

CSS 320 (01)
China in the Global Economy
Friday: 2:00 p.m. - 4:00 p.m.

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Course Information

Description

China is a country that has both transitioned to a mixed-market economy and developed rapidly into a global economic power. As such, the economy displays characteristics of both an emerging market and a developing country. China is a large enough player to design its own institutional infrastructure to support “capitalism with Chinese characteristics.” This course examines in detail China's great economic transformation beginning in 1978 in what is often described as a "gradualist" transition to a market economy. In the last four decades, the speed of China's development and its growth rates of GDP are without precedent in history.

China entered the current decade with an unbalanced economy highly dependent on both a state-controlled financial system supporting its industrial core and a growth strategy focused on exporting finished goods to the global economy based, to a large extent, on inward foreign direct investment. The current leadership recognizes the need to rebalance the economy by promoting further growth through increased domestic consumption to achieve more broad-based economic development. Having achieved what the World Bank considers “middle-income” status, China's leaders seek to avoid stagnating in a trap that prevents the economy from moving on to achieving “high-income” status in the future. Recognition and support of the now majority private industrial sector is a crucial aspect of growing out of middle-income status. In this venture, many social issues remain to be tackled among which are environmental degradation, income inequality and an aging workforce. Having developed the economic background that propelled China rapidly into middle-income-country status, this course concludes by considering current problems and issues that provide insights into the fundamental question of “what is left to be done” to create a mature, market-oriented system participating fully in the global economy.

Texts (available for purchase at R.J. Julia on main street)

Barry Naughton, *The Chinese Economy: Adaptation and Growth*,

MIT Press, 2018 Paper ISBN 9780262534796

Lin, Justin Yifu, *Demystifying the Chinese Economy*, Cambridge University Press 2012

Paper ISBN1978-0-521-18174-7

Other Readings

All journal articles listed as required readings are reproduced in Moodle.

Writing Assignments: the logic of the prompts

The assignment for the first week consists of a “getting-acquainted” discussion brief focused on the legacies of the Communist past and the initial economic situation in China on the eve of the economic reform in 1978. Standard four-to-six-page tutorial papers are expected in weeks #2, #3, #5 and #6 on topics introduced therein. The fourth week involves the preparation and presentation of a research prospectus and précis of work in progress for the final policy research paper. The tutorial culminates in the seventh week with student presentations of the capstone policy research papers.

Each week, a series of prompts is provided to guide you in developing your tutorial paper. The prompts begin with a general discussion to frame your essay, range thorough comparisons of positions in the readings and finish with a more inclusive prompt that should command much of your attention and lead to an integrative theme for your essay.

Tutorial papers are to be submitted in Word format as an email attachment to the tutor before the tutorial discussions begins.

Capstone Policy Research Paper

(12 – 15 pages)

Each student chooses a topic of current policy interest in China and becomes our resident expert. Although the policy paper may frame the issue in an historical context, current material must be used to inform the policy options available to Chinese officials today. Economic considerations will be the main focus of the paper but political aspects may be introduced if relevant. A research prospectus, a précis of work in progress and a preliminary annotated bibliography are due and presented in week #4. The final policy research paper is due on the Friday after the week #7 tutorial presentations by the policy experts.

Writing tips are provided at the end of this syllabus; please consult them early and often; they should prove useful in preparing tutorial papers.

Choosing Your Topic

The Naughton book is a somewhat encyclopedic source for China’s economic transformation and opening to the global economy over a four-decade period. The Lin book, based on the author’s lectures for a course at Peking University (in Chinese), is more conceptual. Both books provide background material for the choice of a policy topic. A perusal of the indexes followed by skimming the chapters relevant to topics of interest should help inform the student’s choice. This choice should be made as soon as possible because the research prospectus and précis must be completed by week #4. The tutor is available for advice about possible topics but the initial interest comes from the student.

Choose your topic judiciously; experts who switch focus mid-stream lose credibility!

Instructor Office Hours: TBD

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Transition/Development: Gradualism or Procrastination in China?

