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THE SHADOW-BANKING NETWORK OF INTERPERSONAL RELATIONS IN TRADITIONAL CHINA

Abstract:

Shadow-banking have often been regarded as those financial activities undertaken by non-commercial bank financial intermediaries or individuals that are often ill-regulated or not regulated at all. Shadow-banking in China has been a controversial concept, which has not been scientifically defined. On the global scale, the ill-regulation of shadow-banking has been regarded as a major cause of the financial crisis. Although to date China has not suffered significantly from shadow-banking activities as much compared with other jurisdiction such as the United States, the Chinese shadow-banking nevertheless has attracted wide attention from many practitioners, governmental officials, and academia.

The attitude adopted by the Chinese government toward shadow-banking is ambiguous. While most shadow-banking related studies have been conducted under a modern financial context, little attention have been paid to the Chinese culture and histories in ancient China that might help to explain status quo of shadow-banking regulation in today's China. In formulating an optimal financial regulatory structure that reduces systemic risks of the Chinese shadow-banking system, one inevitable prerequisite question that needs to be answered is that in China, what are the rationales that drive each individual in participating shadow-banking activities or formulating into small organizations to carry out such endeavour.

Throughout the long history of China, financial tools by monetary measures have been largely suppressed. This has been largely contributed by the then dominant ideology Confucianism (Chen, 2009, p.10). However, this does not mean that financial activities are non-existent in ancient China, only that they are no longer monetary in nature. On the contrary, the medium of ancient Chinese financial activities are essentially personal, where the lower ranks of the hierarchical society have themselves been regarded as financial products that serve to be the intermediary of investment and return (Chen, 2009. p.10 - 11).

This paper seeks to find the rationales that have formulated today's Chinese shadow-banking system by exploring dis-financialized nature of the ancient Chinese society, and argues that many households are themselves de facto small personalized shadow-banking systems. The findings in this paper will contribute to the modern definition of shadow-banking in China, which will in turn shed lights in constructing an optimal financial regulatory structure that enhances the performance on shadow-banking regulation.

Keywords:

Shadow-banking, Legal regulation, Chinese culture, Chinese history, Finance in Ancient China