

Fall 2012

**Economics 435
Economic Development of China**

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Office Hours: Monday, 2:30 – 4 PM

Economics 435 is a half-year course that examines the economic development of China. Although much of our attention will be directed towards an assessment of the post-1978 economic reforms in China, we will take a longer perspective on the growth process, and consider both the Chinese economic system between 1949 and 1978, as well as the pre-1949 economy.

Despite the size of the class--I anticipate 25-30 students by the end—I hope to run this class like a seminar, with active participation on your part. If you are looking for a course in which only the professor talks and you listen, then perhaps this isn't the course for you. On the other hand, if you are looking for a course in which you (we) tackle some difficult, but topical questions that have great bearing on today's international economy, then perhaps this will be to your liking.

Each week there will be a set of readings and questions that will serve as the basis for the following weeks' lecture/seminar. The readings will be extensive and will require a significant input on your part. On average, anticipate roughly 75-100 pages of reading a week. Most of these readings you will be able to download from the course website on Blackboard.

There is no required text, but there are two books that will serve as good references, and from which readings will occasionally be taken:

Loren Brandt and Thomas Rawski, editors, *China's Great Economic Transformation*, Cambridge University Press, 2008.

Barry Naughton, *The Chinese Economy: Transitions and Growth*, MIT Press, 2007.

Reflecting my desire to run this course like a seminar, your participation in class will serve as part of the basis for evaluation (10%). There will also be two papers, each 12-15 pages, which you will be required to do. I will provide the topics for both. More details will be provided later, but the first of these will be due November 1, and the second at the end of the term. There will also be comprehensive final worth 50% of your mark. Based on past experience, in order to do well on this exam you will have to be familiar with the readings assigned over the course of the semester.

Part I: Background Reading: Economic Growth and Institutions (9/13)

Douglas North, *Institutions, Institutional Change and Economic Performance*, Chapters 1 and 12. *

William Easterly, *The Elusive Quest for Growth*, Chapters 3, 4, 8 and 9. *

Daron Acemoglu, Simon Johnson and James Robinson, "Institutions as a Cause of Long-run Economic Growth", *Handbook of Development Economics*. *

Part II: Historical Background of China

1. The Great Divergence? (9/20)

Loren Brandt, Debin Ma, and Thomas Rawski, "From Divergence to Convergence: Re-evaluating the History behind China's Economic Boom", 2011. *

Benjamin Elman, *On Their Own Terms: Science in China, 1550-1900*.

Andre Gunder Frank, *ReOrient*, pp. 52-56, 108-117, and 218-225.

James Z. Lee, *One Quarter of Humanity: Malthusian Mythology and Chinese Realities, 1700-2000*.

Ma, Debin, "Incentives and Information: An Institutional Analysis of the Traditional Chinese State and Great Divergence in the Early Modern Period", mimeo, 2010.

Angus Maddison, *Chinese Economic Performance in the Long-run*, 1998, pp. 19-38. *

Joel Mokyr, *The Lever of Riches*, pp. 209-238. *

Dwight Perkins, *Agricultural Development in China*, pp. 5-11, 13-36, and 182-191. *

Kenneth Pomeranz, *The Great Divergence*, pp 1-27, 211-96. *

Evelyn Rawski, *Education and Popular Literacy in China*, chapter 1.

Tuan-Hwee Sng, "Size and Dynastic Decline: The Principal-Agent Problem in Late Imperial China", mimeo, 2010.

2. Late-19th and Early 20th Century China (9/27)

Shannon Brown, "The Ewo Filature: A Study in the Transfer of Technology to China in the 19th Century," *Technology and Culture*, pp. 550-568. *

Sherman Cochran, *Encountering Chinese Networks*, 2000, pp. 117-146.

Debin Ma, "Why Japan, not China, was the First to Develop in East Asia: Lessons from Sericulture, 1850-1937," *Economic Development and Cultural Change*, pp. 369-94. *

Dwight Perkins, "Government as an Obstacle to Industrialization: The Case of 19th Century China," *Journal of Economic History*, 27.4 (1967), pp. 478-492.*

Loren Brandt, *Commercialization and Agricultural Development in China*, pp. 14-38.

Thomas Rawski, *Economic Growth in Prewar China*, chapters 1 and 6.*

Philip Huang, *The Peasant Family and Agricultural Development in the Yangzi Delta, 1350-1988*, pp. 93-143.

Part III: The Era of Economic Planning

1. Basic Readings: (10/3)

Dwight Perkins, "Growth and Changing Structure of China's Twentieth Century Economy," in *China's Modern Economy in Historical Perspective*, pp. 115-165.

2. Industry/State Sector (10/3)

Barry Naughton, *Growing out of the Plan*, chapter 1. *

Barry Naughton, "The Third Front: Defense Industrialization in the Chinese Interior", *China Quarterly*, September 1988, pp. 351-86. *

Christine Wong, "Ownership and Control in Chinese Industry: The Maoist Legacy and Prospects for the 1980s," in Joint Economic Committee, US Congress, *China's Economy Looks Toward the Year 2000*, pp. 571-603.