After the People's Republic of China was established in 1949, China's new leadership tried to promote economic development from the top by creating a massive socialist industrial complex and using direct government controls, i.e., the command economy. Mao's big industrialization push, known as the Great Leap Forward, led to economic crisis followed by a brief period of readjustment but ended in the chaotic period, known as the Cultural Revolution. In 1978, the new party leaders embarked on economic reforms that promoted growth rates in both GDP and GDP per capita over the next four decades that are without precedent in history. The reforms were a mix of economic development strategies and policies designed to promote the transition from the planned command economy to a more market-oriented economy. China's economic reforms have been characterized by Westerners as a "gradualist" transition from a bureaucratically managed economy to a market economy because they stress the importance of maintaining political support for reforms by minimizing the costs of change. Deng Xiaoping, the most influential of the new leaders, used the metaphor of "crossing a river by groping the stones" to characterize economic reform in China. Considering China's experience over these four decades yields insights into the interplay of policies and institutions that is designed to promote rapid economic growth and support gradual integration into the global economy.

Week 1: Getting to Know China: Legacies & Starting Conditions

Readings

Naughton: **Read: Chapters 2 & 4**
 Skim: Chapters 1 & 3

Lin: **Read: Chapters 3 & 4**
 Skim: Chapters 1 & 2

Discussion Brief: Embarking on Economic Reform: China's Initial Condition

Your brief should consider the topics in the following prompts; please bring your **completed** brief with you to the first tutorial for submission to the tutor.

- Characterize, **in your own words**, Lin's notion of the comparative advantage-defying (CAD), catching up strategy. Would Naughton agree with this assessment of China's pre-reform history? Support your position.
- Characterize the imbalances and distortions inherited from the previous economic system that are likely to hinder China's move to a market economy in 1978.
- Describe the salient economic features of China on the eve of its economic transition.
- Identify the **single** most important economic problem facing policymakers at the beginning of China's transition to a market economy.

Expected Length: No more than three (3) but at least two (2) double-spaced typewritten pages in **standard font** of **normal size**, with standard page margins. **Please paginate.**

Week 2: Growing Out of the Agrarian Economy

Readings

Naughton: **Read Chapters 5, 6, 7, 11 & 13**

Lin: **Read Chapters 6 & 7**

Perkins, Dwight “Completing China’s Move to the Market,” *Journal of Economic Perspectives*, 8:2, (Spring) 1994, pp. 23 - 31.

Qian, Yingyi “How Reform Worked in China” in *In Search of Prosperity: Analytic Narratives on Economic Growth*, Dani Rodrik (ed.) pp. 297 – 314 & 322 - 325.

Tutorial Paper: China’s Reform Strategy: Growth and Market Development

Spurred by economic reforms beginning in 1978, China’s development and transition to a market economy transformed the economy from a primarily agrarian one to a mixed-market system. Naughton separates reforms into two phases, one in the 1980s and one in the 1990s. He characterizes the first phase as “cautious, consensual decision-making” overseen by Premier Zhao Ziyang and assesses it as a period of “growing out of the plan.”

- To frame your essay, provide an overview of growth and overall structural change in the first phase; identify the main engines (components) of China’s rapid growth in GDP.
- Focusing on the agricultural sector, discuss major policy changes and their impact on growth.
- Characterize, **in your own words**, Lin’s notion of a comparative advantage-following development strategy (CAF). Would Lin consider the strategy pursued in the first phase to be CAF? Why or why not?
- Characterize, **in your own words**, Qian’s notion of transitional institutions. Relate this concept to Naughton’s above characterization of the first phase.
- Discuss the institutions of dual-track market and township-village enterprises and explain why Qian considers these to be transitional institutions. Would Perkins agree?
- Discuss the progress toward achieving a mixed-market system in the first phase by evaluating Naughton’s assessment of the process as “growing out if the plan.” Would Perkins, Lin and Qian agree? Explain your position thoroughly.

Expected Length: No more than six (6) but at least four (4) double-spaced typewritten pages in standard font of normal size, e.g., this assignment is typed in Times New Roman, size 12, with standard page margins.

Please paginate; please see the writing tips on p.9.

Week 3: Becoming the Workshop of the World

Readings

Naughton: **Read Chapters 9, 10, 14 & 15**
 Skim Chapter 8

Lin: **Read Chapters 5, 8 & 9**

Jefferson, Gary and Rawski, Thomas, “Enterprise Reform in Chinese Industry,” *Journal of Economic Perspectives*, 8:2, (Spring) 1994, pp. 47 - 70.

Qian *op.cit.* pp. 326 – 330.

Perkins *op.cit.* pp. 35 – 41.

Tutorial Paper: China’s Industrial Transformation: Success or Not?

