Flexible Exchange Rates and the Chinese Yuan

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These thoughts are comments on texts I received from friends from China. They complement my article "China 2012" which was published on the Pambazuka News website as Number 45.

Introduction

The proposals made by HSBC concerning the management of the Yuan can be summed up in one phrase: China should adopt the flexible exchange system, meaning it should allow the Yuan exchange rates to be freely determined by the international currency market. The expected benefits of this system are: (i) eliminating risks related to the current exchange rate; (ii) reducing the costs of transactions; (iii) offering China more freedom to manoeuvre in her national and international policies.

However, the entire history of the last fifty years proves that the flexible exchange system does not actually reduce exchange rate fluctuations, but rather it makes them extremely volatile. Yet HSBC acts as though we should ignore reality and subscribe unconditionally to the dogmatic theory which claims that the open market brings stability. We should therefore:

(i) Discuss this theory to find out whether it is true or false

(ii) Find out what led HSBC to adopt this opinion - whose interests (Chinese or otherwise) are being defended by this bank and all those proposing flexible exchange rates.

The Illusion of Flexible Exchange Rates

The theory which states that flexible exchange rates bring 'stability' is scientifically and logically baseless. It is essentially a theory derived not from an analysis of capitalism not as it exists in reality, but rather from a totally imaginary system, defined by a "generalised market" where those that create supply and demand (of and for anything – goods, employment, liquid assets, agricultural land, access to resources etc.) are free and rational "individuals". The theory substitutes these "individuals" (homo œconomicus) for what in reality are the creators of this supply and demand: productive enterprises (sometimes of the monopolies), "workers", peasants, banks, etc. It is therefore not a realistic theory taking reality as the starting point for understanding; it is rather an ideological dogmatism a priori. Deng Xiaoping used to say that you should always take reality as a starting point. This "theory" does the exact opposite: it starts from an ideological illusion bearing no resemblance to reality. It is therefore a dogmatic, unscientific theory.

So the real issue which then arises is knowing what hidden interests are being defended by the defenders of this theory. In fact, these interests are those of the great financial monopolies of the historic centres of imperialism (USA, Europe, Japan). These monopolies dominate the production and markets, which are managed exclusively in their interest, that is, maximising their superprofits. I refer back to my book *The Implosion of Contemporary Capitalism*, (which has been translated into Chinese), and to the developments therein that I devoted to the contemporary system of "globalised, generalised and financialised monopolies". This is the fundamental reality from which the characteristics of real capitalism can be analysed.

Flexible Exchange Rate System and Devaluation of Currencies

The flexible exchange rate system was adopted by the major powers (the USA, Europe, Japan) in 1973-1975, and then gradually became "accepted" by (or rather "imposed" on) the countries of the Global South. What has it produced over those fifty years?

First of all, it has not even produced a relative stabilisation of the exchange rates of major countries (dollars, pounds sterling, marks then euros, Swiss francs, yen). On the contrary, it made these exchange rates volatile, meaning they are subject to huge fluctuations: for example, the dollar/euro rate doubled in one direction and then the other. These enormous fluctuations are obviously not explained by transformations of the relative competitiveness of the economies concerned (these transformations are very slow). They are explained by the fact that adopting flexible exchange rates opened up a spectacular scope for short-term speculation on the currencies. We must ask who has profited from this speculation? They are the ones who defend flexible exchange rates.

Second, regarding exchange rates between major currencies (the dollar, the euro, the yen, the pound, the Swiss franc) and those of countries in the Global South, adopting flexible exchanges has produced extreme volatility in and continuous devaluation of the Global South currencies. This devaluation has enabled the capital of the monopolies of the Global North to "buy" real assets in the South at negligible prices, such as mines, factories, commercial chains, banking companies and land. This was the aim all along. Take Brazil as an example – did flexible exchange rates support the growth of the Brazilian GDP? It remains very modest at 3 per cent. So do we want to reduce China's growth rate to such an extent?

