

Fall 2018

**Economics 435/2738
Economic Development of China
Professor Loren Brandt**

Office: Dept. of Economics
150 St. George St.
Room 303

Phone: 978-4442

Office Hours: Monday, 2:30 – 4 PM

Economics 435/2738 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 look 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 Quercus.

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, 2018 (2nd Edition).

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 October 24th and the second will be due December 4th. 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 (Week 1)

Why do economies grow? How important is the role of capital investment? Technological change? What is the role of institutions in economic development?

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

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

Charles Jones, "Introduction to Economic Growth", chapter 2.

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

Part II: Historical Background of China (Weeks 2 and 3)

What was the level of economic development in China during the 18th and 19th century? How big of a gap was there with the West? What factors may have impeded the onset of modern economic growth in China? Did the opening of China during the late 19th and early 20th century foster the onset of modern economic growth?

Naughton, Chapter 3.

The Great Divergence? (Week 2)

Loren Brandt, Debin Ma, and Thomas Rawski, "From Divergence to Convergence: Re-evaluating the History behind China's Economic Boom", *Journal of Economic Literature*, 52(1), 2014. (pp 45-92 only).*

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.*

Daron Acemoglu and James Robinson. 2018. *The Narrow Corridor to Liberty: The Red Queen and the Struggle of State Against Society*, pp. 219-260.

China's Opening and the Late-19th and Early 20th Century (Week 3)

Ying Bai and James Kung, "Diffusing Knowledge While Spreading God's Message: Protestantism and Economic Prosperity in China, 1840-1920," 2014. *Journal of the European Economic Association*.

Loren Brandt, *Commercialization and Agricultural Development in China*, 1990. pp. 14-38.

Loren Brandt, Debin Ma and Thomas Rawski, "Industrialization in China" in *The Spread of Modern Industry to the Periphery since 1871*, 2017.

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, and 147-176.

Ruixue Jia, "The Legacies of Forced Freedom: China's Treaty Ports", *Review of Economics and Statistics*, 2014, 96.4, pp. 596-608.

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. *

Ma, Debin. 2008. "Economic Growth in the Lower Yangzi Region of China in 1911-1937: A Quantitative and Historical Analysis." *Journal of Economic History* 68 (2): 355-92.

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

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

First Assignment Handed Out: Due October 24

Part III: The Maoist Period and the Era of Economic Planning

What did China's economic institutions look like during Socialism? How rapidly was the economy able to grow? What were the sources of this growth? What constraints did the agricultural sector impose on the growth process? What happened to the standard of living?

Naughton, Chapter 4.

Institutions and Structure (Week 4)

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.*

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

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

Assessment (Week 4)

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.

Anton Cheremukin, Mikhail Golosov, Sergei Guriev and Aleh Tsyvinski. (2017). "The Economics of the People's Republic of China from 1953."

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

The Economics of the GLF (Week 5)

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

Chang, Gene Hsin and Guanzhong James Wen. 1997. "Communal Dining and the Chinese Famine of 1958-1961." *Economic Development and Cultural Change*. 46.1, pp. 1-34.

Kung, James Kai-sing and Chen Shuo. 2011. "The Tragedy of the Nomenklatura: Career Incentives and Political Radicalism during China's Great Leap Famine." *American Political Science Review*, 105, pp 27-45.

Lin, Justin Yifu and Dennis Tao Yang. 2000. "Food Availability, Entitles and the Chinese Famine, 1959-1961." *Economic Journal*.

Meng, Xin, Nancy Qian and Pierre Yared. 2013. "The Institutional Causes of China's Great Famine, 1959-1961", Forthcoming, *Review of Economic Studies*.

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

Part IV: 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? The changes in political institutions? 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?

Framework and Debates (Week 6)

Gewirtz, Julian. *Unlikely Partners : Chinese Reformers, Western Economists, and the Making of Global China*, Harvard University Press, 2017, pp. 1-4, 261-279.

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

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

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.*

Walder, A. G. (2016). Bending the Arc of Chinese History: The Cultural Revolution's Paradoxical Legacy. *The China Quarterly*, 227, 613-631.

Zhu, Xiaodong. "Understanding China's growth: Past, present, and future." *The Journal of Economic Perspectives* 26.4 (2012): 103-124.

Reform of the Rural Sector and Agriculture (Week 7)

What is the role of agriculture in the development process? How did the introduction of the Household Responsibility System affect agriculture and the rural sector? Where did the TVEs come from?

Naughton, Chapters 11-13.

Agricultural Reforms

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).*

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.