Rawski and Jefferson conclude their analysis of the first phase of industrial/urban sector reforms in China with an optimistic statement concerning China’s ability to harness its potential for further gains without creating intolerable political tensions or social costs. Naughton provides a more pessimistic characterization of the second phase of economic reforms overseen by Premier Zhu Rongji assessing them to be “reforms with losers.”

- To frame your essay, explain on what Rawski and Jefferson base their optimistic assessment of industrial/urban sector reforms. Would Perkins agree? Why or why not?
- Characterize, **in your own words**, Lin’s notion of “enterprise viability” and relate this to his concept of CAF development strategies. What role, if any, does Lin see state-owned enterprises (SOEs) playing in the mixed-market economy that China is becoming?
- Why does Qian consider the reform of SOEs to be a failure rather than simply a transitional institution? Does Qian see a role for SOEs in the future Chinese economy?
- Taking a broad perspective of the industrial/urban sector that includes the labor market, explain carefully why Naughton characterizes the second phase as “reforms with losers”?
- Using information from Naughton about the continuing role of SOEs in the industrial sector under SASAC supervision and the urban labor situation, would Naughton think that China has become a full market economy by the time he writes? Do you think that Perkins, Lin and Qian would agree? Explain your position thoroughly.

Expected Length: No more than six (6) but at least four (4) double-spaced typewritten pages in standard font of normal size, e.g., this assignment is typed in Times New Roman, size 12, with standard page margins.

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Week 4: Research Prospectus and Précis of Work in Progress

A research prospectus and précis of work in progress contains three essential components.

1. The **motivation** for the research and a statement of the **research question**. A clear statement of the focus of your research with a specification of the research question should be provided.

Expected Length: One page

2. A statement of the **research approach** to be taken and **the progress** made should be provided. The following questions may provide useful prompts for presenting and developing the research approach. However, they are not intended to be a list of exam questions to be answered individually.

Please use judiciously!

- How do you intend to answer the research question?
- What evidence will you seek?
- What supportive argumentation will you use?
- What are your anticipated results?
- How do you expect to support any resulting policy conclusions?

In addition, a **brief statement of the work you have accomplished** to date should be included. This statement should identify any difficulties that you foresee in dealing with your research question so that the instructor can provide help in a timely manner.

Expected Length: Two to three pages

3. An **annotated** bibliography. This consists of a list of sources that you have found to date for your research project; you should have at least 6 sources (not including the course readings). Each citation is accompanied by **two** or **three** sentences that link the material in the source **directly to your research question**. You **must** explain why you think that this source will be useful in dealing with your research question. The references should be arranged alphabetically by the author's last name. Be sure to include full information in your citations. See the references at the end of the chapters in *Naughton* for examples of proper formats for citations.

Expected Length: Two pages

Week 5: China's Trade Surplus: Global Opening and the Consequences

Readings

Naughton: **Read Chapters 16, 17, & 19**

Lin: **Read Chapter 10 & Appendix**

Perkins *op.cit.* pp. 31 – 35.

McKinnon, Ronald, "China's Exchange Rate: The Plight of an Immature Creditor," *East Asia Forum* (3rd October) 2010 <http://www.eastasiaforum.org>

Aizenman, Joshua, "The Internationalization of the RMB, Capital Market Openness and Financial Reforms in China," NBER Working Paper #20943 (February) 2015

Tutorial Paper: The Joys (and Sorrows) of Globalization

As an emerging economic power, China opened up gradually to the global economy culminating in its accession to the WTO in December 2001. After Deng's "Southern Tour", China focused on an export-led growth strategy and a policy of encouraging inward foreign direct investment (FDI). Financial sector reform lagged, leading Lin to claim that China's transition is incomplete.

- To frame your essay, discuss the importance of trade policy, FDI and exchange rate policy after 1992. Discuss the connections between trade and exchange rate policy and their interrelationships with inward FDI flows.
- Address Lin's assertion of financial sector non-reform by discussing fully the evolution of the banking system and other relevant financial sector institutions.
- McKinnon argues that China's resulting trade surplus is **not** due to currency manipulation. Explain the basis for McKinnon's assertion by considering the impact of excessive domestic savings on China's balance of payments.
- Explain why McKinnon views China as an "Immature International Creditor." Why does Aizenman characterize China's policy as mercantilist? How are these views related?
- Relying on the readings, characterize the major imbalances that develop in the Chinese economy after WTO accession. Are the suggestions put forward by Lin and Aizenman for rebalancing the economy consistent with each other? Do they address these imbalances?
- Given the interactions among policies, what role does proper sequencing of reforms play in China's strategy of achieving global economic power? Explain your position thoroughly.

