

# China and the Global Economy

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CGU SPE 297

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This seminar traces the economic and financial reforms that have unleashed the Chinese economy and led to its growing importance for the global economy. We will analyze the challenges facing China's domestic economy and financial system and global implications such as the debates about China's exchange rate policy and global imbalances, Asian regional integration issues, and concerns about China's growing economic and financial power. We will also discuss the policy issues for both China and the international community raised by the currency global financial crisis.

The major book for the seminar will be Barry Naughton's *The Chinese Economy*. Two additional books have also been ordered for Huntley (Huang's *Capitalism with Chinese Characteristics: Entrepreneurship and the State* and Navarro's *The Coming China Wars: Where They Will Be Fought and How They Can be Won*.) A number of additional articles and sections of books will be assigned and several China experts will give guest lectures.

All required reading except for these books will be available on ERes from the library. The password for the class is IMF.

The written work for the course will be a mid term, a final, a term paper, and two or more short pre-term papers that will outline the proposal term paper and critique material relevant for the term paper.

This is a new class and the full reading list is still under construction. The readings for the first three classes are given below followed by a list of additional topics and material.

Required readings are starred \*.

## I. Overview of Perspectives on the Rise of China and its Implications for the US and Global System

Naughton, Introduction

The perspectives to be reviewed include those from the following recent books. Notes on some of these books will be put on ERes. Those currently available are marked with an (N).

C. Fred Bergsten et al. *China's Rise: Challenges and Opportunities*. Petersen Institute for International Economics, 2008.

(N) Zbigniew Brzezinski and Brent Scowcroft. *America and the World: Conversations on the Future of American Foreign Policy*. Basic Books 2008.

(N) Bill Emmott. *Rivals: How the Power Struggle Between China, India, and Japan Will Shape Our Next Decade*. Harcourt Books 2008.

Alexandra Harney. *The China Price: The True Cost of Chinese Competitive Advantage*. Penguin 2008.

Robert Kagan. *The Return of History and the End of Dreams*. Knopf 2008.

William Keller and Thomas G. Rawski, eds. *China's Rise and the Balance of Influence in Asia*. University of Pittsburgh Press 2007.

James Kyngé. *China Shakes the World: A Titan's Rise and Troubled Future – And the Challenge for America*. Houghton Mifflin 2007.

(N) James Mann. *The China Fantasy: How Our Leaders Explain Away Chinese Repression*. Viking 2007.

Robyn Meredith. *The Elephant and the Dragon: The Rise of India and China and What It Means for All of Us*. Norton 2007.

Steven W. Mosher. *Hegemon: China's Plan to Dominate Asia and the World*. Encounter Books, 2000.

Peter Navarro. *The Coming China Wars – Revised Edition*. FT Press 2008.

(N) Susan Shirk. *China: Fragile Superpower: How China's Internal Politics Could Derail Its Peaceful Rise*. Oxford 2007.

Fareed Zakaria. *The Post American World*. Norton 2008.

## **II. A Brief Review of Approaches to Global Political Economy and the Evolution of the International Economic Order**

Thomas Willett.\* “The Public Choice Approach to International Economic Relations.” Virginia Political Economy Lecture, Center for Study of Public Choice, George Mason University, 1995.

Thomas Willett.\* *Floating Exchange Rates and International Monetary Reform*. American Enterprise Institute, 1977, Chapter 1.

Patricia Dillon, James Lehman, and Thomas D. Willett\*. “Assessing the Usefulness of International Trade Theory for Policy Analysis.” In Odell and Willett eds. *International Trade Policies*. The University of Michigan Press, 1993.

Patricia Dillon, John S. Odell, and Thomas D. Willett\*. “Future Directions in the Political Economy of Trade Policies.” In Odell and Willett eds. *International Trade Policies*. The University of Michigan Press, 1993.

Robert Gilpin. *The Political Economy of International Relations*. Princeton University Press 1987.

## **III. Overview of Global Imbalances, Currency Manipulation, and the RMB – Dollar Debate**

Graham Bird and Thomas Willett\*. “Global Imbalances and the Lessons of Bretton Woods.” *World Economics*, July – September 2008.

Morris Goldstein and Nicholas R. Lardy\*. “China’s Exchange Rate Policy: An Overview of Some Key Issues.” In Goldstein and Lardy eds. *Debating China’s Exchange Rate Policy*. Peterson Institute for International Economics, 2008.

Priscilla Liang, Alice Ouyang, and Thomas Willett\*. “The RMB Debate and International Influences on China’s Money and Financial Markets.” Paper presented at the Conference on Global Imbalances, Beijing, October 2006. Revision was published in Chinese in *The Chinese Banker*, 2007. Expanded version forthcoming in a book on China edited by James Barth.

