CHAPTER 7

Finance, Rule of Law and Human Rights in China

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Abstract

Finance has become an indispensable vehicle for economic development in emerging economies. Such economic progress involves a number of human rights implications which affect financial products, the entitlements of the banking sector itself as well as broad matters of socio-political and -economic justice. Such asymmetries and inequalities find their way into those debates on financial reform and regulation where a tension persists between the sustainability of economic objectives and political stability in fast-developing economies and especially in mainland China. Thus, financial governance and regulation has to take into account these various stake- and stakeholders to match both the short-term profit goals of the financial sector and the long-term socio-economic, environmental, political objectives of the nation in question. Such balancing act will proof to be crucial to ensure further market access, financial innovation and accountability for bankers, investors, regulators, and policy-makers alike. It remains to be seen how China will be in the position—both ideologically and economically—to offer such guarantees in the short or long-term and resist or accommodate the forces of the international financial markets.

Keywords

financial governance – equator principles – socio-economic justice

1 Introduction

China’s economic growth has been slowing down for a number of years and indicates to be the “new normal” as reassured by its leadership. Such economic prognosis necessarily takes into account a number of economic factors both

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international and domestic alike, which justify the current reorientation of China’s economic growth model. The latter should be capable to move from an investment- and export-oriented towards an innovation- and consumer-based model on the long-term. While on the one hand, the former model heavily relies on state—central and provincial alike—investment causing an explosion of government debts as well as an expansion of foreign currency reserves and bonds, its costs have been sufficiently absorbed by a so-called cheap ecology where environmental and labour conditions have been poorly taken into consideration. While on the other hand, the latter model in the making advances domestic consumption above export, it needs to be driven by domestic innovation if it pursues to alleviate the pressures on its environment and shrinking labour force due to changing demographic conditions which is increasingly challenging its previous abundance of human resources. Such innovation is not only essential to turn its manufacturing model to be more energy efficient and produce more products in an environmentally friendly manner, it equally is crucial to reduce the carbon-footprint if domestic consumption and manufacturing wish to go hand in hand in contributing to China’s economic growth and thus GDP.¹

Innovation however is not only confined in technological terms, research and development, it equally extends to financing such development in the first place. In this respect, the financial industry plays an important role in putting at the disposal those resources which are necessary to advance technological progress on all other fronts as to ensure a successful transformation of China’s economic growth model.² Institutional investors and bankers—state and private alike—on their turn can benefit from such investments which are gearing China’s economic model towards long-term innovation. Indeed, enduring gains can be secured since a sustainable transition will take up many decades to come. At the same time, China’s commitment to its two Centenary Goals in 2021 and 2049—commemorating respectively 100 years of the existence of the Communist Party of China (CPC) and the proclamation of the People’s Republic of China (PRC). By those deadlines, China aims to achieve respectively a moderate level of prosperity for all and a “prosperous, democratic, culturally advanced and harmonious modern socialist country”. The pursuit of technological and financial innovation and transformation in light of such goals is intimately linked with a strong governing authority.³

¹ Grinin, Tsirel & Korotayev (2015).