The Economy of China

Economics 30a

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subject to minor revisions

Required readings. A significant portion of the readings are drawn from Naughton, Barry. 2007, *The Chinese Economy Transitions and Growth*, MIT Press. Apart from the textbook (Naughton), the readings for this course are available at the course Latte site. For those who may be deciding whether to continue in the course, the first 4 chapters of the original Naughton manuscript are accessible through Latte.

The course will include a mid-term exam (20%) on October 3 and a final exam (35%) during the scheduled final exam period. In addition, during the course we will organize several ½ hour debates involving 3 students on each side; the debates will address some key issues, such as the one-child policy and the link between economic and political reform. Students will also be expected to prepare a 4-page brief on a topic other than that which they debate. The respective weights for the course assignments are: mid-term exam (20%), final exam (35%), debate (10%), briefing paper (15%), and class participation (20%).

You are expected to be honest in all of your academic work. The University policy on academic honesty is distributed annually as section 5 of the Rights and Responsibilities handbook. Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University. If you have any questions about my expectations, please ask.

If you are a student with a documented disability on record at Brandeis University, and if you wish to request a reasonable accommodation for this class, please see me immediately. Please keep in mind that reasonable accommodations are not provided retroactively.

1. Introduction

Motivating questions

What conditions explain the rapid growth of China's economy during its 30-year reform period? What are the basic drivers of China's economic transformation? What are the principal challenges facing China's economy? What are the key impediments to the continuation of high growth? What are the conceivable "optimistic" and "pessimistic" scenarios?

Assigned readings

Naughton, Introduction

World Bank, *China 2020: Development Challenges in the New Century*, Oxford University Press, New York, selected readings..

Related readings

Lin, Justin. Fang Cai, Li Zhou. 2003, *The China Miracle: Development Strategy and Economic Reform*,

2. China's geography and traditional economy

Motivating questions

What are the geographic and historical factors that are shaping the form and evolution of China's economy? In what ways are these legacies evident in contemporary China?

Assigned readings

Naughton. 2007, pp. Introduction, Ch. 1 ("Geographic Setting") and Ch. 2 ("The Chinese Economy Before 1949").

3. The Socialist era: Mao and central planning

Motivating questions

How was China's economy organized under central planning? How did the socialist system function? What were its strengths and weaknesses? What set of economic incentives did it create? Did the material welfare of Chinese households increase, decline, or stagnate during the era of socialist planning? Why was the system of central planning unsustainable?

Assigned readings

Naughton. 2007, Ch. 3 ("The Socialist Era, 1949-1978")

Handout , "The Solow model and its implications for growth under central planning"

Related readings

Ishikawa, Shigeru. June 1983, "China's Economic Growth since 1949," *China Quarterly*, 94.

Rosser, J. Barkley and Marina Rosser, 2004**.** *Comparative Economics in a Transforming World Economy*, Irwin, Chicago.

4. Reform in the initial stages

Motivating questions

What were the key motivations for reforming China's economy? What sectors led the reform program; what sectors lagged? How did the rural and urban reforms interact? What role did the external sector play in the early reform period? What specific role did overseas Chinese economies and resources play in the reform process? To what extent was the reform process a top down versus bottom up process?

Assigned readings

Naughton. 2007, Ch. 4 ("Market Transition: Strategy and Process), Ch. 5 ("The Urban-Rural Divide")

Related readings

Gelb, Alan, Gary Jefferson, and Inderjit Singh. 1993, "Can Communist Economies Transform Incrementally?: The Experience of China," *NBER Macroeconomics Annual 1993*, The MIT Press, Cambridge.

Perkins, Dwight. 1988, "Transforming China's Economic system," *Journal of Economic Literature*, 26.

5. Analytical perspectives on the reform process and outcomes

Motivating questions

Relative to the reform experiences of the former Soviet republics and Eastern Europe, what was distinctive about China's reform experience? How different and important were the "initial conditions." In what way does China's distinct administrative structure account for differences in the reform process and outcomes?

Assigned readings

Jefferson, Gary and Rawski, Thomas, 1994, "How Industrial Reform Worked in China: The Role of Innovation, Competition, and Property Rights," *Annual Conference on Development Economics: Proceedings of the World Bank*, The World Bank, Washington D.C.

Related readings

Qian, Yingyi, "The Process of China's Market Transition (1978-1998): The Evolutionary, Historical, and Comparative Perspectives." *Journal of Institutional and Theoretical Economics*, March 2000, 156(1), pp. 151-171. [available via http://elsa.berkeley.edu/~yqian/research.html]

Qian Yingyi and Xu Chenggang (1993), "Why China's Economic Reforms Differ: the M-Form Hierarchy and Entry/Expansion in the Non-State Sector," *Economics of Transition*, 1:135-170.

Gelb, Alan, Gary Jefferson, and Inderjit Singh. 1993, "Can Communist Economies Transform Incrementally?: The Experience of China," *NBER Macroeconomics Annual 1993*, The MIT Press, Cambridge.

