

# China's Reform and Opening-up

Course Code: EMAE630005      Number of Credits: 2

## I. Instructor Information

Name: Yan Zhang, Associate Professor

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Shanghai, 200433 China

Lecture Time: Monday, 13:30-16:10 (Week 1-11, March 9<sup>th</sup>-May 18<sup>th</sup>)

Lecture Location: 6304

Office Hours: Wednesday, 15:00-16:00

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## **Important Notice:**

**No Class** on March 23<sup>rd</sup>(Week 3) and April 6<sup>th</sup>(Week 5)

**Deadline** for Group Presentation Information: March 30<sup>th</sup>(Week 4)

for Group Presentation PowerPoint Slide and Review: 3 days after pre.

**Deadline** for Response Paper: April 27<sup>th</sup>(Week 8)

**Deadline** for Final Paper: May 25<sup>th</sup> (Week 12)

## II. Course Description

China's post-Maoist economy has gained rapid growth since 1978 when it embarked on economic reforms and opening up policies initiated by Mr. Deng Xiao-ping. As a major participant in the world economy due to its size, dynamic growth, and continuing reform policies, China's economic future is important to investors, households, and governments. This course tries to give some explanations to so-called China's Miracle, and more importantly, to discuss current top issues and directions of future opening-up and reform.

- What are the incentive effects on workers, firms, and local governments of China's opening-up and economic reforms since 1978? What are their negative effects? Will they work in the near future?
- What are the economic, social, and political foundations of China's miracle? How will they influence China's next reforms?
- Will China avoid the middle-income trap? How will globalization influence China's reforms? What are the most important reforms in the next 5 to 10 years?

### Course Content:

This course contains three parts. The first part outlines the economic, political and social foundations for China's miracle. The second part turn to special issues on Chinese economy, comparing them with developed economies, discussing their origins and difficulties, and reviewing top solutions. To conclude, the last part discusses some feasible strategies for China at a crossroad. While evaluating China's future reform and opening-up strategies, it will also conclude the economic progresses as well as the big challenges to China's sustainable developments in a broader view.

### ***III. Course Objectives***

Students should understand the political and economic logic of China's reform and opening-up since 1978. Ongoing reforms should also be known. Students should be familiar with at least 2 areas in China's reform agenda.

### ***IV. Course Materials***

There is no required textbook. Reading materials are selected from top economics journals. Reading lists could be downloaded from EMA website:


<http://www.econ.fudan.edu.cn/ema/index.php>. Readings and lecture slides for 2015 spring are stored in “pan.baidu.com” with account ID [emacourse@163.com](mailto:emacourse@163.com) and password chineseconomy. **Revised password will be announced at class.**

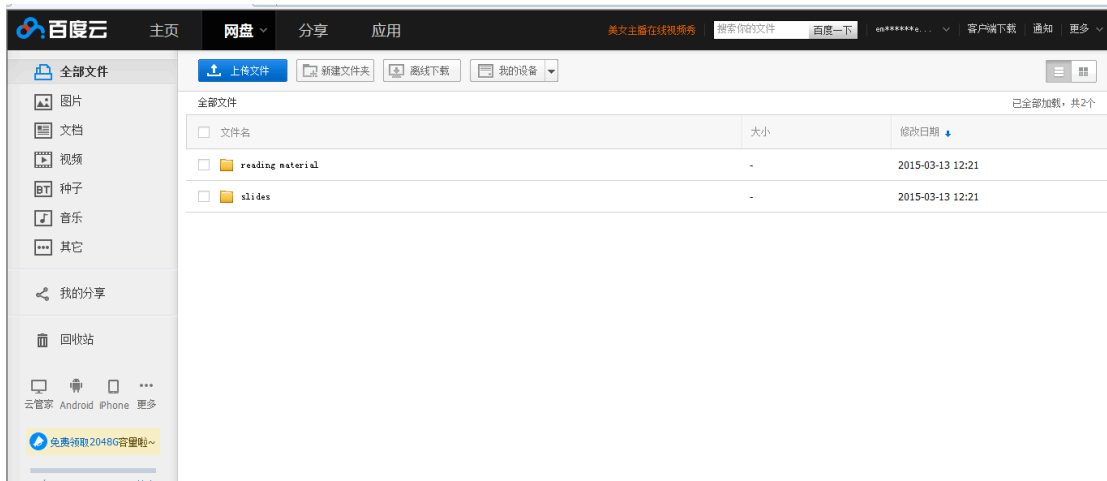
Access to the Online Storage includes Two Steps as follows:

Step 1: Entering “pan.baidu.com” in the address bar, and you will see the following the hint on the right.