Flexible Exchange Rates and Stagnated Growth

Let us therefore return to the issue of who the real beneficiaries of this system are. Forget their ideological discourse, which argues that flexible exchange rates are favourable for all countries, all people and all individuals on the planet.

The fact is that the system has produced fifty years of continuous growth of the financialised monopoly superprofits (that is, the monopolies that operate on the financial markets), especially the major banks of the USA, Europe and Japan. What is the true cost of this growth? The stagnated growth of the real economies of the USA, Europe and Japan. This cost was basically initiation into a permanent recession – where we declare victory at 0.1 per cent to 1.2 per cent growth and claim that we have recovered from the recession!

The defenders of this system are therefore those that profit from it, primarily major banks. HSBC is one of these. HSBC is an old colonial British bank, established in Hong Kong following the First Opium War. This bank has never been sensitive to the "interests of China"! It remains foreign to these interests and is only sensitive to the growth of its superprofits.

Flexible Exchange Rates versus Uncertainty of the Yuan Rates

Until now, China has resisted continuous pressure to put an end to manipulation of the Yuan (Government and Central Bank of China). This resistance has allowed China to continuously record the strongest growth rates in the world.

Naturally, we can always say there is a risk involved due to the uncertainty of the Yuan rates, as decisions that may be taken by the Chinese authorities concerning this rate of exchange are "unknown". I will even say that these Chinese authorities have made errors and could make more in the future. Nobody has a foolproof vaccine. Yet this is a minor risk – as the errors can be corrected – in comparison with the enormous risk of unpredictable volatility of the Yuan rates involved in adopting the flexible exchange system.

External versus Internal Demand

If the theorem that "the flexible exchange system brings stability" is false, then the corollaries that can be deduced from it are also false. However, HSBC draws all its corollaries from the acceptance of this false theorem.

Would a flexible Yuan rate reduce transaction costs? Or on the contrary, would its volubility, in turn, give them more scope? There is no reason for flexible exchange rates to promote the growth of foreign trade. This depends on other, much more decisive factors, that is, the nature and volume of China's production.

Moreover, why should China strive for unlimited export growth that exceeds GDP growth? It's absurd. China must reverse this ratio and switch the growth driver from external to internal demand. The future of Chinese industries is the immense Chinese market and improving the standard of living of the working class. It is not export growth to the detriment of the domestic market.

So why does HSBC Bank offer the opposite of what is required? The little colony – Hong Kong – has no choice but to support growth which comes from exports, and thus to be competitive, at all costs, in increasing exports continuously, without restrictions. But China is not Hong Kong – China has choices. Thinking of turning China into a "large Hong Kong" is the same as wanting to turn China into a "large colony" that sacrifices the standard of living of its people, for the purposes of export. Exports whose recipients are therefore foreign consumers, producing an extreme trade balance surplus, with no purpose.

Does adopting the flexible exchange system give more freedom to manoeuvre in national economic policy? In reality, the total opposite is true; the volatility of the exchanges creates a fragile situation which reduces the range of choices, in terms of national economic policy, and obliges these choices to be subject to the limits of what the dominant system allows (that is, the system dominated by the monopolies of the major powers - USA, Europe, Japan). The "emerging" countries of Latin America and South-east Asia are victims of this very system, and their room to manoeuvre has been greatly reduced in comparison to that of China, which is larger precisely because China has kept out of financial globalisalisation (and out of the flexible exchange system).

Behind HSBC and the other large banks lies the strategic political objective of the USA, Europe and Japan, which is to ruin China's sovereign plan of building a great independent modern economy, forcing her to adhere the plan to an unequal relationship with the major powers, and reducing it to tender like the plans of other countries of the Global South, Brazil, etc.