3. Rural Sector (10/10)

Nicholas Lardy, *Agriculture in China's Modern Economic Development*, Chapter 2, pp. 18-21 and 30-97.*

Frederick Crook, "The Commune System in the PRC, 1963-1974," in US Congress Joint Economic Committee, *China: A Reassessment*.*

Wei Li and Dennis Yang, "The Great Leap Forward: Anatomy of a Central Planning Disaster", *Journal of Political Economy*, 2005, pp. 840-877. *

Frank Dikotter, *Mao's Great Famine: The History of China's Most Devastating Catastrophe, 1958-1962*.

4. Assessment of Pre-1979 Developments (2/10)

Shigeru Ishikawa, "China's Economic Growth since 1949--An Assessment," *China Quarterly*, 94 (June 1993).

Robert Field, "Slow Growth of Labor Productivity in Chinese Industry, 1952-1981," *China Quarterly*, 96

(December 1983).

Nicholas Lardy, "Consumption and Living Standards in China, 1978-1983," *China Quarterly*, 96 (December 1983). *

Barry Naughton, "The Pattern and Legacy of Economic Growth in the Mao Era," in J. Kallgren, K. Lieberthal, R. MacFarquhar and F. Wakeman, eds., *Perspectives on Modern China: Four Anniversaries*, 1991.*

Thomas Rawski and Dwight Perkins, "Forecasting China's Economic Growth to 2025", in Brandt and Rawski, pp. 829-845.*

Part III: Economic Reform in China

What motivated economic reform? How do you go about reforming a socialist economy? What has been the nature of the reforms in key sectors of the economy, e.g. rural, urban, international? What impact have the reforms had on productivity, income distribution, and economic structure? How has the transition in China differed from that in Eastern Europe? What can we expect out of the Chinese economy in the fourth millennium of reform?

1. Economic Reform: Theories and Strategies (10/17)

Gerard Roland, *Transition and Economics*, Chapter 1.

Gerard Roland, "The Political Economy of Transition," *Journal of Economic Perspectives*, Winter, 2002.*

Jan Svejnar, "Transition Economies: Performance and Challenges", *Journal of Economic Perspectives*, Winter, 2002.*

2: The Onset of Economic Reform and the Big Picture (10/17)

Harry Harding, *China's Second Revolution: Reform After Mao*, chapter 5.

Barry Naughton, "The Political Economy of China's Economic Transition", in Brandt and Rawski.

Elizabeth Perry and Christine Wong, "The Political Economy of Reform in Post Mao-China: Causes Content, and Consequences", in *The Political Economy of Reform in Post-Mao China*.

Dwight Perkins, "Reforming China's Economic System," *Journal of Economic Literature* , 26 (June 1988).*

Xu, Chenggang, "The Fundamental Institutions of China's Reforms and Development", *Journal of Economic Literature*, 2011.*

3. Reform of the Rural Sector

a. Agriculture (10/24)

Du Runsheng, "The Course of China's Rural Reform", in *Narratives of Chinese Economic Reforms*.

Justin Lin, "Rural Reforms and Agricultural Growth in China, *American Economic Review*, 82.1 (1992).

Jean Oi, *State and Peasant in Contemporary China*, chapter 9.

Terry Sicular, "Redefining State, Plan and Market: China's Reforms in Agricultural Commerce," *China Quarterly*, v. 144, December 1995, pages 1020-46.

Dali Yang, *Calamity and Reform in China*, 1996, chapter 6.

Jikun Huang, Keiro Ostuka, and Scott Rozelle, "The Role of Agriculture in China's Economic Development", in Brandt and Rawski.

b. Rural Industry and the Rise and Fall of TVEs (10/24)

Loren Brandt, Hongbin Li and Joanne Roberts, "Banks and Enterprise Privatization in China", *Journal of Law, Economics and Organization*, 2005.

William Byrd and Alan Gelb, "Township, Village and Private Industry in China's Economic Reforms," Working Paper, World Bank, 1990.*

Che, Jianhu and Yingyi Qian, "Institutional Environment, Community Government, and Corporate Governance: Understanding China's Township-Village Enterprises," *Journal of Law, Economics and Organization*, v 14, n1, pp. 1-23.*

Jin, Hehui and Yingyi Qian, "Public versus Private Ownership of Firms: Evidence from Rural China," *Quarterly Journal of Economics*, v. 113, n3, pp. 773-808.*

Susan Whiting, *Power and Wealth in Rural China*, chapter 4.*

4. Enterprise Reform and the Development of Industrial Capabilities (11/1)

Gary Jefferson and Thomas Rawski, "Enterprise Reform in China," *Journal of Economic Perspectives*, 8.2 (Spring 1994), pp. 47-70. *

Janos Kornai, "The Soft-budget Constraint," *Kyklos*, 39.1(1986). *

Yasheng Huang, *Selling China*, pp. 1-51.

