The Economy of China[1]

International Business School
Brandeis University
Fall, 2012 module
Tu/Th 11:00 -12:20 pm

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Reading list
(minor changes may occur)

Course requirements: Research project (develop an expertise and write a 3-4 page briefing memorandum) (30%); in-class quiz (10%), debate (10%), and in-class discussion (15%), and final exam (35%),

Required readings. A significant portion of the readings are drawn from the following textbook: Naughton, Barry. 2007, *The Chinese Economy, Transitions and Growth,* MIT Press. Also, the course will use a variety of readings that will be available through the course Latte webpage.

Course goals. To provide a systematic introduction to the economic conditions that have driven China's economic performance during the past 30 years of economic reform. These include a survey of the preconditions in China's traditional (pre-1949) economy and China's socialist economy (1949-1979) that have helped to frame the nature of China's economic reform and performance. Specifically, the course uses the broad economic perspectives of four economics Nobel Laureates to explore as context to explore the reform of China's economic institutions, including its corporate governance, systems of trade and finance, science and technology, and political systems. The course also examines the likely challenges and "optimistic" and "pessimistic" scenarios for China's economic future. As part of the course, each student is expected to develop an expertise concerning some aspect of China's current economic situation.

Office hours: Monday 1-3pm and Thursday 1-2 pm and by appointment

> **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**

[1] Specific readings may be added or deleted. The structure and length of the reading list, however, will remain substantially unchanged.

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.

Readings:

1. Geography and pre-conditions from the traditional and socialist periods

How has China's geography shaped its economic system and performance? What preconditions in China's traditional (pre-1949) economy and China's socialist economy (1949-1979) are shaping the pace and nature of China's reform process and economic performance?

Assigned readings

Naughton. 2005, pp. Introduction, "From Transition to Development"; Ch. 1, "The Geographic Setting", Ch. 2, sections 2.1.1, 2.1.2, 2.3, 2.4; Ch. 3, "The Socialist Era, 1949-1978: Big Push Industrialization and Policy Instability," sections 3.1, 3.2, 3.3.4, 3.4.

2. The sources of economic growth

What has been the relative role of savings, population growth, and technological change in driving China's economic growth during the socialist and reform eras? Review the intuition of Solow's neoclassical growth model. Also, how do differential productivity levels and productivity growth between agriculture and industry drive growth? Review the intuition of the Lewis, Fei-Ranis two-sector growth model.

Assigned readings

Solow model memo on Latte; Lewis, Fei-Ranis model on PPT slides in Latte.

3. Perspectives on the reform process and the role of institutions

Relative to the reform experiences of the former Soviet republics and Eastern Europe, what was distinctive about China's reform experience? To what extent has the reform process been driven by the central government versus a bottom up process? How do property rights, transaction costs, contract enforcement, commercial law, government treatment of loss-making 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?

Assigned readings

Naughton. 2005, Ch. 4 ("Transition to a Market Economy: Strategy and Outcome")

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

Jefferson, Gary H. (1999), "Missing Markets in Labor Quality: the Role of Quality Markets in Transition," The Davidson Institute Working Paper Series, #260 (Nov. 3).

Related readings

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

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.

Ch. 8, "Labor and Human Capital;"

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.

Yingyi Qian, "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]

4. Corporate governance

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?

Assigned readings

Naughton, 2005, Ch. 13, "Industry: Ownership, Finance and Corporate Governance".

Related readings

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

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.

4. Growth, structural change, and living standards

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. 6, "Growth and Structural Change"

5. Science and technology

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"

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

Related readings

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*.

6. Trade and FDI

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, 2005, Ch. 16, "International Trade", Ch. 17, "Foreign Investment".

Newspaper articles posted for this week.

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.

7. Macroeconomics and finance

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 government's 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 Fiscal and Financial Systems".

Related readings

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

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

8. Political reform and business perspectives

What is the government's view of the role of overseas and foreign investment in China's economic transformation? What are the principal attractions for and impediments to overseas and foreign investors in China? What specific government policies – both at the center and below – impinge on the investor's/trader's decision? How do investors and traders either capitalize on or avoid the impact of these policies? What are the implications of China designation of "pillar industries" for private and foreign investment?

Assigned readings

Pei, Minxin, "The Growth of Civil Society in China," in Jim Dorn, ed., Market Reforms in the New Millennium (The Cato Institute Press, 1998)

"Behind the mask," The Economist print edition, March 18th 2004

Jefferson, "A Property Rights Interpretation of China's Political Reform"

Related readings

Yi, Jeannie J. and Ye Shawn X. 2003, *The Haier Way: The Making of a Chinese Business Leader and a Global Brand*, Homa and Sekey Books, Dumont, N.J.

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

9. Growth prospects, the environment, and negative spillovers of rapid growth

Many challenges face China's economy, including the economy, excessive reliance on exports and investment, economic inequality, and stalled political reform. This section explores these and other challenges to China's sustained, robust economic growth.

Assigned readings

Naughton, Ch. 20, "The Environment".

Related Readings

Jefferson, Gary, Albert Hu, and Jian Su, forthcoming, "China's economic growth: an empirical analysis of its sources and sustainability," *Brookings Papers on Economic Activity*.

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