

Carl E. Walter and Fraser J.T. Howie, *Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise*, Singapore: John Wiley & Sons (Asia), 2011, 260 pp. ISBN 1118255100 (hardcover).

In *Red Capitalism*, Carl Walter, a veteran of the financial circle in Beijing, and Fraser Howie, an experienced trader and commentator on China's financial system, join forces to draw a crystal clear and powerful picture of China's financial system. Their insights into the 'forbidden city', abundant data and analytical tools, as well as their concern for China's development, make this book a riveting read, and one of the best research companions on today's China.

The book guides the reader through the labyrinth of China's banking system, bond market, stock market, state-owned enterprises (SOEs) and government bodies: how they were set up and restructured, how debts and bad assets are packaged and sold and how problems are 'solved' in a typically Chinese way—swept under the rug again and again for future generations to discover. How Western investment banks such as Goldman Sachs and Morgan Stanley packaged inefficient SOEs and state banks and brought them to spectacular IPOs may sound like fairy tales, but the detailed evidence presented shows that both Chinese and Western firms have learned sleight of hand. The remaining question is whether these Chinese champions are good enough to sustain that magnificent façade.

Do not be taken aback by financial terms and numbers. This book is more about politics than accounting. The candid and brilliant political comments run through technicalities to tell a colourful and almost poignant tale of China's political and social life today. The message is clear: the paramount goal of the Chinese Communist Party is to keep control, and the big businesses and banks have captured the state, which staffs the SOEs. The state ensures them profits and they work to maintain the Party's political control. That is all fine if the state is a developmental state, but sadly the book underlines its repression and expropriation of the public's wealth, and its recalcitrant opposition to reform. It resonates with scholars like Nicholas Lardy that financial repression has been a cornerstone of China's development model, which is becoming increasingly unsustainable (Nicholas Lardy, *Sustaining China's Economic Growth after the Global Financial Crisis*. Washington D.C.: Peterson Institute for International Economics, 2012). It also demonstrates that conservative anti-reform actors have gained power vis-à-vis liberal reformist actors in

China's economic policymaking. The global financial crisis in particular empowered the former and wiped out any achievement of the financial reforms since 1998.

Despite the background of both authors in the financial industry, a strong sense of social concern comes out between the lines. The combination of expertise and compassion may be exactly what is needed to push forward China's reform.

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