

# **Module Title: Introduction to China's Economy**

## **(中国经济导论)**

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**Credit:** 3 SCU Credits, 48 teaching hours

**Lecture time:** Lectures start from the 1st week and ends at the 16th week,  
3 teaching hours/lecture, 16 lectures in total

### **I. An Overview of This Module**

#### **1. Module Objective**

Chinese economy has gained remarkable growth since 1978 when it embarked on economic reforms and opening up policies initiated by Mr. Deng Xiao-ping, and China has overtaken Japan as the world's second-largest economy since 2010. Due to its size, dynamic growth, and continuing reform policies, China has clearly become a major participant in the world economy.

The aim of this module is to provide the students with an overview of China's economic development and its role in the world economy. Theoretical knowledge and empirical analyses will be used to help students understand China's economic transition process and the driving forces underlying China's reform policies in different periods. Upon completion of the course, students are expected to be familiar with China's economic system, its current economic reforms, and the challenges that the country faces in the twenty-first century.

#### **2. Proceeding of the Module**

The module will be delivered through a mix of lectures, student presentations and discussions. Students' participation and active discussions are strongly encouraged.

#### **3. A summary of Lecture Schedule**

In this module, the instructor will deliver the following twelve lectures (subject to minor changes):

Lecture 1: An Overview of China's Economy Before 1949

Lecture 2: China's Economy in Socialist Era, 1949–1978

Lecture 3: The First Phase of Market Transition: 1978-1992

Lecture 4: The Second Phase of Market Transition: 1993-present

Lecture 5: Reforms of State-owned Enterprises and Industrial Transition

Lecture 6: Demographic Transition, Labor Market and Human Capital

Lecture 7: Reform of Fiscal and Financial Systems  
 Lecture 8: China and the World Economy: International Trade  
 Lecture 9: China and the World Economy: Foreign Investment  
 Lecture 10: Reforms of RMB Exchange Rate Policy  
 Lecture 11: Income Inequality and Poverty Alleviation  
 Lecture 12: Economic Cycle and the “New Normal State”

#### 4. Evaluation

i) Class Participation and Discussion: 30%

Participation credits are assigned to encourage students to attend classes and engage in class discussion. Participation grade depends on the following factors:

- a) Attendance
- b) Performance on raising and answering questions in class
- c) Performance on participating in classroom discussion

ii) Final Term Paper: 70%

The paper will be evaluated both on students' analytical skills and language abilities.

iii) Grading:

A (4.0)	A- (3.7)	B+ (3.3)	B (3)	B- (2.7)	C+ (2.3)	C (2)	C- (1.7)	D+ (1.3)	D (1)	D- (0.7)	F (0)
100-93	92-90	89-86	85-83	82-80	79-76	75-73	72-70	69-66	65-63	62-60	<59

#### 5. Main Reference Books

i) Naughton, Barry, 2007, *The Chinese Economy: Transitions and Growth*, 2nd edition, MIT Press, Cambridge. (Main ??)

Why this book? This book provides a very extensive, in-depth examination of the transition process in the Chinese economy as well as an excellent historical base from which China's economic reform process was launched. Naughton has a proven record of scholarly, informative research on China, as evident in the discussion of a broad range of topics related to China's performance, including of course demographic, environmental, and trade challenges; This book is a reliable text for understanding China and China's phenomenal growth record.

ii) World Bank and Development Research Centre of the State Council China, 2013. *China 2030: Building a Modern, Harmonious, and Creative Society*. World Bank Publication, Washington, DC. (optional)

iii) Lin, Justin Y., 2012. *Demystifying the Chinese Economy*. Cambridge University Press, Cambridge, UK. (optional)

iv) Journal Articles are also important parts of the reference materials.

#### 6. Academic Integrity

SCU has zero-tolerance policy on plagiarism. Any ideas or materials taken from another source must be fully acknowledged, unless the information is common knowledge. Any evidence of plagiarism will lead to zero credit to your work submitted and will be reported to university authorities.