Expected Length: No more than six (6) but at least four (4) double-spaced typewritten pages in standard font of normal size, e.g., this assignment is typed in Times New Roman, size 12, with standard page margins.

Please paginate; please see the writing tips on p.9.

Week 6: *Unfinished Business: What is Left to be Done?*

Readings

Naughton: **Read Chapters 18 & 20**

Lin: **Read Chapters 11**
 Skim Chapter 12

Qian *op.cit.* pp. 314 – 326 & 330 - 331.

Perkins *op.cit.* pp. 41 – 43.

Woo, Wing Thy, “China meets the middle-income trap: the large potholes in the road to catching-up,” *Journal of Chinese Economic and Business Studies*, 10:4 (November) 2012, pp. 313 – 336.

Naughton, Barry “China’s Economic Policy Today: The New State Activism” *Eurasian Geography and Economics*, 52:3 2011, pp. 313 – 329.

Tutorial Paper: China’s Incomplete Transition: Avoiding the “Middle-Income” Trap

China’s path to a mature mixed-market economy has not been linear. Macroeconomic policy has evolved in the second phase of reforms often by reacting to perceived problems. The global financial crisis (GFC) in 2008 provided a rationale for more state intervention in the economy.

- To frame your essay, characterize the major developments in macroeconomic policy, both monetary and fiscal, prior to the GFC. Do you agree that they have been primarily reactive rather than pro-active? Would Lin agree? Defend your position.
- Characterize, **in your own words**, Woo’s notion of a “middle-income trap.” Which of Woo’s policy recommendations do you find most compelling? Which of Woo’s policy recommendations do you find least compelling? Defend your position.
- Naughton argues that China responded to the GFC by turning to a more state-directed economy and that this response represents an enormous gamble in attempting to avoid the above trap. Explain Naughton’s reasoning. Would Woo agree? Defend your position.
- What remains to be done to put China onto a sustainable path to becoming a mature, unflawed harmonious mixed-market economy and a global economic power? Explain your position thoroughly.

Expected Length: No more than six (6) but at least four (4) double-spaced typewritten pages with standard page margins. Please paginate; please see the writing tips on p.9.

Week 7: Expert Policy Reports

Expected Time Length: No more than ten minutes

WRITING TIPS

A position paper is like an hourglass. The introduction begins from a broad perspective to frame the paper and narrows by stating the integrative theme. The body of the paper develops fully and solidly the position in the integrative theme. Paragraphs make **individual points**; they are **arranged sequentially** to support and defend as strongly as possible the position taken. The conclusion does **not** simply restate the position or summarize what has been written. Rather the conclusion should convince the reader that the writer has supported the position compellingly.

1. Your paper should begin with a strong introductory paragraph that you **write at the end of your revisions!** This paragraph frames your paper and establishes an overarching theme. By the end of the first paragraph, the reader should be able to identify the main **integrative theme** of the paper. The integrative theme specifies the position that will be taken and defended; hence, it serves as a selection tool to guide the writer in determining what to include in the final version of the paper.
2. Each paragraph must have its own **integrity** and be brought to **closure**. A paragraph is **NOT** a laundry list of assertions. Make sure that each paragraph has integrity in that it makes a clear point and concludes by supporting that point. You should be able to state the basic point of each paragraph using only a **four-word phrase**.
3. The easiest way to develop a strong argument is to force differences. Sometimes this can be done effectively in a point-counterpoint framework. Well-structured logical arguments containing supportive evidence are the foundations of good analytical writing. However a point-counterpoint development should **NOT** be left unresolved and drift into oblivion.
4. Organize the order of the paragraphs to develop and support your **integrative theme**.
5. Make sure that you **use** the information from the readings to provide the necessary evidence (data) to support each point and make the appropriate connections and links. Make sure that your paper deals with the topic in sufficient breadth by engaging fully the reading material.

Common Problems

1. **Do NOT** simply summarize (or reproduce in catalogue format) the information from the readings. Rather present your own perspective on the material **using** the information therein to make connections and links. **Write in your own voice!**
2. **Do NOT** write unsupported generalizations; these do not contribute to the development of your main theme nor do they suffice to engage the material properly. **Support assertions!**
3. **Do NOT** simply report points from the readings. If you agree with a point made in the readings, develop your own argument to support it by explaining why you find the point compelling. **Develop your own conclusions; use the reading material as evidence!**