

The Economy of China

SEMS 3500-110, Spring 2013

Instructor: Prof. Bruce L. Reynolds (br3p@gmail.com)

Upper Division

Discipline: Economics

Office hours: 6 hours per week, to be assigned

I. Course Overview and Objectives

For two thousand years, China had the world's largest economy, simply because China had the world's largest population, and living standards varied little from one country to the next. Then, in the 19th and 20th centuries, the Industrial Revolution transformed the West, leaving other countries far behind and vulnerable. China's experience was typical: invasion, political collapse and near-dismemberment.

After 1949, industrialization at last took root in China, accelerating dramatically after 1979. Within a few years, China will once more have the world's largest GDP. Within your lifetime, the incomes of individual Chinese will approach US levels. China's re-emergence as a world economic power ranks as one of the most startling and important events of our era.

The other countries on our voyage all share this story: scrambling to catch up. So we'll compare each of them with China's story. Why did Japan industrialize a full century earlier than China? How did Hong Kong and Singapore also catch up, so quickly and easily? Vietnam, so often impacted by her huge northern neighbor, now hopes to match China's growth. India, the world's only other billion-person, continental economy, was ahead of China after World War II. Why does it now lumber along in China's wake? And why does industrialization seem so out of reach for many African countries?

My goals for you in this course are to understand the core processes of "late industrialization"; to apply that understanding to the China case; and then to deepen your understanding as we compare China with these other countries. We'll learn and apply concepts such as investment, saving, technology, growth accounting and surplus labor. We'll also grapple with questions economists rarely ask (e.g., Where do institutions come from?)

I aim to challenge and engage you, by closely linking what we study to where we'll be. I expect you to take ownership of your own learning. If you seek a passive, undemanding academic experience, you should flee screaming from this course. ☺

II. Course Structure

1. Class attendance, preparation, and participation: Prepare review questions before each class. Attendance and class participation will determine 14% of your term grade.

2. Exams: a midterm and a final, using both essays and objective questions. At our last class together, you will jointly create the final exam for the course.

3. Study groups: five-member groups will jointly write four essays, addressing core issues of the course (see below, Section V). Don't be a "free-rider" - in April your own group will grade your contribution.

4. Field lab: On the morning of **Feb. 8** we'll visit LegCo (Hong Kong's legislature) and talk with a legislator there, asking whether political freedom is still alive and well in Hong Kong, and what its life expectancy might be. After lunch we'll visit Hong Kong Baptist University, asking a faculty member there whether China's economic growth is sustainable in the absence of political reform. You'll also meet for discussions with HKBU students. You'll write a structured report for me summarizing what you've learned. Attendance is mandatory.

5. Grades will be generated as follows:

Class Attendance	7%
Class Participation	7%
Study Group essays	20%
Study Group contribution	6%
Hong Kong field lab report	20%
Midterm exam	15%
Final exam	25%

III. Readings:

All students should purchase Barry Naughton, **The Chinese Economy: Transitions and Growth** (Cambridge: MIT Press, 2007). Numerous other short readings, will be available on the ship's intranet.

IV. Schedule of Topics for Each Class

ENSENADA(1)

A1(1/11) "Growth Accounting": a first cut at explaining economic growth.

A2(1/13) **China:** The First Four Thousand Years of Economic Growth

HILO, USA (2)

A3(1/17) Growth: understanding the role of institutions

A4(1/19) **China:** The Last Sixty Years of Economic Growth

A5(1/23) Growth: Why do (some) poor countries grow so quickly?

A6(1/25) **Japan:** early success via borrowed institutions plus a core culture

YOKOHAMA, INTERPORT, KOBE, Japan (5)

A7(2/1) **Shanghai and Hong Kong:** Contrasting Growth Models

SHANGHAI, INTERPORT, HONG KONG, China (6)

A8(2/9) **China:** Becoming a trade giant, 2000-2012

A9(2/11) **Vietnam:** Another party-led modernizer comes (late) to the growth party

HO CHI MINH CITY, Vietnam (7)

A10(2/19) **Singapore:** Do democratic institutions promote rapid economic growth?

SINGAPORE, INTERPORT (3)

A11(2/23) **China and the US:** Understanding the exchange rate controversy

RANGOON, Burma (5)

A12(3/2) **India**

COCHIN, India (6)

A13(3/5) Growth Failures: The Bottom Billion

A14(3/13) Growth: using labor markets to foster labor mobility

A15(3/16) Growth: investing in health and education

PORT LOUIS , Mauritius

A16(3/19) Growth: the financial system and forced saving

A17(3/22) **South Africa**

CAPE TOWN, South Africa (6)

A18(3/24) Growth: the financial system and industrial policy

A19(4/1) Growth: attracting/regulating foreign investment

A20(4/4) **Ghana**

ACCRA, Ghana (4)

A21(4/11) Sustainable Growth: regulating environmental pollution

A22(4/14) Personal growth: Creating your own final exam

A23(4/17) Final exam

CASABLANA, Morocco (2)

BARCELONA, Spain – We're homeward bound.

V. Essay Topics for Spring 2013

Essay 1: Why Did Japan Industrialize 100 Years Earlier than China?

Japanese modernization is usually traced to the Meiji Restoration (1868). Within forty years, Japan had defeated Russia and was courted as a WWI ally. China, meanwhile, went through a century of economic stagnation and political collapse. What explains this contrast? Cite our readings, but don't rehash them. Write your own, cogent, well-organized, factual essay. Be sure to present specific facts about Japan and China that shape a causal story about Japan's early growth.

Essay II: How does China's Post-WWII Growth Compare with Vietnam, Hong Kong and Singapore?

When did each of these countries experience growth acceleration? What set of ideas best explains the timing we observe here? What can we conclude about the linkages between culture, size, government policy, and foreign trade on the one hand, and economic growth on the other?

Essay III: Does Democracy Help or Hinder Economic Growth?

Using the Indian and Chinese cases, make the strongest possible argument supporting the proposition that democratic political institutions get in the way of rapid growth. Now turn around and argue the opposite. Which argument do you think is strongest? Why?

Essay IV. The Bottom Billion: Why Africa Seems Stuck.

Using Collier's book, list the main explanations for the weak growth performance of most African countries. Now summarize the growth experience in South Africa and in Ghana since 1980. Are these countries "stuck"? If not, why not? If so, what parts of Collier's argument seem most relevant to their experience?