The image shows a screenshot of the Baidu login page. At the top, it says "登录百度帐号" (Login Baidu Account). Below this are two input fields: "手机/邮箱/用户名" (Mobile/Email/Username) and "密码" (Password). Both fields are highlighted with red boxes. Red arrows point from these boxes to the text "first blank" and "second blank" respectively. Below the input fields are checkboxes for "下次自动登录" (Remember me) and a link for "忘记密码?" (Forgot password?). A large blue button labeled "登录" (Login) is positioned below the checkboxes. Underneath the login button, it says "可以使用以下方式登录" (You can use the following ways to login) and shows icons for Weibo, QQ, and WeChat. At the bottom, there is a link for "没有百度帐号?" (No Baidu account?) and a button for "立即注册百度帐号" (Register Baidu account immediately).

Step 2: Fill in the first blank with ID “emacourse@163.com”, the second blank with Password “chineseconomy”, then click the  button, and you will see



There are temporarily two files, namely File “slides” and “reading material”. Instructor’s slides in class will be updated in the File “slides”, and relevant articles will be updated in the File “reading material”.

#### Recommended References:

Lu, Ming, Zhao Chen, Yongqin Wang, Yan Zhang, Yuan Zhang, and Changyuan Luo, *China’s Economic Development: Institutions, Growth and Imbalances*. Edward Elgar Publishing Limited, 2013.

### V. Course Delivery

#### Reading:

Students are required to read weekly one of the assigned articles. All the readings are in English.

#### Response Paper:

Students are required to write a five-page, single-spaced response paper on their opinions about Chinese economy for the assigned papers (**due on the 8<sup>th</sup> week, April 27<sup>th</sup>**). Suggested hot topics include (but not limit to) leftover children, local election, SOE monopoly, local debts, private lending, China and the world, FDI in China, and etc.

#### Group Presentation:

Students are required to assemble groups to present assigned readings using slides. Each group is free to choose one paper with asterisks (\*\*\*) to present among the papers on the reading list. Each group would include around 4 students. Cooperation and division among group members are encouraged. The records would be given based on their relative performance during the 30-minute presentation. Students are also required to well prepare to comment and raise questions in the seminar session of this course.

Group and paper information should be sent to TA before **the 4<sup>th</sup> week, March 30<sup>th</sup>**. If two or more groups choose the same paper, the early bird gets it. Presentation

arrangement will be announced at class on the 4<sup>th</sup> week.

Each group should also submit **the PowerPoint slides** and **one-page review** of the paper and presentation in the next 3 days.

#### Final Paper:

There will be a course paper in the end of the course. It should be an academic paper with flexible topics and specific questions. Although the minimum requirements are still five-page, single-spaced, most former students have submitted longer papers.

Final paper is **due on the 12<sup>th</sup> week, May 25<sup>th</sup>**.

#### Notes on Readings and Presentation:

There is no formal prerequisite for this course, and there are no technical tools used in the instruction of this course, while microeconomics would help to understand this course better.

It might be too heavy for you to read all assigned papers. And it is also too heavy to know all the details, especially the econometric methods. The point is, the idea of the papers and the main findings. It is designed for you to

- Choose one of the papers to read each week;
- Just pay attention to key events that have changed China, and their influence to China's development and future reforms;
- Do not involve yourself in mathematic details. Try to understand their outcomes, findings, and implications for China's sustainable growth.
- For historical reform details, it is up to your interest, while certainly more understanding of such details would help you to understand China's reforms better.

#### ***VI. Assessment***

Students enrolled in this course should take part in the class, discuss problems with group members and teachers, and finish one presentation, one response paper and one final paper.

