

Syllabus
China's Economic Reform and Policies
PUBPOL 751002F14

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Course Description:

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. Students outside China are thus advised to understand what has happened to China's internal and external economic development in the last three decades.

This course aims to provide students with a general picture of Chinese economic reforms, opening up, and development since the end of 1970s, and to introduce students to a better understanding of many of the elements of China's emergence and its potential role in the world economy. The institutional reforms in various sectors and the gradual open-up of the economy will be analyzed in detail. After taking this subject, the students are expected to understand why China was successful in maintaining a high economic growth in the past three decades and what challenges it will be facing in the future.

This course is structured as follows. At first it provides an overview of Chinese economic system and economic development from the viewpoint of history and international comparison. Secondly, it will introduce China's reform of public finance system and analyze fiscal relation between central government and local governments since 1978.

Thirdly it will emphasize understanding the transformation of China's financial system and the significance of financial market events, focusing on the reform of RMB exchange rate and interest rate liberalization. In the end, the course will introduce China's process of foreign trade system reform, describe the performance of foreign direct investment (FDI) and China's oversea investment. See the detailed course structure in the following.

Course Structure:

1. Overview of China's Economic System and Economic Development

- 1.1 China's Economy Prior to Reforms
- 1.2 The Introduction of Economic Reforms
- 1.3 China's Economic Growth since Reforms: 1979-2012
- 1.4 The Challenges of Economic Development in the Future

Recommended readings:

Justin Yifu Lin, Fang Cai, Zhou Li (2003), *The China Miracle: Development Strategy and Economic Reform*, Chinese University Press.

Chow, G. C. (2002), *China's Economic Transformation*. Oxford: Blackwell.

Chow, G. C. (2004), *Knowing China*. Singapore: World Scientific.

OECD Economic Surveys: China 2010, OECD, Paris. See http://www.oecd-ilibrary.org/economics/oecd-economic-surveys-china-2010_eco_surveys-chn-2010-en;jsessionid=3ck79jhjlc59k.x-oecd-live-02.

OECD Economic Surveys: China 2013, OECD, Paris. See http://www.oecd-ilibrary.org/economics/oecd-economic-surveys-china-2013_eco_surveys-chn-2013-en

2. The Progress of Economic Reform in China

- 2.1 The socialist planned economy from 1952-1978
- 2.2 The process and strategy of economic reform
- 2.3 The economic reform in the rural areas
- 2.4 The Economic reform in the urban areas and the development of no-state-owned economy

Recommended readings:

Justin Yifu Lin, Fang Cai, Zhou Li (2003), *The China Miracle: Development Strategy and Economic Reform*, Chinese University Press.

Chow, G. C. (2002), *China's Economic Transformation*. Oxford: Blackwell.

Chow, G. C. (2004), *Knowing China*. Singapore: World Scientific.

3. China's Reform of fiscal relation between central and local governments

2.1 A brief introduction of background

2.2 The Reform and change of the Fiscal Relation between central and local

2.3 Current issues and challenges

Recommended readings:

Wei Zhang (2011), *Economic Reform in Modern China*, Routledge.

R Bahl, C Wallich (1992), "Intergovernmental Fiscal Relations in China", Working Papers, the World Bank.

Justin Yifu Lin, Fang Cai, Zhou Li (2003), *The China Miracle: Development Strategy and Economic Reform*, Chinese University Press.

Jun Ma (1997), "China's Fiscal Reform: An Overview", *Asian Economic Journal*, Volume 11, Issue 4, pages 443–458, December 1997.

OECD (2006), *Challenges for China's Public Spending: Toward Greater Effectiveness and Equity*, OECD, Paris.

4. Transformation of Financial System in China

3.1 China's Financial Sector before the economic reform in 1978

3.2 The three stages of the financial sector reform in China

3.3 The current structure of the Chinese financial sector

3.4 Challenges in China's banking system reform at next stage

Recommended readings:

Bowles, P. and White, G. (1993), *The Political Economy of China's Financial Reforms, Finance in Late Development*, Westview Press, Oxford.

Byrd, W. (1983), *China's Financial System: The Changing Role of Banks*, Westview Press, Boulder, Colorado.

Dipchand, C. R., Y. Zhang and M. Ma (1994), *The Chinese Financial System*, Greenwood Press.

Cai, E-sheng (1999), "Financial Supervision in China: Framework, Methods and Current Issues", in: *Strengthening the Banking System in China: Issues and Experience*, 169-173, Policy Paper No. 7, Bank for International Settlements.

Girardin, E. (1997), *Banking Sector Reform and Credit Control in China*, Development Centre Studies, OECD.

W. Dobson and A. K. Kashyap (2006), "The contradiction in China's gradualist banking reform," *Brookings Papers on Economic Activities*, 2, 103-162.

Allen Franklin, Jun Qian and Meijun Qian (2008), "China's Financial System: Past, Present, and Future." In T. Rawski and L. Brandt (Eds.), *China's Great Economic Transformation: Origins, Mechanisms, and Consequences of the Post-Reform Economic Boom*, Cambridge University Press.

5. Financial Market Development in China

5.1 Function of financial markets

5.2 China's money markets

5.2.1 China's interbank lending and borrowing market

5.2.2 China's bond repurchase market

5.2.3 China's interbank bond market

5.2.4 China's bill market

5.2.5 China's inter-bank foreign exchange market and RMB exchange rate system reform

5.3 China's capital market

5.3.1 An overview of China's capital market

5.3.2 China's stock market

5.3.3 China's bond market

Recommended readings:

Mehran, H., M. Quintyn, T. Nordman and B. Laurens (1996), *Monetary and Exchange System Reforms in China: an Experiment in Gradualism*, IMF.