Financial "Speculation" or "Transaction"

Behind HSBC is Hong Kong, but what is Hong Kong? It was a British colony until it was politically reinstated into the Chinese nation. The economy set up in Hong Kong was a colonial economy, dominated by firms that were and have remained the property of foreign capital, even if "rich Chinese" are associated with it, like a comprador bourgeoisie. HSBC is a bank of this type, that is property of foreign capital, with Chinese associates. It is not surprising that this bank proposes a policy that would turn China into a large Hong Kong – an economy dominated by foreign capital, with Chinese associates. What is more desirable? Going in that direction or slowly transforming Hong Kong so that it truly becomes more and more Chinese, and less and less foreign? Like China, where the presence of foreign interests is accepted, but subject to the command of the Chinese state and Chinese interests, and not the other way round.

Taiwan is in a different situation to Hong Kong, because if Taiwan was a Japanese colony, the power that the Kuomintang exerts there would eradicate it. Admittedly the KMT is a reactionary party and as such, is not immune to influences from within the comprador bourgeoisie. However, the KMT also originates from a revolution which brought forward a national plan (which was bourgeois). I won't develop this any further, as my knowledge of Taiwan is highly insufficient.

HSBC believes that its argument for adopting flexible exchange rates for the Yuan is reinforced by saying – look at Hong Kong, our fortune is made from a mass of floating capital, thanks to speculation on the exchange rates (although HSBC prefers to say "financial transactions" rather than "speculation") ...Yes, the fortune of foreign bankers! Does that really equate to the fortune of China?

Internationalisation and Prospects for Convertibilityof the Yuan

The Sopanha's position in the second article that I will comment on is different to that of HSBC. It is a careful position, close to the official position of the Beijing authorities. Sopanha notes that internationalisation is already at work, but the prospects for convertibility and opening up of the capital account are still a long way off (on the horizon for 2020). Sopanha seems to approve this cautious policy.

Although it is remote, convertibility, floating exchange and the opening up of the capital account still remain the objective. I have said it before, and I will repeat, that carrying out this objective would be catastrophic. However, if we must go in this catastrophic direction, it's better to go slow rather than fast! By going slowly, at least it will be possible to observe the negative effects of steps in this direction, to correct them and stop!

To prevent countries from stopping on this catastrophic path, the ideologists of

Washington, the IMF and the World Bank invented "shock therapy" – which destroys everything and adopts all principles of economic liberalism overnight, as found in USA. Russia under Yeltsin accepted "shock therapy" and it was a total disaster – Russia would experience much suffering and would take several decades to leave the tunnel it was driven into by "shock therapy".

Moreover, in my opinion, if China goes slowly (towards 2020?) the danger of catastrophe is highly likely to have disappeared by this time, as the neoliberal system, founded on the free markets, financial deregulation and flexible exchange rates, is already very sick. I have previously stated that the implosion of this system has begun and it will continue to deepen. What will be left of this system in 2020? I believe it will have disappeared by this time, but I don't know what it will be replaced by - it could be better or it could be worse. For example, by this time, the euro could have disappeared and the European Union could even become fragmented (with Great Britain being the first to leave). This is not my topic of discussion in these comments. I refer back to my book *The Implosion of Contemporary Capitalism*.

The Bancor as the Sole International Reserve Currency

Sopanha finishes by interpreting a suggestion made in 2009 by Zhou Xiaochuan, Governor of the Central Bank of China, to make Special Drawing Rights (SDRs) an international reserve currency alongside the other major currencies (the dollar, the euro, the Chinese Yuan, etc.), which would require the Yuan to become a convertible currency.

My personal reading of Zhou's suggestion is different. It seems to me that, beyond short-term measures such as the SDRs, Zhou was thinking more of the long term proposal made by Keynes in 1945: the Bancor.

