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In Case You Missed It: China’s Monetary Challenges

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By Maura Dykstra

When I first left to study in China, I asked around about what presents to bring. I took the advice of a professor, and boarded a plane to Shanghai with two bottles of Johnny Walker and two cartons of Marlboro cigarettes. I had heard tales of men and women in China beseeching their foreign friends to purchase such items at Friendship Stores, and had been reassured that these name-brand products would be eagerly consumed by deprived whiskey-drinkers and smokers on the mainland. I wasn’t in China for more than a week when, stepping into a local convenience store, I was confronted with a very inconvenient truth: behind the counter, well-stocked shelves of alcohol and tobacco – including the products that I had schlepped across the Pacific – silently testified to the difficulty of understanding, predicting, or characterizing the relationship between U.S. and China markets.

My personal revelation notwithstanding, there is no shortage of truisms about China’s development in the US. Grandmothers and grandfathers complain that everything these days is made in China, and widely-read periodicals peddle a portrait of China as the dragon awakened from its slumber. Graduate students used to living easily even in China’s most expensive cities comment wistfully on how much less a U.S. dollar buys, and agitated members of Congress cry out for aggressive reevaluations of the RMB. When I tell a neighbor, or a friend of the family, that I study China, they often wink at me, and hint that they approve of my crafty and timely decision to study the world’s next greatest up-and-comer.

But despite all obvious signs of China’s success and fears of what this means for the U.S., the nature of China’s development, and its import for the U.S., Asian, and world economies, is poorly understood. Richard C. K. Burdekin’s volume ($75.00 from Cambridge University Press) is a sound step in introducing the curious scholar to the complexity of the issues behind China’s domestic and international fiscal policies from the 1930s to the present. This work is a collection of essays on a wide variety of topics related to China’s monetary history and contemporary financial trends. It includes narratives of the inflationary crises of the 1930s, 1940s, and the early PRC period (Chapters 5, 6, and pp. 12 – 14 of Chapter 1, respectively), as well as extensive detail about China’s response to the Asian Financial Crisis of the late 90s. Burdekin’s keen summaries of government policy approaches to economic trouble at different periods allow him to characterize current policy in a rich and meaningful context. This background is juxtaposed against in-depth coverage on contemporary fiscal issues, ranging from questions central to the debate over the USD/RMB exchange rate (Chapters 1 to 4), the
financial repercussions of China’s entrance into the World Trade Organization (Chapter 7), and China’s changing role in the wider Asian economy (Chapter 8 on Hong Kong, and Chapter 9 on Taiwan).

Burdekin’s volume is slim for the price – running only 260 pages including the bibliography and index – but it is chock-full of yummy goodness, with a heaping of crunchy tables and rich with nutritional data. Despite the promise on the dust jacket that this work “is intended to be accessible to non-economists and does not assume prior immersion in the underlying former models,” it is indeed a work that requires both time and effort to digest. I suspect that many scholars not naturally interested in economics and financial markets will balk at the technical difficulty of this work, but those who find a way to take the time required for non-experts to reflect on what the author has offered will find it a seriously rewarding experience.

For those interested in China’s history, Burdekin’s representation of the financial crises of the twentieth century is a fascinating revisit of the time-honored refrains about the importance of silver in the Ming and Qing economy. Burdekin outlines the devastating impacts on the Chinese economy of the U.S. decision to buy up silver specie in the wake of the Great Depression, tracing the massive outpour of silver bullion from the mainland despite the GMD’s efforts to stanch the flow. He also reviews the difficulties of the inflation crisis in Taiwan in the 1940s, and the CCP’s rationing and nationalization policies after 1949 as a prelude to the current government’s approach to banking, finance, and market control.

Burdekin’s analyses of contemporary monetary policies are informed by his historical characterization of the approach of Chinese governments to economic intervention. Although his citation of Confucius as proof that earlier forms of government in China, like the CCP, favored the rationing of important goods may be slightly romantic, this does not detract from his other arguments, based on historical precedent and contemporary data. Burdekin lays out a convincing portrait of many contemporary problems emerging from past experiences.

For example, in his review of the banking sector (Chapters 4 and 7), Burdekin links the inflation scares of the early twentieth century to the PRC’s contemporary preoccupation with control over the market. A good deal of time has already passed since China’s vaunted open-door policy was first introduced, but legacies of government concern about the privations of market influence on society persist. The government retains an unchallenged influence over interest rates, and continues to discourage lending in the most developed sectors of its economy. This consistent policy flies in the face of neo-liberal faith in the powers of the market to distribute items of scarcity, but Burdekin’s observations, at the very least, provide a way for readers to understand the importance of the reasons behind PRC policies intended to keep inflation under control and forcefully direct resources to areas noted for their underdevelopment.

Burdekin’s approach is reminiscent of Randall Peerenboom’s distinction between an idealized rule of law system of legal disposition in Western countries, in contrast to PRC’s rule by law, according to which the needs of the society – as perceived by the Party – come before the technical aspects of written policy (for more, see Peerenboom’s 2002 *China’s Long March toward Rule of Law*, also from Cambridge University Press). In a similar manner, Burdekin sees the overriding needs of the state as one of the main obstacles to market liberalization. Rather than simply attributing this observation to the Communist style of government, however, he presents the dilemmas facing the state in a way that is both informative and observing.