Lardy, *China's Unfinished Revolution*, Chapter 2.

Barry Naughton, *Growing Out of the Plan*, chapters 3 and 6. *

Susan Shirk, *The Political Logic of China's Economic Reforms*, 1993, chapters 10, 11.

Edward Steinfeld, *Forging Reform in China*, chapter 4.

Loren Brandt, Thomas Rawski and John Sutton, "China's Industrial Development" in Brandt and Rawski.*

Rosen, Daniel, *Behind the Open Door: Foreign Enterprises in the Chinese Marketplace*, 1999, chapter 2.

5. Foreign Trade Sector Reform, WTO and the Yuan (11/8)

Key Questions: How important is the world economy to China? How important is China to the world economy? What impact have foreign trade reforms had on the rest of the economy? What can we expect with respect to the internationalization of the RMB?

Lee Branstetter and Nicholas Lardy, "China's Embrace of Globalization", in Brandt and Rawski.*

Frankel, Jeffrey, "Historical Precedents for Internationalization of the RMB", Council on Foreign Economic Relations, November 2011.

Nicholas Lardy and Morris Goldstein, "The Future of China's Exchange Rate Policy", Peterson Institute for International Economics, July 2009.

Nicholas Lardy, *Foreign Trade and Economic Reform in China, 1978-1990*, chapters 3 and 5.*

Nicholas Lardy, *Integrating China into the Global Economy*, 2002, chapters 2 and 4.

Barry Naughton, "China's Emergence and Prospects as a Trading Nation," *Brookings Papers on Economic Activity*, 2, pp. 273-343.

World Bank, *Reform of the Foreign Trade Sector in China*, 1994.

Peter Schott, "The Relative Sophistication of Chinese Exports", 2008.

6 Fiscal Policy, The Financial System, and the Macroeconomy (11/15)

Richard Bird and Christine Wong, "China's Fiscal System: A Work in Progress" in *Brandt and Rawski*.*

Loren Brandt and Zhu Xiaodong, "Redistribution in a Decentralizing Economy: Growth and Inflation in Chinese under Reform," *Journal of Political Economy*, 2000.*

Nicholas Lardy, *China's Unfinished Revolution*, chapters 3-4.

Kelle Tsai, *Back Alley Banking*, 2002, chapter 2.*

Carl Walter and Fraser Howie, *Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise*, 2010, chapters 2 and 3.*

7. Economic Growth (11/22)

Hehui Jin, Yingyi Qian, and Barry Weingast, "Regional Decentralization and Fiscal Incentives: Federalism, Chinese Style", *Journal of Public Economics*, 2005.

Song, Zheng Michael, Storesletten, Kjetil and Zilibotti, Fabrizio, "Growing Like China", *American Economic Review*, 2011.*

Alwyn Young, "The Razor's Edge: Distortions and Incremental Reform in the People's Republic of China", *QJE*, 2000, pp. 1091-1135.

Alwyn Young, "From Gold to Base Metals: Productivity Growth in the People's Republic of China during the Reform Era," *Journal of Political Economy*, 2003, pp. 1120-1161.*

Changtai Hsieh and Peter Klenow, "Misallocation and Manufacturing TFP in China and India", *Quarterly Journal of Economics*. 2006.*

Loren Brandt, and Xiaodong Zhu, "Accounting for Economic Growth in China", 2010. *

Marcos Chamon and Eswar Prasad, "Why are the Savings Rates of Urban Households Rising?" *American Economic Review*.

8. *Labor Markets, Migration, Inequality and Poverty* (11/29)

Dwayne Benjamin, Loren Brandt, John Giles, and Sangui Wang "Inequality in China's Economic Transition", in Brandt and Rawski.*

Dwayne Benjamin, Loren Brandt and John Giles, "The Evolution of Income Inequality in Rural China", *Economic Development and Cultural Change*, 2005. *

Kanbur, Ravi, and Xiaobo Zhang, "Which Regional Inequality: the Evolution of Rural-Urban and Inland-Coastal Inequality in China from 1983 to 1995." *Journal of Comparative Economics*, 1999.*

Liu, Xuejun, Albert Park, and Yaohui Zhao, "Explaining Rising Returns to Education in China in the 1990s", mimeo, 2010.

Shaoguang Wang and Angang Hu, *The Political Economy of Uneven Development: The Case of China*, 1999.

The World Bank, *From Poor Areas to Poor People: China's Evolving Poverty Reduction Strategy*. 2008.

Martin Ravallion and Shaohua Chen, "China's (Uneven) Progress Against Poverty", *Journal of Development Economics*, 2007.*

Meng Xin and Junsen Zhang, "The Two Tier Labor Market in Urban China", *Journal of Comparative Economics*, 2001.