Grades will be determined on the following policy:

A = 90-100 points	A- = 85-89 points	B+ = 82-84 points
B = 78-81 points	B- = 75-77 points	C+ = 72-74 points
C = 68-71 points	C- = 64-67 points	D = 60-63 points
F = below 60 points		

Discussion:	15%
Group Presentation:	20%
Response Paper:	15%
Final Paper:	50%

## VII. Course Schedule

### **Part I. China's Miracle: The Economic, Political and Social foundations**

#### **Week 1 (03/09): Introduction: Chinese Economy and Reform Strategies**

1. L. Brandt, D. Ma, T. Rawski, 2014, "From Divergence to Convergence: Re-evaluating the History Behind China's Recent Boom", *Journal of Economic Literature*, Vol. 52 Issue 1, 45-123. (\*\*\*)
2. X. Zhu, 2012, "Understanding China's growth: Past, Present and Future (Digest Summary)", *Journal of Economic Perspectives*, Vol. 26 Issue 4, 113-124.
3. J. Felipe, U. Kumar, N. Usui, A. Abdon, 2013, "Why has China succeeded? And why it will continue to do so", *Cambridge Journal of Economics*, Vol. 37 Issue 4, 791-818.
4. L. Lawrence, Y. Qian, and G. Roland, 2000, "Reform without Losers: An Interpretation of China's Dual-Track Approach to Transition", *Journal of Political Economy*, Vol.108 Issue 1, 120-143.
5. H. Li, M. Rosenzweig, and J. Zhang, 2010, "Altruism, Favoritism, and Guilt in the Allocation of Family Resources: Sophie's Choice in Mao's Mass Send-Down Movement", *Journal of Political Economy*, Feb, Vol. 118 Issue 1, 1-38.
6. J. Fidrmuc, S. Huang, 2013, "Whither China? Reform and economic integration among Chinese regions", *SSRN Working Paper*.
7. E. Nakamura, J. Steinsson, M. Liu, 2014, "Are Chinese Growth and Inflation Too Smooth? Evidence from Engel Curves", *NBER Working Paper*.

#### **Week 2 (03/16): Growth Driving Forces: Decentralization and Political Incentives**

1. C. Herrmann-Pillath, A. Libman, X. Yu, 2014, "Economic integration in China: Politics and culture", *Journal of Comparative Economics*, Vol. 42 Issue 2,470-492. (\*\*\*)
2. K.S. Chan, X. Xu, Y. Gao , 2014, "The China growth miracle: The role of the formal and the informal institutions", *The World Economy*, Vol.38 Issue 1,63-92.
3. P. Petra and E. Zhuravskaya, 2011, "Elite Capture in the Absence of Democracy: Evidence from Backgrounds of Chinese Provincial Leaders", *SSRN working paper*.
4. H. Li, L. Zhou, 2005, "Political turnover and economic performance: the incentive role of personnel control in China", *Journal of Public Economics*, 89, 1743-1762.
5. G. Avner and G. Tabellini, 2010, "Cultural and Institutional Bifurcation: China and Europe Compared", *The American Economic Review*, Vol. 100 No. 2, 135-140.

**(No class on March 23<sup>rd</sup>, Week 3)**

## **Part II. Challenges for China's Economic Reform and Opening-up:**

### **Special Issues**

#### **Week 4 (03/30): C1--Local Debts, Land Finance, and Central-Local Relationship**

**Q: Why local govt. has so large debts? Are they different from the State's local crisis? What influences will they have? How to figure out the crisis? What are the next fiscal and tax reforms?**

1. W. Yi, J. Wu, 2014, "Withstanding Great Recessions like China", *Federal Reserve Banks of St. Louis Working Paper Series*, 2004-007A.
2. X. Feng, 2014, "Local government debt and municipal bonds in China: Problems and a framework of Rules", *The Copenhagen Journal of Asian Studies*, Vol. 31 Issue 2, 23-53. (\*\*\*)
3. W. Yi, 2011, "State Misallocation and Housing Prices: Theory and Evidence from China", *American Economic Review*, Vol.108 Issue 1, 120-143.
4. T. Ran, 2010, "Land Leasing and Local Public Finance in China's Regional Development: Evidence from Prefecture-level Cities", *Urban Studies*, 47, 2217-2236.
5. J. Chen, F. Guo, Y. Wu, 2011, "One decade of urban housing reform in China: urban housing price dynamics and the role of migration and urbanization, 1995-2005", *Habitat International*, Vol. 35 Issue 1,1-8.

