

**George Washington University  
Economics Department, Elliott School**

**Econ 269 Sec 10: China's Economy**

2020 K St. 25; 6:10-8:00 PM  
Spring 2007, William Brown

**Objectives:** This course is designed to give the student an overview of the problems and opportunities that face the contemporary Chinese economy. Emphasis will be on the last steps China needs to take in its long transition from a socialist to a market led economy. Issues in this transition will be discussed, the geography and national characteristics of China will be touched upon, and the future outlook addressed. The student will learn to use basic microeconomic and macroeconomic techniques to analyze China's goods, labor and capital markets. China's experience will serve as a platform from which to observe and better understand economic growth theory, financial market issues, and international trade and investment issues. Implications of China's emergence as a market economy for the East Asian region and for the United States will be addressed.

**Requirements:** This is a reading (1-2 hours every day) and thinking intensive class. Students will be expected to spend considerable time comparing texts and supplemental articles that offer sometimes differing views of China's economy. Additionally, students will be expected to keep up with current developments in the Chinese economy. Each class will begin with an intensive discussion of one of the assigned readings for that class, with extensive student participation expected. Students should engage themselves in discussions using the "blackboard system".

**Evaluations:** The final exam will be a comprehensive in-class exam that will comprise 50% of the student's final grade. Also, students will be evaluated upon a mid-term quiz (20%), homework assignments and briefs (15%), and in-class and "blackboard" participation (15%).

**Instructor:** William B. Brown is Senior Research Fellow for East Asia in the National Intelligence Council, Office of the Director of National Intelligence. He is retired from positions in the Chief Economist's Office of the US Commerce Department and from the CIA where he covered economic issues related to China, Japan and the two Koreas. Mr. Brown was raised in East Asia, spending many years in Japan and in South Korea and has traveled extensively in China. He also worked as a senior analyst in the US Embassy in Seoul, Korea and in Hong Kong. Before joining the GW adjunct faculty, Mr. Brown taught Asian economics in George Mason University's graduate School of Public Policy. He received his M.A. in economics and most PhD coursework from Washington University in St. Louis and his B.A. in International Studies from Rhodes College in Memphis, TN.

## Required Texts

1. Barry **Naughton** *Chinese Economy – Transitions and Growth* ISBN 0262640643 [This new book is being released in paperback January 28 and is on order at the Bookstore. Hardback versions are scarce but may be found for \$61.00 on Amazon] \$24.00
2. Yi-Min **Lin**, Mark Granovetter *Between Politics and Markets: Firms, Competition, and Institutional Change in Post-Mao China*, ISBN 0521604044, \$25.99
3. Andrew Hall **Wedeman** *From Mao to Market: Rent-Seeking, Local Protection, and Marketization in China* 0521809606 \$65.00
4. Elizabeth **Economy** *The River Runs Black* ISBN 0801489784 \$17.95
5. **Donald, Benewick** *The State of China Atlas: Mapping the World's Fastest Growing Economy* ISBN 0520246276 \$19.95
6. Dwight **Perkins**, Kaoru Nabeshima, *Under New Ownership: Privatizing China's State-Owned Enterprises* World Bank ISBN: 0821356240 \$19.95
7. *Reforming China, Vol. 4* The Institute of World Economy Politics, Chinese Academy of Social Sciences, ISBN: 981210383X, Price: \$22.00

## Reserve Texts in Main Library

1. Francis **Fukuyama**, *Trust and the Creation of Social Capital*, Free Press, 1995
2. Ronald **McKinnon**, *Exchange Rates Under the East Asia Dollar Standard*, MIT 2005  
HG3976.5 .M35 2005
3. **Yao Shujie**, Liu Xiaming, *Sustaining China's Economic Growth in the Twenty-First Century* Routledge Curzon, 2003
4. Nicholas **Lardy**, *Integrating China into the Global Economy*, Brookings 2002  
HF1604 .L373 2002, "E Book"