The complicated balance between government needs and market forces are most obvious in Burdekin’s discussion of the banking system in China, which receives a thorough and fascinating treatment. The four large state banks – The Industrial and Commercial Bank of China (中国工商银行), the China Construction Bank (中国建设银行), the Agricultural Bank of China (农业银行), and the Bank of China (中国银行) – are continually hampered by non-performing loans given reluctantly to state-operated enterprises. Social concerns about unemployment and the government’s unwillingness to close down large nationalized operations leave banks with no choice but to continue to issue huge loans to enterprises that consistently default on their lines of credit. By far the most beleaguered bank of the four largest is the Agricultural Bank of China, the only one of the large state-owned banks to
still not have gone public (in contrast, Goldman Sachs brokered the public offerings of the Bank of China May 2006, and 10 percent of its stock was bought up by Royal Bank of Scotland and Merrill Lynch for $3.1 billion USD, and the Industrial Commercial Bank of China sold $3.78 billion USD in shares to Goldman Sachs, Allianz, and American Express).

The problems faced by the Agricultural Bank of China, Burdekin notes, are related to the fact that most of its investments are funneled to the poorest provinces and cities – a reminder that China’s impressive growth has not extended equally to all corners. The problem of non-performing loans, Burdekin points out, is a sign that China’s banks are still as much tools of government objectives as they are organizations for profit.

In a brief review on the problem of corruption in the banking industry (p. 148), Burdekin notes that cases of embezzlement from the early twenty-first century cannot be considered terribly surprising in light of the fact that even the highest bank officials only took home salaries of less than $5,000 USD per year, recalling some of the principal-agent problems faced by the imperial bureaucracy: when the state paid sub-par wages to its employees, non-corrupt officials were naturally the exception to the rule.

In light of these challenges to the success of the finance market in China, Burdekin discusses the increased foreign investment since China joined the WTO in December of 2001 and the PRC’s slow, but sure, move towards more liberal economic policies as signs of China’s further opening up to global markets (Chapters 7 and 10). He also reviews the extent of modern-day economic incorporation between Taiwan and the PRC (Chapter 9), and the relative statuses of Shanghai’s and Hong Kong’s stock exchanges in the wider world of global trade (Chapter 8) as a measure of China’s economic position in Asia and the world. In each of his analyses, China remains distinct from other economies as the market most influenced by government – rather than economic – mandates, but shows more and more signs of increased integration with other economies. Although the government’s intervention in the distribution of market resources strikes the average US expert as overbearing and generally negative, the PRC’s 2004 move to discourage a lending craze driven by desires to purchase real estate may lead some readers to concede that such control may have at least accidental positive repercussions.

On the problem of RMB reevaluation and the staggering trade imbalance with the US (reported by the US government as $232.5 billion USD in 2006), Burdekin cautions against rash accusations of a Chinese drain on the U.S. economy. Similar concerns about Japan in the 1980s were not, he reminds the reader, solved by a reevaluation of the yen, which only had negative repercussions for Japan’s domestic economy, rather than discouraging exports to the US. Statistics on the US-China trade imbalance, he notes, do not distinguish between the cost of Chinese imports sold by Chinese corporations and those sold by multi-nationals, so a good chunk of the ‘trade imbalance’ actually reflects the activities of U.S. enterprises operating factories in China’s trade zones. Chinese export statistics also reflect the activity of Japanese, Korean, and Taiwanese companies who contract much of their assembly work to factories in China. Fears about China’s ‘unfair advantage’ – the low evaluation of the RMB – should actually be reframed as structural changes in the way that goods from Asia (even those produced by US companies) have begun to filter through China.

Perhaps even more importantly, the worried insistences of some political figures in the US that an RMB revaluation would strengthen the US economy by raising the cost of Chinese imports overlooks two important considerations: the history of US-China currency relations, and the contemporary position of the US dollar in larger international markets. On the first topic, Burdekin’s review of China’s monetary issues in the twentieth century puts the US-China relationship in a new perspective. It was the 1934 US silver purchasing rush that first set China’s currency system on a staggering inflationary spiral, and after the 1951 Bretton-Woods establishment of the US-backed gold standard failed in the 1970s, China was the only country involved in the Asian Financial Crisis of the 1990s to hold fast to the US dollar as its currency standard. China’s efforts to maintain a reasonable balance between the threats of inflation and deflation in the face of world market instability have led to the widely-publicized stockpiling of US debt, but this move came with dangers to China’s internal market stability. These have only been offset by continued purchase of US debt, and complicated government interventions in the market.
Burdekin’s work presents a complicated and fascinating picture of the complex relationship between China’s fiscal policy over the years and the vicissitudes of the world market, paying particular attention to the role of the US at key moments, and with heavy emphasis on China’s emerging role in Asia. Although the author wisely refrains from grand predictions about the future of China, he presents such a compelling portrait of the past and present that, although many questions about China’s markets remain unanswered, the reader cannot help but wonder at the complexity and drama of China’s monetary past and present. The book may present problems for those of us who cringe at the sight of tables and elegant mathematical equations meant to illustrate things like “the relative importance of exchange rate expectations and sentiment effects on the H-share discount” (p. 185), but it is well worth the effort for even a fragmentary glimpse at the nature of modern-day monetary entanglements between China and the world. It is, at least, enough to convince this reader that the days of Johnnie Walker and Marlboro bringing Christmas-like joy to the faces of expectant men and women in China are, for better or worse, long gone.

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