## **II. Lecture Schedule**

**(Subject to minor adjustment)**

### **Lecture 1: An Overview of China's Economy Before 1949**

#### **【Description of the Lecture】**

This lecture provides the students with an overview of the China's Economy before 1949. We will look at the country's unique geographical and demographic landscape, then go through China's economic history before 1939 and discuss why China lost its economic lead in the 19th century (the Needham puzzle). We will then illustrate the impact of China's Anti-facieses War and Civil War on economic development between 1937–1949.

#### **【Main Sections:】**

- 1.1 China's Geographic Setting
- 1.2 The Traditional Chinese Economy, 1127–1911
- 1.4 The Beginnings of Industrialization, 1912–1937
- 1.5 Anti-facieses War and Civil War, 1937–1949
- 1.6 Legacies of the Pre–1949 Economy

#### **【Reading Assignments】**

- Chapter 1-2 of Naughton (2007)
- Lin, J. Y. (1990). "Collectivization and China's Agricultural Crisis in 1959-1961," *Journal of Political Economy*, 98(6): 1228-52.

### **Lecture 2: China's Economy in Socialist Era, 1949–1978**

#### **【Description of the Lecture】**

In this lecture, we focus on China's economic and political policies to develop a massive socialist industrial complex, and discuss the impact of policy instability and the political movements on China's economy. After the People's Republic of China was established in 1949, China's new leaders set out to develop a massive socialist industrial complex through direct government control. China turned to the Soviet Union as its primary model, as well as its chief trading partner and source of technology. The early achievements of coastal enclave industrialization oriented to the Pacific were discarded, and a new inward-directed strategy was adopted. The above development strategies facilitated the development of heave industry in the short run, at great socioeconomic costs. This lecture finishes with an overview and discussion on the economic crisis and the political dilemma in the later 1970s, which sets the stage for the country's post-1978 economic transition towards a market economy.

#### **【Main Sections:】**

- 2.1 The Big Push Development Strategy

- 2.2 The Command Economic System in China
- 2.3 Policy Instability and the Political Movements
- 2.4 Economic Crisis and Political Dilemma in the later 1970s

**【Reading Assignments】**

- Chapter 4 and 5 of Naughton (2007)
- Lin, Justin Yifu, and Dennis Tao Yang (2000). “Food Availability, Entitlements and the Chinese Famine of 1959–61.” *Economic Journal* 110 (January), 136–58.

## **Lecture 3: The First Phase of Market Transition: 1978-1992**

**【Description of the Lecture】**

In Lecture 3 and 4, we will focus on the overall process of market transition in China. Subsequently, lecture 5 through 10 will discuss specific sectors or aspects of the contemporary economy, covering the years since 1978, with each sector viewed within the context of China’s transitional economy. Lecture 3 focuses on the first phase of market transition from 1978 to 1993. The first phase is featured by gradualist, dual-track, decentralizing reforms that developed directly out of the rural successes. We will begin by examining some of the assumptions and objectives that China’s reformers brought to the transition process. The breakthrough in rural China is stressed at the beginning because it was the key early success that drove reforms onward and allowed Chinese reformers to grapple with successively more fundamental issues of transformation.

**【Main Sections:】**

- 3.1 China's Approach to Transition
- 3.2 How Did Reforms Start? The Initial Breakthrough in the Countryside
- 3.3 Main Elements of China’s Transition Through 1992
- 3.4 Conclusion of First-Phase Reforms

**【Reading Assignments】**

- Chapter 4 of Naughton (2007)
- McMillan, John, and Barry Naughton (1992). “How to Reform a Planned Economy: Lessons from China.” *Oxford Review of Economic Policy* 8(1), 130–43.