The Bancor could have been the sole international reserve currency, rather than a reserve currency alongside others. The Bancor would have been defined as a basket of national key currencies, balanced according to the importance of each currency. It would have been measured by the volume of real transactions made in each of these national currencies. By "real transactions" we must include commercial exchange and direct investments abroad, and exclude international financial transactions of speculation. As the objective of the Bancor was to reduce speculation and not to grant it full scope for deployment, as with the floating exchange system. Exchange rates between the selected currencies would have been fixed rather than left to the market. Of course, these fixed rates could be revised from time to time by concerted decision of the countries concerned, but not on a day-to-day basis, as the system's total autonomy would be left to the national economic policies. The different consequences of these different policies would then have imposed intermittent revision of the rates.

The Bretton Woods system rejected the Bancor. It went much too far and limited the then enormous power of the dollar, which Keynes wanted to associate the pound sterling with on equal footing. However, Bretton Woods retained a small part of the ideas of Keynes – fixed but revisable exchange rates and subsequent creation of SDRs besides other reserve currencies. Bretton Woods was then abandoned in 1971, to the advantage of floating exchange rates.

What I have read – between the lines – of Zhou's intention in the long term is the Bancor. But I admit, as comments from the most senior Chinese officials would suggest, that my capacity to read between the lines is somewhat limited.

Foreign Assets Acquisition versus Liquid Reserves

The issue raised concerning China's purchase of foreign assets deserves to be developed. China has given first priority to the growth of its exports, which is stronger than that of the GDP. It then accumulates a growing surplus which it places almost entirely in liquid reserves, retained largely in dollars, that is by buying US Treasury bills with only minimal interest, which in reality is negative, (lower than the rate of inflation).

This choice of giving priority to exports was probably necessary to begin with, in the 1990s. China had to gather together a decent volume of currencies quickly, in order to import the goods that were essential to growth; equipment and technology, raw materials, oil. However, China has gone too far in this direction, as the reserve placed in the already enormous dollar continues to increase relentlessly.

So is it necessary to continue, modifying only the surplus composition and usage, making liquid investments in the dollar rather than buying real assets such as factories, mines, agricultural land? This solution could be tempting, but it involves dangers that must not be underestimated:

The vulnerability of such investments is considerable. Imperialist countries make this kind of investment in the Third World. However, foreign investments are always dangerous for non-imperialist countries that do not have armed forces ready and waiting to take action if necessary to ensure their "rights" are respected. For example, imagine that following a serious natural disaster, China has to draw on her foreign assets, and consequently requests that Washington refunds a large quantity of US treasury bills. If the USA refused, what would China do? Declare war? Here's another example – when Allende nationalised copper in Chile, the USA organised the Pinochet coup. Could China do the same? Surely not.

Some of these asset acquisitions are negative for the country that China moves into: an example of this would be the sale of African agricultural land. Practising this policy destroys the prospect of building a broad front of the Global South countries against American hegemony and imperialist pillaging. This path should not be taken, as it will serve to insulate China and thus eventually incur America's aggression, if Washington deems it to be necessary. The plans for acquiring foreign assets must therefore be studied in concrete terms, and they must be associated with plans to intensify good cooperation between China and the countries of the Global South. For example, China buys a copper mine in Zambia and associates this purchase with participating in Zambian industry building, which the western "club of donors" always denies. These industries are in a partnership, China/local state. The advantage: China contributes to building a "Global South front", reducing the insulation pursued by the USA. Yet perhaps unfortunately, we no longer believe that China has this potential. This is a serious error.

On many of the issues raised here, I recommend reading this excellent book: Yilmaz Akyuz, *Financial Crisis and Imbalance*: South Centre, Geneva, 2012.

N.B.

The so-called economic science taught in the universities of the West, especially in the United States, is founded on one premise: the existence of a "homo œconomicus" – a human being that would not have known evolution in history, that would be identical today to beings of five thousand years ago, that would be the same everywhere on the planet and across all the ages, and would belong to neither any particular nation or people, nor any social class that makes up this nation. Whether entrepreneurs, factory or bank owners, workers or peasant farmers, they are all the same homo œconomicus, and the interaction of all these equal and identical individuals, by their exchanges on the market, would constitute the social fabric and the economic system of production. Economics is reduced to this simplistic anthropology, the worst kind of anthropology imaginable. This kind of economic science then exerts all its intelligence on deducing what logic allows to be deduced from interactions on the markets.

