

THE GEORGE WASHINGTON UNIVERSITY
Department of Economics

Introduction to the Economy of the PRC	Economics 2169.10
Fall 2018	M 7:10 — 9:40
Location:	Funger 207
Professor Joseph Pelzman	Office — Monroe 319
Office Hours	Wednesday - By Appointment
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COURSE DESCRIPTION

This course will provide an introduction to the economy of the People's Republic of China (PRC) and its role and impact on the world economy. The PRC's current economic challenges will be given particular attention.

The topics covered this semester include:

- (1) the PRC during the communist era, pre 1979;
- (2) economic reform and market transition;
- (3) the role of state enterprises;
- (4) foreign investment;
- (5) foreign trade;
- (6) PRC's role in the East Asian trade-production network;
- (7) the PRC financial system;
- (8) PRC monetary and exchange rate policy; and
- (9) PRC's role in global financial market imbalances;

I intend to run this class like a seminar, with active participation on your part. For this class power points are not provided. You must read the material prior to coming to class. I suggest that you bring your laptops to class in order to take notes. 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 we tackle some difficult questions that have great bearing on today's international economy, then we may have a mutually acceptable solution. Finally, if you have found that economics, both Marxist and neo-classical, is not your cup of tea you may want to reconsider taking this course.

LEARNING GOALS:

- Students will explain how an agrarian economy can progress in 70 years to the 2nd most powerful economy.
- Student will explain the economic rationale for collective welfare maximization versus the neo-classical welfare function of the individual.

- Students will explain the series of failed development programs of the old PRC leaders.
- Students will explain the role of MFN, the WTO and 'State Sponsored Capitalism' as the drivers of the current economic development of the PRC.

COURSE PREREQUISITS:

This course is designed for undergraduates. The standard pre-requisite of successfully completing Principles of Economics is a must. It is also highly recommended that students have successfully passed other courses in the department. e.g. development economics and international economics.

AVERAGE MINIMUM AMOUNT OF INDEPENDENT, OUT-OF-CLASS, LEARNING EXPECTED PER WEEK:

According to university policy, students in this 14 week - 3-credit hour course are expected to devote on average a minimum of 10 hours of independent learning per week in addition to the 2.0 hours per week of direct instruction. The actual amount of studying required depends on many factors including your background and preparation, your study skills, and your target grade. Success in this class is highly likely to require substantially more independent learning given its research designation. More information about GW's credit hour policy can be found in the university bulletin: <http://bulletin.gwu.edu/university-regulations/>.

UNIVERSITY POLICY ON OBSERVANCE OF RELIGIOUS HOLIDAYS

In accordance with University policy, students should notify faculty during the first week of the semester of their intention to be absent from class on their day(s) of religious observance. For details and policy, see: students.gwu.edu/accommodations-religious-holidays.

ACADEMIC INTEGRITY CODE

Academic dishonesty is defined as cheating of any kind, including misrepresenting one's own work, taking credit for the work of others without crediting them and without appropriate authorization, and the fabrication of information. For details and complete code, see: studentconduct.gwu.edu/code-academic-integrity

SAFETY AND SECURITY

In the case of an emergency, if at all possible, the class should shelter in place. If the building that the class is in, is affected, follow the evacuation procedures for the building. After evacuation, seek shelter at a predetermined rendezvous location.

DISABILITY SUPPORT SERVICES (DSS)

Any student who may need an accommodation based on the potential impact of a disability should contact the Disability Support Services office at 202-994-8250 in the Rome Hall, Suite 102, to establish eligibility and to coordinate reasonable accommodations. For additional information see: disabilitysupport.gwu.edu/

MENTAL HEALTH SERVICES 202-994-5300

The University's Mental Health Services offers 24/7 assistance and referral to address students' personal, social, career, and study skills problems. Services for students include: crisis and emergency mental health consultations confidential assessment, counseling services (individual and small group), and referrals. For additional information see: counselingcenter.gwu.edu/

REQUIRED TEXT:

The reading material assigned for this class is quite large, spanning both Marxist and Neo-Classical thinking. All the articles have been uploaded to BB. I use material from the two texts assigned along with the articles. Since I refer to different GATT/WTO Articles during lectures please make sure to upload the relevant document from the WTO onto your laptops prior to class.