## **Lecture 4: The Second Phase of Market Transition: 1993-present**

**【Description of the Lecture】**

This lecture focuses on the second phase of market transition from 1993 to present. By at least the mid-1990s, China had successfully moved away from the command economy and adopted a functioning market economy. The emphasis of reform in this phase shifted as it became more fundamental and thorough. The main accomplishments of this phase have been the dramatic shrinkage of the state sector, and the creation of

conditions enabling more fair competition among all market participants. This lecture finishes with a discussion of the main achievements and the limitations of China's economic reform up to now.

**【Main Sections:】**

- 4.1 Prerequisites: Market Reunification, Recentralization and Macroeconomic Austerity
- 4.2 Regulatory Approach and Administrative Restructuring
- 4.3 External Sector: Membership in the World Trade Organization
- 4.4 State Enterprise Restructuring and Downsizing
- 4.5 Main achievements and Limitations.

**【Reading Assignments】**

- Chapter 4 of Naughton (2007)
- World Bank (1996). *From Plan to Market: World Development Report 1996*. Oxford University Press.
- Wu, Jinglian (2005). *Understanding and Interpreting Chinese Economic Reform*. Singapore: Thomson.

## **Lecture 5: Reform of State-owned Enterprises and Industrial Transition**

**【Description of the Lecture】**

In this lecture, we discuss the reforms of state-owned enterprises and the transition of industrial sector in China since 1978. A background introduction of China's State-owned Enterprises (SOEs) is followed by a discussion on the strategies and paths of the SOE reforms. Special attention is paid to the historical and current problems within China's SOE sector from the theoretical perspective of corporate governance. We will briefly discuss structural changes in China's industry, energy and infrastructure sectors. Finally, we will discuss the development strategies in China's technology sector and the country's future prospect on industrial and technological innovation.

**【Main Sections:】**

- 5.1 Industry: Ownership and Governance
- 5.2 Transforming Corporate Governance in the State Sector
- 5.3 Privatization and Hybrid Ownership
- 5.4 Structural Change: Industry, Energy, and Infrastructure
- 5.5 Technology Policy and the Knowledge-based Economy

**【Reading Assignments】**

- Chapter 13-15 of Naughton (2007)
- Sun, P.(2007). "Is the State-led Industrial Restructuring Effective in Transition China? Evidence from the Steel Sector." *Cambridge Journal of Economics*, 31(4): 601–624.

## **Lecture 6: Demographic Transition, Labor Market and Human Capital**

### **【Description of the Lecture】**

This lecture takes an overview of China's demographic transition, labor market and human capital accumulation. It starts with a descriptive analysis of China's demographic trends and labor market's supply and demand. It will be followed by a detailed discussion on the government's population control policies (including the One-child Policy and the Two-child Policy). We will then examine several special issues in China's labor market, such as the Hukou regime, the labor migration, the return to human capital, etc. The lecture finishes with a discussion on the reforms of social security system, and its coverage and efficiency.

### **【Main Sections:】**

- 6.1 China's Demographic Transition
- 6.2 The Institutional Transformation of Chinese Labor
- 6.3 Labor Markets in China
- 6.4 Social Security: Coverage and Efficiency

### **【Reading Assignments】**

- Chapters 7 & 8 of Naughton (2007)
- Meng, X. (2012). "Labor Market Outcomes and Reforms in China." *Journal of Economic Perspectives*, 26(4): 75-102.

## **Lecture 7: Reform of Fiscal and Financial Systems**

### **【Description of the Lecture】**

In this lecture, we will elaborate on China's fiscal and financial reforms. The first part of the lecture focuses on the 1994 fiscal reforms in China, which redefined the central-local fiscal relationship between the governments. The second part of the lecture discusses China's financial system, with emphasis paid to the issues of financial deepening and financial broadening. We will discuss the current challenges and future reform directions in China's fiscal and financial sectors, such as the formalization of tax redistribution and government borrowing, the deregulation of the banking sector and the strengthening of the capital markets. We will then discuss local "land finance" and its impacts on public finance and urban expansion. Finally, we will talk about stock markets and bond Markets in China.