Rural Industry and the Rise (and Decline) of TVEs

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, Jiahua 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.*

Chang, C., & Wang, Y. (1994). The nature of the township-village enterprise. *Journal of Comparative Economics*, 19(3), 434-452.

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.*

Kung, J. K. S., & Lin, Y. M. (2007). The decline of township-and-village enterprises in China's economic transition. *World Development*, 35(4), 569-584.

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

SOE Reform, Restructuring and Upgrading in Industry (Week 7)

Loren Brandt, Johannes Van Biesebeek, and Yifan Zhang, "Creative Accounting or Creative Destruction", *Journal of Development Economics*, 2012.

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

Breznitz, D. and M. Murphree. 2011. *Run of the Red Queen: Government, Innovation, Globalization and Economic Growth in China*. New Haven: Yale University Press.

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).*

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

Lin, Li-Wen, and Curtis J. Milhaupt. "We are the (national) champions: understanding the mechanisms of state capitalism in China." *Stanford Law Review* 65.4 (2013): 734-760.

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 Steinfield, *Forging Reform in China*, chapter 4.

Second Assignment Handed Out: Due December 4

China's Opening, Foreign Trade Sector Reform, and WTO (Week 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?

Naughton, Chapters 16 and 17.

Brandt, L., Van Biesebroeck, J., Wang, L., Zhang, Y. (2017). WTO accession and performance of Chinese manufacturing firms. *American Economic Review*.

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

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

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.

Yu, M. (2015). Processing trade, tariff reductions and firm productivity: evidence from Chinese firms. *The Economic Journal*, 125(585), 943-988.

China's Financial System and the Role of Financial Repression (Week 9)

Naughton, Chapter 19.

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

Chamon, M. D., & Prasad, E. S. (2010). Why are saving rates of urban households in China rising?. *American Economic Journal: Macroeconomics*, 2(1), 93-130.

David Dollar and Shangjin Wei, "Das Wasted Kapital".

Elliott, D., Kroeber, A., & Qiao, Y. (2015). Shadow banking in China: A primer. *Brookings Institution*, 13.*

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

Ma, G., & Yi, W. (2010). China's high saving rate: myth and reality. *Economie internationale*, (2), 5-39.

Michael Martin, "China's Banking System", 2012.

Modigliani, F., & Cao, S. L. (2004). The Chinese saving puzzle and the life-cycle hypothesis. *Journal of economic literature*, 42(1), 145-170.

Kelle Tsai, *Back Alley Banking*, 2004, chapter 2.*

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

Walter, C. E. (2014). Was Deng Xiaoping Right? An Overview of China's Equity Markets. *Journal of Applied Corporate Finance*, 26(3), 8-19.

Wei, S. J., & Zhang, X. (2011). The competitive saving motive: Evidence from rising sex ratios and savings rates in China. *Journal of political Economy*, 119(3), 511-564.

Zheng (Michael) Song and Wei Xiong (2018). "Risks in China's Financial System."

China's Economic Growth Dynamics (Week 10)

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

Changtai Hsieh and Peter Klenow, "Misallocation and Manufacturing TFP in China and India", *Quarterly Journal of Economics*. 2008.*

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.*

Zhu, Xiaodong. "Understanding China's growth: Past, present, and future." *The Journal of Economic Perspectives* 26.4 (2012): 103-124.

Labor Markets, Migration, Inequality and Poverty (Weeks 11 and 12)

Naughton, Chapters 9 and 10.

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. *

Chan, K. W. (2009). The Chinese hukou system at 50. *Eurasian geography and economics*, 50(2), 197-221.

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.*

Kanbur, R., & Zhang, X. (2009). Spatial inequality in education and health care in China. In *Regional Inequality in China* (pp. 92-110). Routledge.

Knight, I., Sicular, T., & Yue, X. (2013). Educational inequality in China. *Rising inequality in China: Challenges to a harmonious society*, 142.

Li, Hongbin, et al. "The end of cheap Chinese labor." *The Journal of Economic Perspectives* 26.4 (2012): 57-74.

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

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.

Meng Xin, "Labor Market Outcomes and Reforms in China", *Journal of Economic Perspectives*, 2012.*

Li, S., & Sicular, T. (2014). The distribution of household income in China: Inequality, poverty and policies. *The China Quarterly*, 217, 1-41.

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

Wu, X., & Zhang, Z. (2010). Changes in educational inequality in China, 1990–2005: Evidence from the population census data. In *Globalization, changing demographics, and educational challenges in East Asia* (pp. 123-152). Emerald Group Publishing Limited.

Yu Xie, Xiang Zhou. (2014). Income inequality in China, Proceedings of the National Academy of Sciences April. 2014,