**(No class on April 6<sup>th</sup>, Week 5)**

#### **Week 6 (04/13): C2—Urbanization, Industrialization, and Investment Driving Force**

**Q: What are different of urbanization in China from other developed countries? Will government driving and investment driving resolve everything? How will urbanization influence other factors?**

1. C. Long, X. Zhang, 2011, "Cluster-based industrialization in China: Financing and performance", *Journal of International Economics*, Vol.84 Issue 1,112-123.
2. A. Ebenstein, 2012, "The consequences of industrialization: evidence from water pollution and digestive cancers in China", *Review of Economics and Statistics*, 84, 186-201.
3. E.L. Glaeser, 2013, "A World of Cities: The Causes and Consequences of Urbanization in Poorer Countries", *NBER Working Paper* No. 19745.
4. X. Deng, J. Huang, S. Rozelle, E. Uchida, 2008, "Growth, population and industrialization, and urban land expansion of China", *Journal of Urban Economics*, Volume 63, Issue 1, 96-115. (\*\*\*)
5. G. Han, W. Zhang, 2014, "How have Labour Market Developments Affected Labour Costs in China?", *The World Economy*, 1-22.

6. RJR. Elliott, P. Sun, T. Zhu, "Urbanization and Energy Intensity: A Province-level Study for China", *Birmingham University, Department of Economics Discussion Paper* 14-05.

**Week 7 (04/20): C3—Private Enterprises, Financial Constraints, and Marketization (Privatization)**

**Q: How is privatization and SOE development in China? What are the constraints of private capital? How will they influence China's marketization and sustainable growth?**

1. J. Zhang, L. Wang, S. Wang, 2012, "Financial development and economic growth: Recent evidence from China", *Journal of Comparative Economics*, 40(3), 393-412.
2. K. Li, T. Wang, Y. Cheung, 2011, "Privatization and risk sharing: Evidence from the split share structure reform in China", *Review of Financial Studies*, Vol. 24 Issue 7, 2499-2525. (\*\*\*)
3. C. Bai, J. Lu, Z. Tao, 2006, "The Multitask Theory of State Enterprise Reform: Empirical Evidence from China", *American Economic Review*, 96(2), 353-357.
4. C.W. Calomiris, R. Fisman, Y. Wang, 2010, "Profiting from government stakes in a command economy: Evidence from Chinese asset sales", *Journal of Financial Economics*, Volume 96, Issue 3, 399 - 412.
5. K.S. Chan, Vinh Q.T. Dang, Isabel K.M. Yan, 2012, "Financial Reform and Financing Constraints: Some Evidence from Listed Chinese Firms", *China Economic Review*, 23(2), 482-497.

**Week 8 (04/27): C4--Regional Partition, Urban-rural Partition, and Inequality in China (Response paper due on this week)**

**Q: What are the main factors of China's inter-regional and urban-rural disparity? Is there any possibility to equalization? Are policies like west-exploring or education equalization successful? How will inequality influence China's future growth?**

1. C. Li, J. Gibson, 2013, "Rising regional inequality in China: Fact or artifact?" *World Development*, Vol.47, 16-29. [用常住人口数据发现更小的不平等]
2. C. Lessmann, 2013, "Foreign direct investment and regional inequality: a panel data analysis", *China Economic Review*, Vol.24, 129-149. (\*\*\*)
3. J.J. Heckman, J. Yi, 2012, "Human capital, economic growth, and inequality in China", *NBER Working Paper* No.5650. [简短, 描述]
4. Ravier R. Joanna T.z, and Jacek K.z, 2010, "Intra-provincial inequalities and economic growth in China," *Economic Systems*, vol. 34(3), pages 237-258.

5. J. Knight, 2013, "Inequality in China: an overview", The World Bank Research Observer Advance Access.

### **Part III. Feasible Systems and Feasible Strategies for China's Sustainable Developments: Economic Reform and Opening-up in the Next Decade**

#### **Week 9 (05/04): Reconstruct the Central-local Relationship: Economic and Political Bases**

##### **Q: How to encourage and governance local governments? Will there be large movements of democracy in China? What are the next reforms?**

