

Interview with Dr. MAO Zhenhua, Founder of China Chengxin Credit Rating Group and Co-Director of Renmin University's Institute of Economic Research, on his views on national policies and industries



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PART 3

Dr. Mao's views on the reform in China

The year of 2015 is considered a key reform year in China. In the 2015 Government Work Report, the main theme of the reform is simplification of administrative process and delegation of the central government's power. In his view, Dr. Mao pointed it out that it is not going far enough. He explained, "Do not forget that there is power of execution, which, to certain extent, means the arbitrary power held by the government. In China, the distributing power commingles with the regulatory power. The situation is somewhat like bandits robbing people on a highway, taking whatever they want."

Dr. Mao strongly believed that the lesser the control of the government, the more efficient is the market. He continued, "There is still sufficient room for the government and the market participants to create new markets, regrettably there is too much control by the government. The root cause of corruption is that various syndicates of government officials seek exorbitant advantages for themselves personally. Embedded in the power are benefits and advantages. Those corruptive government officials make use of their power to take advantages of the people."

Dr. Mao felt, "Our government has controlled the market for more than 20 years, like running a school for kids. If it stops controlling, it will no longer be innocent." Regarding reform of the government's administrative power, Dr. Mao believed that there should be much more to do by the government. Reform in China was first driven by people, but now it becomes a top-down model. That means from the officials to reform the officials can hardly be effective. He went on, "The central government instructs the National Development and Reform Commission (NDRC) to formulate and carry out reform while the NDRC itself is one of the targets that needs to be reformed. As such, how can NDRC to reform itself with good result?"

Among these reforms, Dr. Mao specially mentioned the rural land reform. This would not only have

a profound impact on urbanization, but also crucially drive social consumption.

Dr. Mao cited, “The current land system in China is abnormal. Social and economic development will greatly benefit rural land reform. For example, farmers could sell their land to get money, driving a greater consumption and leading the flow of funds and investment in a better way.”

Some people think that farmers will return to rural areas if they experience hardship in the cities. However, Dr. Mao believed that this would not be the case for the post-80s generation. He said, “They will never return to the rural areas because they have totally gotten rid of the rural lifestyle except for the fact that their households are registered in the rural areas.”

Focusing on the topic of land reform in rural China, Dr. Mao went on, “The rural areas should have the same land policies as in urban areas. The ownership of land should belong to the government, while the right to use the land should be delegated to farmers. If this is the case, farmers in the urban would not hold title to the land. Instead, they would only have the right to cultivate.”

Dr. Mao continued, “The rural lands cannot be transferred for sale, therefore the lands do not create value, so farmers do not own any assets when they move to the urban areas. If rural land is allowed to be sold, farmers could sell the land and use the money to buy a property or do some business in the urban areas. The effect could immediately contribute to social production. Needless to say, this would be a great incentive for farmers to migrate to the urban areas. In the meantime, it would also drive social consumption.”

There are a huge amount of land resources in the rural areas. However, the resources have yet to be monetized. Dr. Mao is optimistic on the idea of the monetization of rural land and believes it would have a positive effect on money supply. He said, “Even if people don’t dare to say it, it is still true that there is a relation between money supply and the degree of monetization. In the past, China has had a large oversupply of money. Theoretically, given China’s massive assets, if the monetization of rural land is implemented, the money oversupply could be hedged. This would alleviate the imbalance of supply and demand for money.”

He added, “We estimate that GDP growth will be driven 2% to 3% higher when there is 1% annual growth in urbanization. This would be a great opportunity for the development of China, in particular before the urbanization rate reaches 75%, which is still only around 50%.”