Chapter 14
Land, Debt, and Socialist Market Economy of China

Waiching Li
University of Economics, Czech Republic

ABSTRACT

Is China’s development model an alternative to the Western model? The public ownership of land is the major character of the market economy of China. China’s local governments take the land under their regional control as the startup asset, playing an active role in promoting China’s industrialization and urbanization. One cannot understand China’s model without understanding its development logic, involving land, debt, and local government. This chapter makes an in-depth observation the role of land and the financing based on land played in the cycle of capital flow that feeds China’s development. Land financing is responsible for debt accumulation on the local government level, especially the period after the financial crisis of 2008. This chapter points out the paradoxical nature of China’s dual-track system of land ownership and analyzes its inherent problems in the context of China’s contemporary political-economic arrangement.
INTRODUCTION

What is China’s Model of economic development? Yes, the People’s Republic of China has been ruled by the only party, namely Communists, since 1949. However, what kind of communist country would accumulate 20 trillion-dollar worth of debt, which is 268% of its 2016 GDP (IMF, 2017), plus a speculative real estate market? After all, during the time of China under Mao was a nation proud of having neither foreign nor domestic debt, and real estate market didn’t even exist.

So is China capitalistic enough after 30 years of market-based economic transformation? Of course not, this matter could not be so simple, some market experts probably will consciously apply the term “authoritarian/state capitalism” (interchangeable) after a moment of name searching, comparing it with the democratic capitalism system in the west, with hesitation. After all, from Brussel to Washington D.C., a savvy trade negotiator will refuse to label China a “market economy’. In November 2017, the U.S. trade representative to WTO formally issued a statement denying China market economy status (Lawder, 2017).

BACKGROUND

How does China see its system? Few months ago, Xi, as the chairman of the communist party of China (CCP), delivered a report which ran for 205 minutes, at the opening session of the 19th CCP Congress on Oct 18, 2017. The report is a call for a “new era of the great modern socialist country with Chinese characteristics” (China Daily, 2017).

The report also confirmed a supposition, that China today no longer shies away from displaying confidence in its political system. Many in China, including Ning Jizhe, a Chinese economist, and senior official, believes that China’s model not only works for China, but also is inspirational for other nationals seeking for effective development.

So what exactly is the China’s model? The objective of this paper is to explore its development logic, by taking an in-depth look at a critical piece of puzzle that had led to China’s economic expansion of the past decades, involving the public ownership of land, debt, and the role of local government (LG) in the context of socialist market economy. And at the end, this paper points out the inherent problem lying in China’s model despite its economic accomplishment, and explains the new development strategy evolved since the installment of 13th five-year plan, under the stipulation of the supply side reform.
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