1. Junxue Jia, Qingwang Guo, and Jing Zhang, 2014, "Fiscal Decentralization and Local Expenditure Policy in China", *China Economic Review*, 28(C), 107-122. (\*\*\*)
2. Jing Zhang, Li Gan, Lixin Colin Xu, and Yang Yao, 2014, "Health Shocks, Village Elections, and Household Income: Evidence from Rural China." *China Economic Review*, 30(C), 155-168.
3. M.M. Bravo, N. Qian, Y. Yao, 2012, "The Effects of Democratization on Public Goods and Redistribution: Evidence from China", *NBER Working Paper* No. 18101.
4. S. Fan, L. Li, X. Zhang, 2012, "Challenges of creating cities in China: Lessons from a short-lived county-to-city upgrading policy", *Journal of Comparative Economics*, Volume 40, Issue 3, 476-491.
5. A. Wu, W. Wang, 2013, "Determinants of Expenditure Decentralization: Evidence from China", *World Development*, Vol. 46,176-184.
6. G. King, J. Pan, M.E. Roberts, 2013, "How censorship in China allows government criticism but silences collective expression", *American Political Science*, Vol. 107 Issue 2, 326-343.

#### **Week 10 (05/11): Market, Government, and Public Services Provision in China**

##### **Q: How to decrease the power of different levels of governments and bureaucrats in China? Will China be Market-orientated or government-dependent? Will public service reform lead on other political and economic reforms?**

1. S. Bartolini, F Sarracino, 2014, "The dark side of Chinese growth: Explaining decreasing well-being in times of economic boom", MPRA Paper.
2. HL. Wong, R. Luo, L. Zhang, S Rozelle, 2013, "Providing quality infrastructure in rural villages: The case of rural roads in China", *Journal of Development Economics*, Vol. 103, 262-274.
3. J. Zhang, 2012, "The Impact of Water Quality on Health: Evidence from the Drinking Water



Infrastructure Program in Rural China,” *Journal of Health Economics*, Vol. 31 Issue 1, 122-134.

4. Eggleston, Karen, Mingshan Lu, Congdong Li, Jian Wang, Zhe Yang, Jing Zhang, and Hude Quan, 2011, “Comparing Public and Private Hospitals in China: Evidence from Guangdong,” *BMC Health Services Research*, 10(3), 10-76.
5. H. Zhang, 2013, “The Mirage of Elite Schools: Evidence from Lottery-based School Admissions in China”, *Chinese University of Hong Kong working paper*. (\*\*\*)

### **Week 11 (05/18): China and the World: Opening-door Policies and Globalization**

#### **Q: How will international economic recession influence China’s reforms?**

**How will China replace foreign demand for its goods with domestic markets? Will China catch up in 2020? If yes, what will be the necessary conditions?**

1. P. Deng, 2012, “The Internationalization of Chinese Firms: A Critical Review and Future Research”, *International Journal of Management Reviews*, Vol.14, 408-427. (\*\*\*)
2. P. Ouyang, S. Fu, 2012, “Economic growth, local industrial development and inter-regional spillovers from foreign direct investment: Evidence from China”, *China Economic Review*, Vol.23 Issue 2, 445-460.
3. C. Piyush, C. Long, 2013, “VAT rebates and export performance in China: Firm-level evidence”, *Journal of Public Economics*, Volume 102, 13-22.
4. S. Yao, P. Wang, 2014, “Has China displaced the outward investments of OECD countries?” *China Economic Review*, Vol. 28, 55-71.
5. B. Eichengreen, D. Park, K. Shin, 2012, “When Fast-Growing Economies Slow Down: International Evidence and Implications for China”, *Asian Economic Papers*, Vol. 11 Issue 1, 42-87.

### **Week 12 (05/25): Final Paper due on this Week**

#### **VIII. For Your Interest: Other References for the 2014 spring course**

1. C. Xu, 2011, “The Fundamental Institutions of China’s Reforms and Development”, *Journal of Economic Literature*, Vol.49 Issue 4, 1076-1151.
2. Z Song, K Storesletten, F Zilibotti, 2011, “Growing like China”, *The American Economic Review*, 196-233.
3. Prasad, Eswar S. and Raghuram G. Rajan, 2006, “Modernizing China's Growth Paradigm”, *The American Economic Review*, Vol. 96, No. 2, 331-336.
4. J. Zheng, A. Bigsten, A. Hu, 2009, “Can China’s Growth be Sustained? A Productivity Perspective”, *World Development*, Volume 37, Issue 4, April 2009, Pages 874-888.
5. Blanchard, Oliver and Andrei Shleifer, 2001, “Federalism with and without Political Centralization: China versus Russia”, *IMF Staff Papers*, 48, 171-179.