Tam, O. K. (1995), *Financial Reform in China*, Routledge.

Yi, Gang (1994), *Money, Banking and Financial Markets in China*, Westview Press, Boulder, San Francisco, Oxford.

Shan Weijian, "The Mystery of China's Sinking Stocks," *Far Eastern Economic Review* December 2005.

Chen Chien-Hsun and Shih Hui-Tzu, "Initial Public Offerings and Corporate Governance in China's Transitional Economy," NBER Working Paper Series 9574, March 2003.

Susan Flaherty and Joanne Li, "Composite Performance Measures: Evidence on Chinese Stock Exchanges," *The Chinese Economy*, vol.37, no.3, May-June 004: 39-66.

Jeffrey Frankal, "On the RMB: the Choice between Adjustment under A Fixed Exchange Rate and Adjustment under A Flexible Rate," NBER Working Paper Series 11274(2005).

6. China's Central Banking and Monetary Policy

6.1 Function of The Central Bank

6.2 Central Bank Independence

6.3 The change of roles and structure of PBC

6.4 Conducting Monetary Policy in China

Recommended readings:

Chandavarkar, A. (1996), *Central Banking in Developing Countries*, Macmillan Press Ltd..

Holz, C. A. (1992), *The Role of Central Banking in China's Economic Reforms*, East Asia Program, Cornell University.

Holz, C. A. (2000), "The Changing Role of Money in China and Its Implications." *Comparative Economic Studies*, No. 3 (Fall 2000), 77-100.

Lardy, N. R. (1998), *China's Unfinished Economic Revolution*, Brookings Institution Press, Washington, D.C.

De Wulf, L. and D. Goldsbrough (1986), "The Evolving Role of Monetary Policy in China," *IMF Staff Papers*, June, 209-242.

Croce, E. and M.S. Khan (2000), "Monetary Regimes and Inflation Targeting", *Finance & Development*, 37 (3), September.

Mishkin, F. S. (2000), "Inflation Targeting in Emerging Market Countries", *The American Economic Review*, 90 (2), 105-109.

Masson, P. R., M. A. Savastano and S. Sharma (1997), "The Scope for Inflation Targeting in Developing Countries", *IMF Working Paper*, WP/97/130.

Lu, Ding and Qiao Yu (1998), "Banking Credit-quota Plan as a Macroeconomic Policy Instrument in China: Effectiveness and Costs", *Economic Systems*, 22 (2), 147-174.

Montes-Negret, F. (1995), "China's Credit Plan : an Overview", *Oxford Review of Economic Policy*, 11 (4), 25-42.

7. China's economy in the world (Optional)

7.1 The Process of Foreign Trade System Reform and Current Policy Issue

7.2 Foreign Direct Investment (FDI) and Market Openness

7.3 Chinese Oversea Investment

Recommended readings:

Long, Guoqiang (2010), China's Sustainable Trade Strategy: An overview, see http://www.iisd.org/pdf/2010/china_sustainable_trade_strategy.pdf.

Tse, Pui-Kwan (2011), China's rare-earth industry: U.S. Geological Survey Open-File Report 2011-1042, 11 p., available only at <http://pubs.usgs.gov/of/2011/1042>.

OECD Economic Surveys: China 2005, OECD, Paris. See <http://www.oecdbookshop.org/oecd/display.asp?sf1=identifiers&st1=9789264011830>

OECD Economic Surveys: China 2010, OECD, Paris. See http://www.oecd-ilibrary.org/economics/oecd-economic-surveys-china-2010_eco_surveys-chn-2010-en;jsessionid=3ck79jhjlc59k.x-oecd-live-02.

OECD Economic Surveys: China 2013, OECD, Paris. See http://www.oecd-ilibrary.org/economics/oecd-economic-surveys-china-2013_eco_surveys-chn-2013-en

8. China's Macro-economic Policies addressing the Global Financial Crisis since 2008 (Optional)

8.1 The macro-economic trends of China since 2008

8.2 Main macro-economic policies in recent years

8.3 Current issues and challenges

Recommended readings:

OECD Economic Surveys: China 2010, OECD, Paris. See http://www.oecd-ilibrary.org/economics/oecd-economic-surveys-china-2010_eco_surveys-chn-2010-en;jsessionid=3ck79jhjlc59k.x-oecd-live-02.

OECD Economic Surveys: China 2013, OECD, Paris. See http://www.oecd-ilibrary.org/economics/oecd-economic-surveys-china-2013_eco_surveys-chn-2013-en

W Xiong (2012), "Measuring the monetary policy stance of the People's bank of china: An ordered probit analysis", *China Economic Review*, Volume 23, Issue 3, September 2012, Pages 512-533.

Ding Ningning (2010), "China's Fiscal Policy in the Post-Crisis Period", Paper prepared for Macro Economy Research Conference funded by Nomura Foundation, 16 November 2010.

Useful Online Resources:

www.chinadaily.com.cn
www.stats.gov.cn
www.pbc.gov.cn
www.cbrc.gov.cn
www.xinhua.org

Organization of the Course:

---Review the reading materials

----Lectures

-----In-class discussion

Paper Requirements and Grades:

One 8-page student paper concerning a specific economic policy issue in China or other economy they are familiar with or interested in. When the economic policy in the paper is concerned about other country, it is suggested that the paper make some comments on what the difference or similarity this economic policy has with that of in China. **The due time is Dec.15.**