### **【Main Sections:】**

- 7.1 The Fiscal System and Fiscal Reform
- 7.2 Local "Land Finance"
- 7.3 The Financial System in the Planned Economy and under Reform
- 7.4 The Banking System

## 7.5 Stock Markets and Bond Markets

### 【Reading Assignments】

- Chapter 18 and 19 of Naughton (2007)
- Cao G, C. Feng and R. Tao (2008). "Local 'Land Finance' in China's Urban Expansion: Challenges and Solutions." *China World Economy*
- Berger, A., I. Hasan and M. Zhou (2009). "Bank Ownership and Efficiency in China: What Will Happen in the World's Largest Nation." *Journal of Banking & Finance*, 33: 113-130.
- Cao, Fei (2013) "Land Finance: Nature, Formation Mechanism, and the Way of Transformation." *Journal of Social Sciences*.

## Lecture 8: China and the World Economy: International Trade

### 【Description of the Lecture】

In this lecture, we will focus on China's foreign trade sector, which is one of the major driving forces of China's economic growth. In 2013, China surpasses US as world's largest trading nation, and its trade is growing far more rapidly than that of any other large economy. An overview of China's export and import structure is followed by a detailed introduction to the strategies and paths of China's foreign trade reforms. Special attention is paid to the country's gradualist approach to trade liberalization and the new challenges faced by China's trading sector in the post-WTO era. Empirical evidence will be analyzed in conjunction with economic theories that provide insights on China's trading policies and the related issues such as the Sino-US trade dispute.

### 【Main Sections:】

- 8.1 The Process of Trade Reform
- 8.2 A Dualist Trade Regime: The Export-Processing System
- 8.3 Toward an Open Economy
- 8.4 Rapid Growth and Structural Change
- 8.5 Regional Composition of Trade Within China

### 【Reading Assignments】

- Chapter 16 of Naughton (2007)
- Amiti, M. and C. Freund (2010). "The Anatomy of China's Export Growth," in Feenstra, R. C. and Wei, S. J. (ed.), *China's Growing Role in World Trade*, University of Chicago Press, Chicago, IL.
- Rumbaugh, T., & N. Blancher (2004). "China: international trade and WTO accession", IMF Working Paper No. 04/36

## **Lecture 9: China and the World Economy: Foreign Investment**

### **【Description of the Lecture】**

This lecture delves into investment in great detail, showing the concrete ways in which China has become integrated into the global economy. For more than a decade China has been one of the world's most important destinations for FDI. Investment began to pour into China after 1992, and annual inflows have been over 40 billion dollars since 1996. We begin with sketching the importance of FDI in the Chinese economy. Then we focus on China's "Special Economic Zones" in order to trace some of the key policy reforms that opened up the foreign investment regime. We then discuss the investment regime today, tracing the interaction among policy, regulation, and legal infrastructure, and moving to the impact of WTO membership. In addition, we illustrate the Competition as FDI Destinations between East Asian Countries. Lastly, we discuss China's efforts to invest directly in other countries (the "go global" strategy), the motivation and the current challenges.

### **【Main Sections:】**

- 9.1 An overview of FDI in China
- 9.2 The "Special Economic Zones" in China
- 9.3 The Investment Regime Today
- 9.4 Sources of Investment in China
- 9.5 the Competition as FDI Destinations between East Asian Countries
- 9.6 China's "go global" strategy

### **【Reading Assignments】**

- Chapter 17 of Naughton (2007)
- Chen, C. (2009). "Inflow of Foreign Direct Investment," in Garnaut, R., Song, L. and Woo, W. T. (ed.), *China's New Place in a World in Crisis: Economic, Geopolitical and Environmental Dimensions*, Australian National University E Press, Canberra, Australia.

