CHINA’S MONETARY CHALLENGES

Despite the People’s Republic of China’s remarkable growth over the post-1978 reform period, questions have arisen about the sustainability of its exchange rate policy and the soundness of its financial system. This book focuses on the key monetary challenges to China’s continued advancement and addresses such topical issues as the buildup of foreign exchange reserves, monetary control, credit allocation difficulties, and the expanding role of China’s asset markets and stock exchanges. Current and past monetary policy strategies are examined in detail, as are the banking sector reforms leading up to fuller foreign competition after December 2006. The analysis also assesses the People’s Republic’s role within Greater China (including Hong Kong and Taiwan) and the potential for future renminbi monetary hegemony within Asia. The treatment of these issues is intended to be accessible to non-economists and does not assume prior immersion in the underlying formal models.

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China’s Monetary Challenges

Past Experiences and Future Prospects

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TO YANJIE, EILEEN, EMMA, & JOSEPHINE
Quand la Chine s’èveillera, le monde tremblera . . .
[When China rises, the world will tremble . . .]  
Napoleon Bonaparte¹

If we isolate ourselves and close our doors again, it will be absolutely impossible for us to approach the level of the developed countries in 50 years.  
Deng Xiaoping, 1984²

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Preface

Work on this book was funded by a 2005–2006 Scholar Grant from the Chiang Ching-kuo Foundation, and I am immeasurably grateful for this support. Some of the initial research was conducted while I was a Visiting Senior Fellow at Hawaii’s East-West Center, which provided a very hospitable and helpful environment for my work. My home institution, Claremont McKenna College, also helped with support for databases and other research needs.

I have been fortunate to work with many excellent co-authors over the years, and I am grateful to a number of them for kindly consenting to have some of their joint work presented in this volume. In particular, I wish to thank William Brown and Pierre Siklos, as well as my former students Gregory Arquette, Emily Kochanowicz, and Hsin-hui I. H. Whited, for their contributions to several of the chapters in this volume. Gregory Arquette also played a major role in keeping the analysis of China’s securities markets as up-to-date as possible, allowing the book manuscript to incorporate the most recent numbers available at the time.

Chapters 3 and 6 include material previously published by the *Cato Journal* and the *China Economic Review*. I thank Jim Dorn, editor of the *Cato Journal*, and Elsevier, publisher of the *China Economic Review*, for their respective permission to reprint.

This book greatly benefited from three excellent sets of reviewer comments, including those kindly provided by Jim Dorn and Elliott Parker. I am most appreciative too of Scott Parris’s support for the book at Cambridge University Press. Kishen Rajan and Tom Willett contributed much valuable time in offering a host of helpful comments on earlier versions of many of the book chapters. Marc Weidenmier also gave helpful feedback. Meanwhile, Nancy Tao provided outstanding research support, both in terms of data work and Chinese language support and by cheerfully putting up with
my incessant demands as this book neared completion. Yeqin Zeng also supplied valuable translation help.

My family made perhaps the most essential contribution of all, putting up with the many hours spent tying together the wide-ranging strands of research contained in this volume. My wife, Yanjie Feng Burdekin, also did her best to save me from the most egregious errors in my understanding of China and its people – although any remaining failings in this regard should be firmly attributed to the author. My oldest daughter, Eileen Burdekin, valiantly waded through drafts of all the chapters, finding numerous errors that I and others had missed. Meanwhile, my middle daughter, Emma Burdekin, also assisted with the book and helped ensure that the youngest member of the family, Josephine Burdekin, did not get the chance to destroy the work in progress.

I would also like to offer a special thank-you to my father-in-law, Feng Delong, whose personal reminiscences of the 1949–1950 inflationary spiral helped spark my interest in China’s monetary and inflation history.

Let me add a brief word on the Chinese language references, names, and places. In most cases, the modern pinyin system has been used for converting Chinese characters into Roman letters. All Chinese references not expressed in English use the pinyin form, except for an old 1958 reference, which has been kept in the Wade-Giles form in which it was originally catalogued. Some proper names, such as Mao Tse-tung and Chiang Kai-shek, have also been kept in the old form that is likely to be more familiar to most readers. Finally, among the place names, the old province of Manchuria enters the discussion of the 1930s experience. Referring to the modern-day “North-East Provinces” in that context seemed a recipe for confusion.

With regard to China’s currency, the post–1949 money issues are known as renminbi (meaning “people’s currency”). Although the unit of account is technically the yuan renminbi, I have simply stuck with the designation renminbi – or RMB for short. (Rather confusingly, different writers variously use both renminbi and yuan in this context, and it seemed best to be consistent.) Earlier Chinese money issues mentioned in this book include the pre–November 1935 silver coin standard, the fapi paper currency of 1935 to 1948, and the gold yuan issued by the Nationalists in 1948–1949 – before their defeat in the Chinese Civil War ushered in the new People’s Republic under Chairman Mao.

I hope that readers will find this volume helpful and not confusing. The exciting events in China and their historical antecedents certainly demand the West’s attention, and it has been a pleasure to assess some of the remarkable strides China has made in recent years.