World Bank, *China 2020: Development Challenges in the New Century*, annex one ("Accounting for China's Growth").

World Bank, 1998, *From Plan to Market: World Development Report, 1998*, World Bank, Washington, D.C.

Roland, Gerard.2000, *Transition and Economics: Politics, Markets, and Firms*, MIT Press, Cambridge.

Stiglitz, Joseph E. 1995, *Whither Socialism?*, MIT Press, Cambridge.

Janos Kornai.1990, *The Road to a Free Economy: Shifting from a Socialist System*, Norton, New York.

Qian Yingyi, Lawrence Lau, and Gerard Roland. 2000, "Reform without Losers: An Interpretation of China's Dual –Track Approach to Transition, *Journal of Political Economy*, 108(1), 120-143.

Symposium, *Transition Economies*, (articles by Svejnar, Roland, Boeri and Terrell, and Estrin), *Journal of Economic Perspectives*, Winter 2002.

6. The role of institutions and the political system

Motivating questions

From an analytical perspective, how do institutions shape economic performance? How do property rights, transaction costs, transparency of economic arrangements, contract enforcement, commercial law, government treatment of money-losing enterprises, and banking practice affect the behavior of economic agents and the efficiency of economic activity? What factors are motivating China's institutions to change and adapt over time? Is China's political system facilitating or impeding China's transformation to a world class economy?

Assigned readings

North, Douglas C. (June 1994), "Economic Performance Through Time," *American Economic Review*, 84,3:359-368.

Coase, Ronald H. (September 1992), "The Institutional Structure of Production," *American Economic Review*, 82,4:713-719.

Jefferson, Gary H. (1999), "Missing Markets in Labor Quality: the Role of Quality Markets in Transition," The Davidson Institute Working Paper Series, #260.

Related readings

Williamson, Oliver E. 1996, *The Mechanisms of Governance*, Osford University Press, New York.

World Bank. 2002, *Building Institutions for Markets*, Oxford University Press, New York.

7. Rural economy and institutions

Motivating questions

What are the key institutions that are shaping China's economic transition and determining the growth of agricultural productivity? What are the strengths and limits of the household production responsibility system? What reforms of the HPRS are being considered that are intended to address these shortcomings? What has been the role or rural industry in motivating China's economic transition? What are the strengths and limitations of these institutions?

Assigned readings

Naughton, Ch. 10, "Rural Organization," Ch. 11, "Agricultural: Output, Inputs, and Technology," Ch. 12, "Rural Industrialization: Township and Village Enterprises,"

Related Readings

Lardy, Nicholas, 1983, *Agriculture in China's Modern Economic Development*, Cambridge University Press (for the period 1949 – 1983).

Weitzman, Marty and Xu, Chenggang, "Chinese Township Village Enterprises as Vaguely Defined Cooperatives," with Martin L. Weitzman, *Journal of Comparative Economics*, 18(2), 1994

Lin, Justin, Peking University http://jlin.ccer.edu.cn/article/newlk.asp?CurPage=4

Scott Rozelle, Department of Agricultural and Resource Economics Working Papers: http://www.agecon.ucdavis.edu/arelibrary/workingpapers.htm

8. Corporate governance

Motivating questions

How has China's structure of corporate ownership governance changed over the past decade? What factors have interacted to motivate enterprise restructuring in China? How does openness (e.g. FDI, trade, technology transfer) affect the restructuring and performance of China's firms? What are the dominate forms of corporate governance that are emerging within China's enterprise system? How well do China's stock markets function?

Assigned readings

Naughton, 2005, Ch. 13 ("Industry: Ownership and Governance").

Related readings

Jefferson, Gary and Su Jian, "Privatization and Restructuring in China: Evidence from Shareholding Ownership, 1995-2001," *Journal of Comparative Economics*, 2006.

Jefferson, Gary and Inderjit Singh, eds. 1999, *Enterprise Reform in China: Ownership, Transition, and Performance*, Oxford University Press, New York.

Jefferson, Gary and Thomas Rawski. 1994, "Enteprise Reform in China," *Journal of Economic Perspectives*, 8,2.

Krug, Barbara, 2004, ed., *China's Rational Entrepreneurs*, Routledge Curzon,

London.

Holz, Carsten, A. 2003, *China's Industrial State-Owned Enterprise: Between Profitability and Bankruptcy*, World Scientific, New Jersey.

Walter, Carl E. and Fraser J.T. Howie. 2003, *Privatizing China: The Stock Markets and their Role in Corporate Reform*, John Wiley and Sons, New York.

9. Growth, structural change, living standards

Motivating questions

What sectors have been driving China's economic transformation. What have been the respective roles of saving, population growth, and education. How have the reforms affected incomes, poverty and inequality?