## **Lecture 10: Reforms of RMB Exchange Rate Policy**

### **【Description of the Lecture】**

In this lecture, we will discuss China's exchange rate policies and reforms, and their impact on China's international trade. We start by briefly reviewing the basic theories of foreign exchange rate and its determination process. We then apply the theory in explaining the transition in China's foreign exchange regime from a double air-lock policy to a dollar pegging policy and then to a managed floating policy. We will illustrate the impacts of these policies on China's international trade, which is followed by a discussion on policy options for the future reform in RMB exchange rate policy and their Potential Outcomes. This lecture finishes with a discussion of China's efforts and challenges to internationalize RMB.



### 【Main Sections:】

- 10.1. China's Exchange Rate Policies and Reforms.
- 10.2 Exchange Rate Policies and International Trade.
- 10.3 Policy Options for the RMB and Potential Outcomes
- 10.4 The Internationalization of RMB: Efforts and Challenges

### 【Reading Assignments】

- Corden, W. M. (2009). "China's Exchange Rate Policy, its Current Account Surplus, and the Global Imbalances," *Economic Journal*, 119 (November): F430-41.
- Morrison, W. M., and M. Labonte (2013). "China's Currency Policy: An Analysis of the Economic Issues", Congressional Research Service, 49.
- Schnabl, G. (2011). "The Role of the Chinese Dollar Peg for Macroeconomic Stability in China and the World Economy," Global Financial Markets Working Paper Series, No. 13-2010, Friedrich-Schiller-University Jena, Thuringia.

## **Lecture 11: Income Inequality and Poverty Alleviation**

### 【Description of the Lecture】

Household income growth has indeed been rapid in China since 1978, and individual Chinese are clearly much better off than they were 30 years ago. Moreover, the number of people in extreme poverty has declined dramatically. But over the same period the distribution of income has become much more unequal. This lecture begins with an overview of income growth and income inequality in China, followed by an illustration of factors contributing to the increase in income inequality during the past three decades. Then we turn to the poverty issue in China and examine the physical quality of life indicators for Chinese people. In the last section, we will discuss in great detail the poverty alleviation policies since early 1980s and the potential policy options, and examine the main challenges for further poverty alleviation in China.

### 【Main Sections:】

- 11.1 Income Growth and Income Inequality
- 11.2 An Overview of Poverty: Poverty Line and Poverty trend
- 11.3 Physical Quality of Life Indicators
- 11.4 Poverty Alleviation: Policies and Challenges

### 【Reading Assignments】

- Chapter 9 of Naughton (2007)
- Du, Y., A. Park & S. Wang (2005). "Migration and rural poverty in China." *Journal of Comparative Economics*.

## **Lecture 12: Economic Cycle and the “New Normal State”**

This lecture focuses on China’s economic growth and economic cycle, and illustrates challenges of China’s economic development and. We use the macroeconomic theories and empirical data to explain the driving forces behind China’s economic growth and its economic cycle. This is followed by a detailed discussion on the “middle income trap” and the factors that may prevent China from growing into a high-income status, including the economic structural imbalance and enlarging inequality in income, and the demographic, environmental and external challenges faced by the country. We will then illustrate the meanings of the "New Normal State" , and discuss policy options that may help China meet current challenges for socioeconomic development. As a summary to this lecture and the whole module, we will discuss China's political economy, illustrating political and social factors underlying the strategies and policies of China's economic development.

### **【Main Sections:】**

12.1 Economic development and Macroeconomic Cycles

12.2 Socioeconomic Problems and "Middle Income Trap"

12.3 The "New Normal State" and Economic Policies.

12.4 China's Political Economy

### **【Reading Assignments】**

- Chapter 18 of Naughton (2007)
- Chang, Chun, kaiji Chen , Daniel F. Waggoner and Tao Zha (2015) "Trends and cycles in China's macroeconomy." FRB Atlanta Working Paper 2015-5, Federal Reserve Bank of Atlanta.