The list of textbooks that I have ordered includes:

Pelzman, Joseph. *Spillover Effects of China Going Global*, (2016). World Scientific Press. (Hereinafter Pelzman)

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

I suggest that you acquire electronic copies of these textbooks. I find it easier to search the content using the electronic copies.

GRADING AND ATTENDANCE

I expect that you will be in class 100 percent of the time and actively participating in class discussion. Consequently, your level of participation in class will serve as part of the basis for evaluation (10%). There will be two exams, one after we finish the pre-1979 developments in the PRC and one after the post 1979 reforms were on their way. Each of those exams is worth 25% of your grade. The comprehensive final, given on the university designated time and date assignment is worth 40% of your grade. All exams are essay exams that will take the entire class period.

Based on past experience, in order to do well in my course, you will have to be familiar with the readings assigned over the course of the semester. There is no expectation that you will have to reproduce the mathematical arguments.

READINGS AND LECTURE LIST:

The dates to the right represent the dates when the material will be discussed in class. I reserve the right to revise this schedule if we need more time for a particular section. Some of the readings are math centric. Do not panic. Math is a language like Chinese. Practice will make you proficient.

Introduction

8/27

Marx, Karl, [edited by Frederick Engels] *Capital: Volume I*, Random House.

Marx, Karl and Frederick Engels, *The Manifesto of the Communist Party*.

Orwell, George, *Animal Farm*.

Orwell, George, *Nineteen Eighty-Four*.

World Bank, *China 2030: Building a Modern, Harmonious, and Creative High-Income Society*.

Xu, Chenggang, "The Fundamental Institutions of China's Reform and Development," *Journal of Economic Literature*, Vol. 49, No. 4 (DECEMBER 2011), pp. 1076-1151. Section 1.

Zhu, Xiaodong (2012), "Understanding China's Growth: Past, Present, and Future," *The Journal of Economic Perspectives*, Vol. 26, No. 4, Fall 2012.

Note that Sept 3 is Labor Day – No classes;

Note that Sept. 10 is the Jewish New Year – No classes;

These classes will be made up using the University calendar for make-up dates.

The PRC – Pre 1979

9/17 – 10/15

Acemoglu, Daron, Simon Johnson and James Robinson, "Institutions as a Fundamental Cause of Long-run Growth," *Handbook of Economic Growth, Vol 1, Chapter 6*.

CIA, *The Chinese Cultural Revolution*, (25, May, 1967).

Naughton Chapters. 1, 2, and 3.

Joint Economic Committee, Congress of the USA, *China: A Reassessment of the Economy*, “Part I- Policy Assessments and Performance” 1975. pp. 20-145.

Marx, Karl, [edited by Frederick Engels] *Capital: Volume I*, Random House.

Exam Number 1

10/22

Post 1979 Reforms

10/29 – 11/19

Brandt, Loren, Debin Ma and Thomas G. Rawski. “From Divergence to Convergence: Reevaluating the History Behind China's Economic Boom,” *Journal of Economic Literature*, Vol. 52, No. 1 (MARCH 2014), pp. 45-123.

Fan, Simon and Xiangdong Wei. “The Law of One Price: Evidence from the Transitional Economy of China,” *The Review of Economics and Statistics*, Vol. 88, No. 4 (Nov., 2006), pp. 682-697.

Jin, Hehui, Yingyi Qian and Barry R. Weingast, “Regional Decentralization and Fiscal Incentives: Federalism, Chinese style,” *Journal of Public Economics*, 89 (2005) 1719 – 1742.

Joint Economic Committee, Congress of the USA, *China Under the Four Modernizations*, Part 1 – Setting, (August 1982), pp. 303 – 610.

Joint Economic Committee, Congress of the USA, *China's Economy Looks Toward the Year 2000, Volume I: The Four Modernizations, Part 1 – Setting*, (May 1986), pp. 1-146.

Lau, Lawrence J., Yingyi Qian and Gerard Roland, “Reform Without Losers: An Interpretation of China's Dual-Track Approach to Transition,” *Journal of Political Economy*, Vol. 108, No. 1 (February 2000), pp. 120-143.

Li, Hongbin and Lian Zhou, “Political Turnover and Economic Performance: The Incentive Role of Personnel Control in China,” *Journal of Public Economics*, 89 (2005) 1743 – 1762.