Assigned readings

Naughton, Ch. 6, "Growth and Structural Change;" Ch. 7, "Population Growth and the One Child Family;" Ch. 8, "Labor and Human Capital;" and Ch. 9, "Living Standards: Incomes, Inequality and Poverty"

10. Trade and FDI

Motivating questions

What obligations does China face under WTO? How has China's composition of imports and exports and patterns of international trade changed over the past 25 years? What institutions and policies intermediate China's foreign trade? What is the role of FDI in shaping China's trade and motivating changes in corporate governance and the financial sector?

Assigned readings

Naughton, Ch. 16 ("International Trade"), Ch. 17 ("Foreign Investment").

Related readings

Panitchpakdi, Supachai and Clifford, Mark2002, *China and the WTO*, John Wiley and Sons, New York.

Huang Yasheng, 1998, *FDI in China*, The Chinese University Press, Hong Kong

Naughton, Barry. 1997, *The China Circle: Economics and Technology in the PRC, Taiwan, and Hong Kong*, Brookings Institution Press, Washington, D.C.

Huang Yasheng, 2003, *Selling China: Foreign Direct Investment During the Reform Era*, Cambridge Univesity Press.

Lardy, Nicholas R., 2002, *Integrating China into the Global Economy*, Brookings Institution Press, Washington, D.C.

11. Science and technology

Motivating questions

What are the principal domestic and international channels of technology development and diffusion? What are the economic implications of China's rapidly rising R&D intensity? What are the respective roles of the enterprises sector, research institutes, universities, and the government in promoting and shaping S&T development in China? How does domestic R&D activity and performance interact with FDI? How does the system of intellectual property rights function? What factors are driving its evolution?

Assigned readings

Naughton, Ch. 15 ("Technology Policy and the Knowledge-Based Economy").

Related readings

Jefferson and Jian Gao, "Science and Technology Takeoff in China? Sources of Rising R&D Intensity," *Asia Pacific Business Review*, 2006.

Fishman, Ted C.**,** "The Chinese Century," *New York Times Magazine*, July 4, 2004.

Temple, Robert, 2002, "*The Genius of China: 3,000 Years of Science, Discovery and Invention*, Prion Books Limited, London

Simon, Dennis Fred and Goldman, Merle. 1989, *Science and Techology in Post-Mao China*, Harvard University Press, Cambridge.

Fishman, Ted C., 2005, *China Inc: How the Rise of the Next Superpower Challenges America and the World*, Scribner, New York.

Segal, Adam. 2003, Digital Dragon, *High-Technology Enterprises in China*, Cornell University Press, Ithaca.

Hu, Albert and Gary Jefferson. forthcoming, "R&D and Technology Transfer: Firm-Level Evidence From Chinese Industry," *Review of Economics and Statistics*.

12. Macroeconomics and finance

Motivating questions

What role did the banking system play in the pre-reform period? That is the structure of China's financial system? How is reform of the banking system related to corporate governance reform and political reform? What is the government's current strategy for reforming the financial sector? How is this related to its WTO obligations? How does China use its financial system to manage its macroeconomy?

Assigned readings

Naughton. 2005, Ch. 18 ("Macroeconomic Trends and Cycles") and Ch, 19 ("The Financial System").

Related readings

Jefferson, Gary H. 2001, "The Commons Economy: A Property Rights Interpretation of Financial Crisis," Brandeis University.

Bahl, Roy, 1999, *Fiscal Policies in China*, 1990 Institute,

Lardy, Nicholas R., 1998, *China's Unfinished Economic Revolution*, Brookings Institution Press, Washington, D.C.

13. China's Economic Challenges

Rapid national economic growth is often associated with divergent patterns of growth within the national economy. During the reform period, have incomes across China's regions become more or less equal? What factors are contributing to convergence; what factors contribute to greater divergence and inequality?

Assigned Readings

Naughton, Ch. 20 ("Environmental Quality and the Sustainability of Growth")

Related Readings

Yusuf, Shahid and Wu Weiping. 1997, *The Dynamics of Growth in Three Chinese Cities*, Oxford University Press, New York.

14. Political reform

Motivating questions

What is the administrative structure of China? Who makes laws and regulations? Where does the authority for the formulation and execution of economic policy lie e.g macroeconomic policy, industrial policy, foreign economic relation, S&T policy? How has the locus of decision making and procedures relating to accountability and transparency changed during the reform period? What are the prospects for continuing change in economic policy and the political system that shapes economic policy and performance?

Assigned Readings

Min, Xinpei, 1995, "'Creeping Democratization' in China,' *Journal of Democracy* 6.4, pp. 65-69

Min Xinpei, 2006, "The Dark Side of China's Rise." *Foreign Policy*, March/April 2006.

French, Howard, W. April 11, 2006, "Chinese Turn to Civic Power as a New Tool," *New York Times*.

Kahn, Joseph, Sept. 21 – Nov. 28, 2005, "Deep Flaws, and Little Justice, in China's Court System," *New York Times* (a series of 4 articles).

Related Readings

Jefferson, Gary. 2002, "China's Evolving (Implicit) Economic Constitution," *China Economic Review*, 13,4: 394-401.

Joshua Cooper Ramo, The Beijing Consensus, http://fpc.org.uk/publications/123