## Links

Bloomberg China <http://www.bloomberg.com/news/regions/china.html>  
IMF Country Page <http://www.imf.org/external/country/CHN/index.htm>  
Economist Magazine <http://www.economist.com/countries/China/>  
National Statistics Bureau <http://www.stats.gov.cn/english/newsandcomingevents/index.htm>  
People's Bank of China <http://www.pbc.gov.cn/english/>  
OECD [http://www.oecd.org/document/21/0,2340,en\\_2649\\_201185\\_35331797\\_1\\_1\\_1\\_1\\_00.html#obtain\\_publication](http://www.oecd.org/document/21/0,2340,en_2649_201185_35331797_1_1_1_1_00.html#obtain_publication)

# ECON 269: ECONOMY OF CHINA

Spring 2007, William Brown

## **Class 1: Wednesday, January 17<sup>th</sup>, 2006: Introductions (1)**

- Class Introduction
- Course Introduction
- China Introduction
  - geography
  - special characteristics
  - natural resources
  - human resources

*Assignment for this class:*

- Naughton pp. 17-31 (If available)
- If you have little background on China, even if you do, please browse and study the following geography, cartographic, and general data web pages:

<http://depts.washington.edu/chinaciv/index.htm>

[http://www.askasia.org/teachers/Instructional\\_Resources/Materials/Readings/China/R\\_china\\_10.htm](http://www.askasia.org/teachers/Instructional_Resources/Materials/Readings/China/R_china_10.htm)

<http://geography.about.com/gi/dynamic/offsite.htm?site=http://www.infoplease.com/ipa/A0107411.html>

<http://geography.about.com/library/maps/blchina.htm>

## **Class 2: January 24, Introductions (2) Current Economic Conditions**

- Data Sources—Chinese conventions
- Using current indicators—government and market indicators
- Demographic trends/sources
- GDP Jan. 28<sup>th</sup>. (practice April 28<sup>th</sup>)

*Assignment for this class:*

Begin gaining familiarity with Chinese data and current economic conditions by reading, browsing, studying the following: World Bank Quarterly Update, Nov. 2006 blackboard “BB Files”; IMF indicators “BB Files”; Browse IMF 2005 Report “BB Files”; Read Naughton <http://www.chinaleadershipmonitor.org/16/bn.html>; Study Comparative *World Development Indicators* spreadsheet on blackboard, “Files” ; Study China data in the *Economist Magazine*’s last page, handouts; Browse *China Atlas*, learn key data; <http://www.imf.org/external/pubs/cat/longres.cfm?sk=18709.0> pp.1- 38; Browse Peoples Bank of China <http://www.stats.gov.cn/english/> and China National Statistics Bureau <http://www.stats.gov.cn/english/newsandcomeingevents/index.htm> ; Study China’s relative position versus other countries with key data, CIA World Factbook <https://www.cia.gov/cia/publications/factbook/>

**Class 3: January 31, History (1): Economic History**

- Feudalism
- Socialist “command economy”
- Transition “market socialism”
- WTO Entry, “harmonious” world player

*Assignment* for this class:

Read GDP IV Q 2006 Press release, Jan 28 on NSB website.  
Naughton pp. 33-82, Lin 1-23; Wedeman 1-37; Lardy (“E Book”) pp. 1-28; Economy  
pp. 27-60. Browse Chinese History outline <http://asterius.com/china/> .

**Class 4: February 7, History (2) Transition, Transition, Transition**

- Deng Xiao Ping’s Revolution—crossing the river, feeling for the stones
  - Farmers markets—Problem for the future?
  - De-collectivization, property rights—corruption?
  - Labor markets—stability threatened?
- WTO Transition—Capital and property markets
  - Property rights, risks, returns
  - Asian banking problems
  - WTO process
  - Capitalism?

*Assignment:* Naughton pp. 85-110; 251-292.; Lin 24-63; Lardy ( R) pp. 29-62;  
Wedeman 38-92, Perkins TBD.

**Class 5: February 14, Economic Growth (1): Measuring Growth**

- Problems of measurement
  - Old socialist system accounting
  - Valuation issues
  - Regional disparity
- Conversion to US dollars, Exchange rate issues (PPP rate, Market rate, etc.)