Maskin, Eric, Yingyi Qian, and Chenggang Xu, “Incentives, Information, and Organizational Form.” *Review of Economic Studies*, April 2000, 67(2), pp. 359-78.

Naughton Chapter. 4.

Qian, Yingyi, and Chenggang Xu, "Why China's Economic Reform Differ: The M-form Hierarchy and Entry/Expansion of the Non-state Sector." *Economics of Transition*, June 1993, 1(2), pp. 135-170.

Qian, Yingyi, Gerard Roland and Chenggang Xu, "Coordination and Experimentation in M-Form and U-Form Organizations," *Journal of Political Economy*, Vol. 114, No. 2 (April 2006), pp. 366-402.

World Bank, World Development Report 1996: *From Plan to Market*.

Xu, Chenggang, "The Fundamental Institutions of China's Reform and Development," *Journal of Economic Literature*, 2011. Section 4 and 5.

Exam Number 2

11/26

Spillover Effects

12/3 & 12/10 & 12/11

International Trade and the WTO

Fan, Simon. "Increasing Returns, Product Quality and International Trade," *Economica, New Series*, Vol. 72, No. 285 (Feb., 2005), pp. 151-169.

Harris, Richard G., Peter E. Robertson and Jessica Y. Xu. "The International Effects of China's Growth, Trade and Education Booms," *The World Economy* (2011), pp.703-1725.

Islam, Sadequl. "The Impact of China-ASEAN Free Trade Agreement on Textiles and Clothing Sectors of Asian Regions," in M. Parvizi Amineh (ed.) *State, Society and International Relations in Asia*. Amsterdam University Press. (2010)

Lardy, Nicholas R. "China, the World Economy, and U.S. Policy" in *Integrating China into the Global Economy*. Brookings Institution Press. (2002).

Levchenko, Andrei A. "Institutional Quality and International Trade," *The Review of Economic Studies*, Vol. 74, No. 3 (Jul., 2007), pp. 791-819.

Pelzman, Chapters 1, 2, 3, 4, 5 and 6.

Potter, Pitman B. "China and the International Legal System: Challenges of Participation," *The China Quarterly*, No. 191, China's Legal System: New Developments, New Challenges (Sep., 2007), pp. 699-715.

Foreign Aid

Brautigam, Deborah. "China's Foreign Aid in Africa: What Do We Know?" in Robert I. Rotberg (ed.) *China into Africa Book Subtitle: Trade, Aid, and Influence*. Brookings Institution Press, World Peace Foundation. (2008).

Lin, Teh-chang. "The Donor Versus the Recipient Approach: A Theoretical Exploration of Aid Distribution Patterns in Taipei and Beijing," *Asian Perspective*, Vol. 24, No. 2 (2000), pp. 153-171.

Pelzman, Chapter 7.

van Dijk, Meine Pieter. "Introduction: Objectives of and Instruments for China's New Presence in Africa," in Meine Pieter van Dijk (ed.) *The New Presence of China in Africa*. Amsterdam University Press. (2009)

Outward Investment

Buckley, Peter J., Adam R. Cross, Hui Tan, Liu Xin and Hinrich Voss. "Historic and Emergent Trends in Chinese Outward Direct Investment," *Management International Review*, Vol. 48, No. 6 (2008), pp. 715-747.

Cui, Lin and Fuming Jiang. "State Ownership Effect on Firms' FDI Ownership Decisions Under Institutional Pressure: A Study of Chinese Outward-Investing Firms," *Journal of International Business Studies*, Vol. 43, No. 3 (April 2012), pp. 264-284.

Hong, Eunsuk and Laixiang Sun. "Dynamics of Internationalization and Outward Investment: Chinese Corporations' Strategies," *The China Quarterly*, No. 187 (Sep., 2006), pp. 610-634.

Morck, Randall, Bernard Yeung and Minyuan Zhao. "Perspectives on China's Outward Foreign Direct Investment," *Journal of International Business Studies*, Vol. 39, No. 3 (Apr. - May, 2008), pp. 337-350.

Pelzman, Chapter 8.

Wang, Mark Yaolin. "The Motivations behind China's Government-Initiated Industrial Investments Overseas," *Pacific Affairs*, Vol. 75, No. 2 (Summer, 2002), pp. 187-206.

Final Exam

University will set date.