

College of Asia and the Pacific, The Australian National University

---

Review

Reviewed Work(s): Financial Sector Reform in China by Yasheng Huang, Tony Saich and Edward Steinfeld

Review by: Lynette Ong

Source: *The China Journal*, No. 56 (Jul., 2006), pp. 208-210

Published by: The University of Chicago Press on behalf of the College of Asia and the Pacific, The Australian National University

Stable URL: <http://www.jstor.org/stable/20066219>

Accessed: 04-08-2017 06:15 UTC

---

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <http://about.jstor.org/terms>



JSTOR

*College of Asia and the Pacific, The Australian National University, The University of Chicago Press* are collaborating with JSTOR to digitize, preserve and extend access to *The China Journal*

posture since 9/11 and the US invasion of Afghanistan is a useful and well-written reminder of links between economics and national security.

One important dimension missing from the book is a treatment of rural inequality and poverty reduction, which became an issue in the latter 1990s. The book's brief analysis of rural economics, in conjunction with urban-bound migration, misplaces blame for falling rural consumption levels in the latter 1990s on government marketing and pricing policies. Rural hardship resulted more from official pressures to over-plant low-profit grain crops as an inflation-fighting strategy. The result was an undocumented increase in poverty, camouflaged by a concurrent shift in the official methodology for counting the rural poor.

It is always easy to pick this or that fault with such an ambitious collection of essays. This volume, however, more than compensates for any lacunae by providing so many well-documented treatments. If the goal is an inductive analysis of China's economy based on actual conditions and trends, this book is both an excellent introduction and a useful reference.

Albert Keidel  
Carnegie Endowment for International Peace

*Financial Sector Reform in China*, edited by Yasheng Huang, Tony Saich and Edward Steinfeld. Cambridge: Harvard University Asia Centre, 2005. xi + 250 pp. (Online publication: <http://www.fas.harvard.edu/~asiactr/publications/pdfs/Huang%20et%20al.pdf>, accessed 16 May 2006).

This edited volume is a collection of papers from a conference on China's financial sector reform held in 2001. The time interval between the conference and publication of these papers has partly undermined the pertinence of some of the analyses and policy recommendations. This volume could have also been improved by better coordination between the editors and chapter contributors, since many of the breathtaking conceptual ideas brilliantly articulated at the beginning of the volume were not well-evidenced in the chapters. That said, I *still* recommend it to any reader interested in the political economy of financial sector reforms in China.

The editors' introduction is exceptionally well written. It reads like a sequel to Nicholas Lardy's *China's Unfinished Economic Revolution* (Washington: Brookings Institution Press, 1998), and could excite researchers who want to understand better the political economy complexities of financial sector reforms. While Lardy's work has largely focused on the linkage between financial sector reforms and restructuring of state-owned enterprises, this volume goes one step further by tracing the inefficiency of the financial system to a deficient fiscal system. By provisioning the state-owned banks to finance the ailing state-owned enterprises, which are major providers of social welfare benefits to state-sector workers, the central authority has in fact used the banking system to "substitute for a weak fiscal apparatus".

This volume has contributed to the literature on the political economy of financial sector reform in the following aspects. By examining the resolution of nonperforming loans of the state-owned banks since 1999, Steinfeld argues that inefficiencies in the financial sector stems not only from “government failure”, that is, excessive government control, but also from “market failure”, as a result of information asymmetries between the government (and its agents) and the enterprise employees. Despite debt–equity swaps by which the government sets up asset management companies to enable the exchange of enterprises’ existing debt for equity in the company, corporate governance in the SOEs remains fundamentally unchanged; the asset management companies have neither the power nor the incentive to implement any concrete changes in the companies. According to Steinfeld, this is due to shortcomings in government regulations in tackling the problems of “market failure” typical in most credit markets. His analysis has a powerful normative implication: “the real question is not whether the Chinese state has the willingness to retreat, but rather whether it has the capacity to govern” (p. 66).

In a study of labor-intensive foreign direct investment (FDI) in China, Yasheng Huang offers an interesting perspective. Contrary to popular belief, he attributes the huge FDI inflows not only to China’s advantage in low labor cost but also to its role in financing private manufacturing firms which are unable to obtain bank loans. Huang shows that China has a much higher percentage of foreign-invested enterprises in the garment industry than Japan and Taiwan in the early days of their industrialisation. Japan and Taiwan saw predominantly contract production, namely, foreign companies contracting production to indigenous private firms with their own capital base. This has not happened to a large scale in China because of a dearth of indigenous private companies, stemming from their lack of access to bank financing—a direct result of institutional crowding-out by SOEs—prompting foreign companies to be involved in equity arrangements. Huang equates labor-intensive FDI in China to venture capital in the US; both types of financing are used to ameliorate inefficiencies in the financial system.

Other noteworthy contributions to this volume are the chapters by Tony Saich and Joan Kaufman and by Xin Wang which touch on the social implications of a malfunctioning financial system. Since the government has been able to mobilize resources in the financial system to fund some of their fiscal functions, it has reduced the pressure on them to build a modern fiscal system, though the latter is essential in funding the provision of public goods ranging from healthcare and education to environmental protection and pensions. Instead, the Chinese government has used state-owned banks to prop up enterprises, and by extension to finance social welfare benefits for a selected segment of the population. Though falling short of providing a clear, convincing argument as to how recent changes in the financial sector have negatively affected public goods provision, the contributors have shown that a rising trend of “user-pays” public service in poor rural areas is inherently related to the moribund financial system and weak fiscal capacity. Wang concludes the volume

nicely by arguing that financial market development does not only have an economic logic; it is also an imperative from a social perspective.

Though some of the facts in this volume are dated, the analyses and insights provided by the contributors are still worth reading. Given that the financial sector has witnessed many changes since 2001, this book provides a useful reference for those working in this area to take stock of recent developments, and to advance the frontier of our (lack of) knowledge on the “unfinished economic revolution”.

Lynette Ong  
The Australian National University

*Industrial Relations in China*, by Bill Taylor, Chang Kai and Qi Li. Cheltenham: Northampton: Edward Elgar Publishing Ltd., 2003. x + 267 pp. £59.95/\$95.00 (hardcover).

Labor-related news reports are abundant in today’s media coverage of China. As the dominant manufacturer in the world, Chinese products are all over the global market place, but workers in China are often not treated decently and labor disputes occur widely. Therefore, China’s industrial relations attract attention and deserve serious research. This book sheds new light on the subject.

The three authors formed an optimal team to conduct this research: one Western scholar, one Chinese scholar with overseas academic experience and one indigenous Chinese scholar. The book is well organized, with two separate but logically connected parts. The first deals with the major actors and institutions in China’s industrial relations: the state, workers, unions and enterprises/managers. The second part focuses on the industrial relations process, as seen through the lenses of participation, labor conflict and settlement, and collective contract. The introductory chapter presents a well-designed analytical framework, attempting to combine Western industrial relations theories and Chinese labor practices. The section on major actors and institutions describes the state, workers and unions well, though the key characteristics and their implications for China’s industrial relations could have been examined further in the discussion of enterprises/managers.

On almost every specific subject, the authors provide detailed descriptions of changing industrial relations in Mao’s era and in the reform period. For example, the origins of major institutions such as the *danwei* are explained well with useful reference sources, and the analysis of the internal organization and changing structural characteristics of the All China Federation of Trade Unions (ACFTU) is also insightful.

The book is based on both Chinese and English sources. The authors draw practical evidence from the Chinese sources and derive theoretical arguments from the English sources. Hence, the analytical framework is essentially built according to Western industrial relations theories.