*Assignment:* Naughton pp. 139-158, 209-226; Can Wang  
[http://www.networkideas.org/news/oct2003/news15\\_Inequality\\_China.htm](http://www.networkideas.org/news/oct2003/news15_Inequality_China.htm) ; IMF pp. 53-58

**Class 6: February 21, Economic Growth (2): Driving, Predicting Growth**

- Growth equations
- Consumption, Savings and Investment, Risk/Reward equation
  - Domestic Savings—Japan Model?
  - Foreign Investment—Latin Model?
  - Link to Balance of Payments
- Efficiency of inputs, Technology
- Energy and growth
- Exports and growth

*Assignment for this class:* Yao Shu Jie (R); Aziz, *Rebalancing China's Economy: What Does Growth Theory Tell Us*, IMF Working Paper, December 2006, BB Files

**Class 7: February 28, Economic Factors (1): Labor Markets and Demographics**

- Trends—Census data
- Old age future?
- Rural to Urban migration?
- Human capital, wage, education issues

*Assignment for this class:* Naughton 161-206;  
*Tao Ran Article* [http://www.iwep.org.cn/wec/2004\\_1-2/taoran.pdf](http://www.iwep.org.cn/wec/2004_1-2/taoran.pdf)

*Demographic assignment: from US Census* <http://www.census.gov/ipc/www/idbnew.html>

**Class 8: March 7, Economic Factors (2): Capital Markets and Creating Companies**

- Organizing for production—state owned, private, or foreign?
- Competition—monopoly, oligopoly, market, which wins in China?

*Assignment for this class:* IMF “What is Driving Investment in China” BB FILES; F. Fukuyama (R), *Trust: The Social Virtues and the Creation of Prosperity*, pp. 61-95; Naughton pp. 297-326; Lin 67-97; Perkins TBD

Practice for April 12 assignment. Download US-China trade data release.  
<http://www.economicindicators.gov/> international trade in goods and services, exhibit 14.

**Spring Break March 14**

**Class 9 March 21**

**A. Mid-Term Quiz;**

**B. Financial Markets:**

- The [bad] Banks Issue
- Direct Markets, Stocks and Bonds

*Assignment for this class:* Naughton pp. 428-478

### **Class 10 March 28, External Economic Relations (1)**

- Savings and Investment Balance
- Balance of Payments
- Current Account
- Capital Account
- Exchange Rate Issue

*Assignment for this class:*

Naughton pp. 377-422; McKinnon pp. 1-51; IMF Leigh et. Al. *What is Driving Bank Investment*, BB Files

Project: Exchange rate calculation.

### **Class 11 April 4, External Economic Relations (2)**

Exports by Partner and Commodity  
Imports by Partner and Commodity  
WTO Issues  
US Issues

*Assignment for this class:*

OECD paper, Nov. 2006 “BB Files”  
Study handouts from *World Trade Atlas*. Wedeman pp. 83-229;

### **Class 12 April 11, Public Policy (1) Government and the Economy**

- Central versus provincial versus local governments
- Creating Standards?
- Protecting Private Property?
- Public corruption of private good, or private corruption of public goods?

*Assignment for this class:*

Lin 151-196; Economy 91-128

### **Class 13 April 18, Public Policy (2) Environment and Energy Issues**

*Assignment for this class:*

Economy, pp. 128-274; OECD China Environment paper “BB Files”

Download US Trade Data, April 12 release, US Department of Commerce, and draft one page newspaper style article on US-Chinese trade developments.

<http://www.economicindicators.gov/> International trade in goods and services, exhibit 14.

**Class 14: April 28 Economic Integration**

- Internally
- With Hong Kong
- With Taiwan
- With Rest of World

**Class Discussion: Prospects for China**

- Instability
- Forever in transition
- Modern markets, powerful state
- Modern markets, weak state

Assignments: Wedeman pp. 230-257; "Dancing with the Enemy"

[http://www.economist.com/displayStory.cfm?story\\_id=3535207](http://www.economist.com/displayStory.cfm?story_id=3535207) ; Cheung et. al. "*China, Hong Kong, and Taiwan: A Quantitative Assessment of Real and Financial Integration*"

<http://ideas.repec.org/p/ces/ceswps/851.html> ; Alternate view:

<http://michaelturton.blogspot.com/2005/11/china-taiwan-economic-integration.html>

IMF Hong Kong Assessment "FILES"

**Study Week May 2**

**Office Hours**

**Wednesday May 9**

**FINAL EXAM**