6. Caldeira, Emilie, 2012, "Yardstick competition in a federation: Theory and evidence from China", *China Economic Review*, 23(4), 878-897.
7. B. Qiao, J.M. Vazquez and Y. Xu, 2008, "The tradeoff between growth and equity in decentralization policy: China's experience", *Journal of Development Economics*, Volume 86, Issue 1, Pages 112-128.
8. G. Siciliano, 2012, "Urbanization strategies, rural development and land use changes in China: A multiple-level integrated assessment", *Land Use Policy*, Vol. 29 Issue 1, 165-178.
9. BC O'Neill, X Ren, L Jiang, M Dalton, 2012, The effect of urbanization on energy use in India and China in the iPETS model, *Energy Economics*, Vol. 34, 339-345.
10. L. Cheryl and X. Zhang, 2011, "Patterns of China's industrialization: Concentration, specialization, and clustering", *China Economic Review*, Vol.23 Issue 3, 593-612.
11. B. Elisa, M. Tommaso, S. Bonnini, 2011, "Industrial development policies and performances in Southern China: Beyond the specialised industrial cluster", *China Economic Review*, Vol 23 Issue 3, 613-625.
12. A Banerjee, E Duflo, N Qian, 2012, "On the road: Access to transportation infrastructure and economic growth in China", NBER Working Paper.
13. Li, Wei, 1997, "The impact of economic reform on the performance of Chinese state enterprises, 1980-1989", *Journal of Political Economy*, 105, 1080-1106.
14. Bai, Chong-En, Jiangyong Lu, Zhigang Tao, 2009, "How does privatization work in China?" *Journal of Comparative Economics*, Volume 37, Issue 3, 453-470.
15. Yao, Shujie and Zongyi Zhang, 2001, "On Regional Inequality and Diverging Clubs: A Case Study of Contemporary China," *Journal of Comparative Economics*, 29, 466-484.
16. Ravier-Rymaszewska, Joanna, Joanna Tyrowicz, and Jacek Kochanowicz, 2010, "Intra-provincial inequalities and economic growth in China," *Economic Systems*, vol. 34(3), pages 237-258.
17. Zhang, Xiaobo and Ravi Kanbur, 2005, "Spatial inequality in education and health care in China", *China Economic Review*, Volume 16, Issue 2, 2005, Pages 189-204.
18. Yang, Dennis Tao, 1999. "Urban-biased policies and rising income inequality in China", *American Economic Review*, 89 (2), 306-310.
19. Meng, Xin, Robert Gregory and Youjuan Wang, 2005, "Poverty, inequality, and growth in urban China, 1986-2000", *Journal of Comparative Economics*, Volume 33, Issue 4, December, Pages 710-729.
20. B. Qiao, J.M. Vazquez and Y. Xu, 2008, "The tradeoff between growth and equity in decentralization policy: China's experience", *Journal of Development Economics*, Volume 86, Issue 1, Pages 112-128.
21. Park, Albert and M inggao Shen, 2008, "Refinancing and decentralization: Evidence from China", *Journal of Economic Behavior & Organization*, Volume 66, Issues 3-4, 703-730.
22. D. Acemoglu, J.A. Robinson, 2001, "A Theory of Political Transitions", *The American Economic Review*, Vol. 91, No. 4, 938-963.

23. C.E. Bai, Y. Qian, 2010, "Infrastructure development in China: The cases of electricity, highways, and railways", *Journal of Comparative Economics*, Volume 38, Issue 1, Pages 34-51.
24. A. Banerjee, E. Duflo, and N. Qian, 2012, "On the Road: Access to Transportation Infrastructure and Economic Growth in China," *NBER Working Paper* No. 17897.
25. Holz, Carsten A, 2008, "China's Economic Growth 1978–2025: What We Know Today About China's Economic Growth Tomorrow", *World Development*, Volume 36 Issue 10, 1665-1691.
26. W. Yong, 2013, "Fiscal decentralization, endogenous policies, and foreign direct investment: Theory and evidence from China and India", *Journal of Development Economics*, Volume 103, 107-123.
27. R. Dani, 2010, "Making Room for China in the World Economy", *American Economic Review*, Vol. 100 Issue 2, 89-93.