*, 19, 3 (75):92-112.
- MARTI, M. E. (2002) *China and the Legacy of Deng Xiaoping – From Communist Revolution to Capitalist Evolution*. Lincoln: Potomac.
- MOORE JR, B. (1966) *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*. Boston: Beacon.
- MORAIS, I. N. (2015) "Desigualdades e políticas públicas na China; investimentos, salários e riqueza na era a sociedade harmoniosa". In, CINTRA, M. A. M.; FILHO, E. B.; PINTO, E. C. (2015): *China em Transformação: dimensões econômicas e geopolíticas do desenvolvimento*. Rio de Janeiro: IPEA.
- NBSC – National Bureau of Statistics of China (2005, 2008, 2015), <http://www.stats.gov.cn/english/statisticaldata/AnnualData>, acessado em 22/01/2016.
- NAUGHTON, B. (1996) *Growing out of the Plan: Chinese Economic Reform, 1978-1993*. Cambridge: Cambridge University Press.
- NAUGHTON, B. (2006) "Claiming profit for the state: SASAC and the capital management budget". *China Leadership Monitor*.
- NAUGHTON, B. (2006) Top-down control: SASAC and the persistence of state ownership in China. Paper presented at the conference on "China and the World Economy". University of Nottingham.
- NONNEMBERG, M. J. (2010) "China: estabilidade e crescimento econômico". *Revista de Economia Política*, 30, 2 (118): 201-218.
- PAULA, L. F. (2014) *Sistema Financeiro, Bancos e Financiamento da Economia*. Rio de Janeiro: Elsevier.
- OLIVEIRA, A. P. (2003) "O salto qualitativo de uma economia continental". *Política Externa*, (11) 4: 6-13.
- OLIVEIRA, C. A. B (2005) "Reformas econômicas na China". *Economia Política Internacional: Análise Estratégica*, 05.
- RANGEL, I (1952) "Prossegue a recuperação chinesa". *Cadernos do Nosso Tempo*. 1 (1): 59-64.
- RANGEL, I. (1981) "A questão financeira". *Revista de Economia Política*, (1) 1: pp. 31-39.
- RANGEL, I. (1980) *Recursos Ociosos e Política Econômica*. São Paulo: Hucitec.
- REN, D. (2015) "China's silk road infrastructure fund explores investment exit strategies". *South China Morning Post*.
- RONG, ZHOU et al (1992) *Agriculture in Contemporary China*. Beijing: Contemporary China Press.

- SINGH, A. (1993) "The plan, the market and evolutionary economic reform in China". *UNCTAD Discussion Papers*, 76.
- TIEZZI, S. (2015) "Where Is China's silk road actually going?". *The Diplomat*. 30/03/2015.
- WTO – World Trade Organization (2014) – WTO Annual Report https://www.wto.org/english/res_e/publications_e/anrep14_e.htm
- XIAOPING, Deng (1992) "Opening speech at the Twelfth National Congress of the Communist Party of China". In, XIAOPING, D. (1992): *Selected Works*. Beijing: Foreign Language Press: 13-17.