

# Red capitalism by carl walter and fraser howie

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In the book 'Red Capitalism', Carl Walter and Fraser Howie investigate and analyze the intricate relationship between the Communist Part of China (CPC) and the financial institutions which are the base of the Chinese economy. The two authors have great experience and knowledge of how the Chinese financial framework and its economy in general operate. They have worked in the middle kingdom for a considerable time and from the book, this is seen by how they provide accurate facts about China's financial reforms from as far as Zhu Rongji in the 1908's to the present situation involving various people who lead large financial institutions owned and controlled by the government. The book illustrates that China intended to create representation about itself to outside countries to show its might and stability in the 21st Century. The book reveals the imperfections of the financial system of China. These flaws are serious since they affect the pillar of China's economy. The imperfections in these institutions include the management and capital cushion in several of the major state runned and owned banks. These authors of this book also show the lack of proper principle and agent relation in how the financial institutions have their corporate governance objectives aim to serve the interests of the citizens of the Communist Part of China. This is done in expense of the shareholders of these institutions whose need should come first before any other stakeholders. The book also examines the stock market in China. It compares this market to that of the Wild West of America because of the lack of transparency and accountability. The market is therefore at risk of failure if no proper improvements are put in place to protect its resources. China also experiences several barriers in reform processes in interest rate mechanism governed by its central bank. Barriers in exchange liberalization

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and buildup of restrictions on foreign investment have their share in contributing to the problems of the Chinese financial system. These barriers are quite serious since they affect the proper operations of what lead to the growth of China's economy. The book teaches of the importance of economic liberation and global trade. According to the book, economic liberalization as from the 1990s and China's entry to the World Trade Organization in 2001 had a great positive influence to the rapid growth of China's Economy. However, financial liberation has been slow and sometimes insignificant. This has returned the Chinese economy to the planned economic philosophies of between 1960 and the 70's. With the fragile financial framework, policy stagflation poses a hidden risk that will possibly lead to systematic risk consequences to China's economy at large. There is need to embrace financial liberation in china to since its current state indicates a lack of maturity and experience in the field of finance. In a case of an unexpected crisis, lack of transparency of financial institutions and their relations with each other and also the state would lead to the same happening in the time of the height of the GFC, where exposure to Lehman Brothers is not known by anyone. The financial system would come to a standstill. This is likely to be more problematic to China's economy because the OTC bond market is still in its initial stages. Also, banks themselves provide a large portion of funds which run state companies. A great risk would face China's economy if any contingency affected these thinly capitalized banks. This book also presents situations of internal political maneuvering in the CPC that are intended to target power in the state and its institutions. Such kinds of influences affect the level of competition in the economy. Competition in all markets of any state is important in ensuring

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that the economy operates under high efficiency and performance. China is likely to face major setback in its current performance if it does not liberalize its financial system. It should also improve the capital base in its state banks in order to cushion its economy in cases of crisis. These books opinion about the complexity of the financial institutions and policies of China is also revealed by Clissold Tim in the book ' Mr. China: A Memoir' published by Collins in the year 2006. The two authors view Chinese Banks as extension of the government. Clissold believes that any situations which may incriminate the banks may receive political influence aimed at protecting the state run banks and companies or those responsible for the offenses. Such kind of complexities and weakness in the financial sector led to great misery in the investments managed by Clissold as projected by Carl Walter and Fraser Howie if China does not liberalize its financial institutions. ' Red Capitalism' generally shows that China's government has substansive control over its economy through state owned financial institutions and its monopolies in the telecommunications and transport sector. This is likely to lead to economic problems in China if liberalization reforms are not implemented as soon as possible. Works Cited Clissold, Tim. Mr. China: A Memoir. Collins, 2006. Walter, Carl & Howie, Fraser. Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise. John Wiley & Sons, 2011