This curious way of thinking is not new. The ancient Chinese believed in the existence of dragons. Thinkers, as intelligent as ourselves, would work hard at drawing conclusions on the existence of these imaginary beings and attributing qualities to them (as the homo œconomicus is defined by selfishness and rationality of behaviour). All that can be concluded in order to understand how the fate of the Chinese would depend on these dragons.

The Chinese did not have the monopoly on this way of thinking. The European Christians of the Middle Ages believed in the angels. Theologists, as intelligent as ourselves, could write theses on topics such as "the sex of the angels" because they thought that the answer to this question would increase understanding of the world.

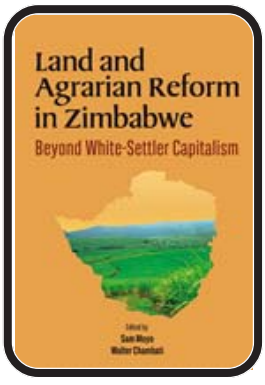
Method: deriving knowledge by taking an imaginary premise as a starting point. Method of presenting the arguments concerned: using jargon to the ordinary people (such as the jargon of today's economists). This is a means of imposing the political conclusion that we want to reach in invoking the "indisputable science of the experts".

It goes without saying that by taking an imaginary premise as a starting point, any conclusion can be drawn – anything, everything and the exact opposite. We are told that the homo œconomicus acts rationally, on the basis of what he thinks of the actions and reactions of others (these are the famous "anticipations"). The result of interactions on the markets will thus depend on these anticipations, it is unknown, and can thus be imagined how we please.

If you ask yourself false questions such as what are the characteristics of the dragon, the sex of the angels, or the anticipations of the homo œconomicus, you cannot use your intelligence in an effective and useful way. You waste time; you sterilise the intellect. The American universities of economics do not produce intelligent experts; they sterilise their students' intellect.

This kind of economics is merely a pseudo-science, like the science of the dragons or the angels. It was created in response to Marx and to discredit him. Marx effectively began to teach us the reality of society on the basis of real (existing) concepts; recognition of successive and different periods in the history of peoples and humanity, recognition of specific structures of organisation of production and power, and of social classes etc. Marx is realistic; whereas American "economics" is not.

I also wanted to avoid jargon, which serves to mask reality, and draw on language which, I hope, is accessible.



Land and Agrarian Reform in Zimbabwe

Edited by *Sam Moyo and Walter Chambati*

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The Fast Track Land Reform Programme implemented during the 2000s in Zimbabwe represents the only instance of radical redistributive land reforms since the end of the Cold War. It reversed the racially-skewed agrarian structure and discriminatory land tenures inherited from colonial rule. The land reform also radicalised the state towards a nationalist, introverted accumulation strategy, against a broad array of unilateral Western sanctions. Indeed, Zimbabwe's land reform, in its social and political dynamics, must be compared to the leading land reforms of the twentieth century, which include those of Mexico, Russia, China, Japan, South Korea, Taiwan, Cuba and Mozambique.

This book comes to a conclusion that the Zimbabwe land reform represents a new form of resistance with distinct and innovative characteristics when compared to other cases of radicalisation, reform and resistance. The process of reform and resistance has entailed the deliberate creation of a tri-modal agrarian structure to accommodate and balance the interests of various domestic classes, the progressive restructuring of labour relations and agrarian markets, the continuing pressures for radical reforms (through the indigenisation of mining and other sectors), and the rise of extensive, albeit relatively weak, producer cooperative structures. The book also highlights some of the resonances between the Zimbabwean land struggles and those on the continent, as well as in the South in general, arguing that there are some convergences and divergences worthy of intellectual attention. The book thus calls for greater endogenous empirical research which overcomes the pre-occupation with failed interpretations of the nature of the state and agency in Africa.