### **Additional Topics:**

#### **1. The 2008 - 2009 Financial Crisis Led Worldwide Recession: Challenges and Possible Solutions**

- 1.1. Similarities and differences with the previous worldwide recessions
- 1.2. The “twin engines of the decade-long prosperity of the world economy” – the paramount US consumption power and the Chinese investment zest
- 1.3. The “visible hand” (government intervention) and the “invisible hand” (market domination) – should there be a balance struck? If no, why not? If yes, where should the balance be struck?
- 1.4. How are the two major economies, the US and Chinese governments trying to “strike the balance” in dealing with this recession? (It will help you assess how China will “fare” in this worldwide recession, reflecting the thesis of this class: “China in the Global Economy”)
  - 1.4.1. Common problems shared by the US and China and the solutions proposed by the two governments (government stimulus plan in revitalizing real estate/construction, auto, healthcare, banking, etc.)
  - 1.4.2. Fundamental differences in finance and industrial sectors for the US and China: Short of supply (US) and short of demand (China)
  - 1.4.3. Distinctive problems for China: Acute rise of unemployment unprecedentedly of the migration workers from the rural areas who used to work in the “factories of the world”: social and economic challenges for the Chinese government; high saving culture and lack of consumption society, incentives to individual consumption, impact on the society and culture?
  - 1.4.4. The “China solution” –increasing domestic demand and its possible impact: Any impact on shaping a new world economic order that has defined the world since the end of the World War II?

## **2. “The Factory of the World” – the Rise of the Export Oriented Economy in Three Decades, 1978 - 2008**

- 2.1. Export-oriented laws and regulations: Wholly Foreign-owned Enterprises (WOFEs) and Sino-Foreign Joint Equity Venture and Joint Cooperative Venture (contractual JV) regulations: Investment, taxes and land preferential policies (“unfair disadvantages” to local Chinese companies)
- 2.2. Special economic zones, the “engine of the China miracle”--the clusters of companies with brand new infrastructure support as the result of the above JV regulations and incentives. The SEZs are the showcases of the export-oriented economy: From the first 4 Special Economic Zones (4 cities, Shenzhen, Xiamen, Zhuhai and Shantou) in the late 1970s to thousands of

Economic Development Zones and High-tech Zones with national, provincial and city ranking in the 1980s and 1990s.

- 2.3. Asian financial crisis in the 1998—the rise of China in the global economy: Exponential growth in export and 200% annual growth rate in hard currency reserve the last 10 years
- 2.4. Economic, technological, political and social implications of the SEZs and the “world-factory” economy:
  - 2.4.1. Economic impact: Highly cost-effective and efficient manufacturing and logistics eco-system; privately owned economy overtaking state-owned economy in generating income and the rise of hard currency reserve for China
  - 2.4.2. Technological impact: Accumulating the ability to digest and “synthesize” the Western technologies: The prospect of the rise of a generation of “Chinese Disruptive Technology”: Disruptive in terms of “5-10 times cheaper, better and faster”?
  - 2.4.3. Political impact: Decentralization, with local government retaining tax revenues and local government authorities approving local projects in dissent to the Central Government industrial policies
  - 2.4.4. Social impact: Massive migration of farmers to the cities for labor intensive jobs and Common problems shared by the US and China and the solutions proposed by the two governments (government stimulus plan in revitalizing real estate/construction, auto, healthcare, banking, etc.)
  - 2.4.5. Development economics in growth, disruption and evolution: The “China model” vs. Soviet/Eastern European block model, Indian model and other models for transitional economies?

### **3. Areas of Specific Interest:**

- 3.1. Deepening of globalization and interdependence of the major economies: The implications of the 2008-2009 worldwide recession
- 3.2. The “RMB debate” – the debates about China's exchange rate policy and global imbalances
- 3.3. Development financial sector reforms: The reforms in banking, capital markets and insurance in China

- 3.4. Regional economic integration—common currency or just trading pact: What is in for the Asia regional economic integration? What are the concerns about China's growing economic and financial power?
- 3.5. How do we evaluate power relationships between China and the US in a world of complex interdependence?
- 3.6. Conclusion: Role of “China in the global economy” : Evaluation of the China bashers

### **Readings:**

\*Naughton.

Chapter16: pp391-399; Chapter18: pp427-433, pp442-445.

Chapter 2: Intro & 2.1, pp33-43, 2.42, pp51-52; Chapter 3: Intro 55-56, 3.4, pp79-83;

Chapter 4: All.

**\*Capitalism with Chinese Characteristics: Entrepreneurship and the State** by Yasheng Huang (Hardcover - Sep 1, 2008). ix-xuix & Chapter 1.

**Economic Facts and Fallacies** by Thomas Sowell (Hardcover - Dec 31, 2007)  
(Chapter 1, The Power of Fallacies, pp.1-11; Chapter 7, Third World Facts and Fallacies, pp.188-216; Chapter 8, Parting Thoughts, pp.217-221)

**Foreign Direct Investment in China: Challenges and Prospects for Regional Development (China in the Global Economy)** by Yasheng Huang (Hardcover - 2002)

**The Coming China Wars: Where They Will Be Fought and How They Can Be Won,** Revised and Expanded Edition by Peter Navarro (Paperback - May 4, 2008)

**China: The Balance Sheet: What the World Needs to Know Now About the Emerging Superpower (Institute International Econom)** by C. Fred Bergsten, Bates Gill, Nicholas R. Lardy, and Derek Mitchell (Paperback - Mar 12, 2007)

**Integrating China into the Global Economy** by Nicholas R. Lardy (Paperback - Jan 2, 2002)

**China's Rise: Challenges and Opportunities** by C. Fred Bergsten, Charles Freeman, and Nicholas R. Lardy (Hardcover - May 2008)

**Financial Market Reform In China: Progress, Problems, And Prospects (Political Economy of Global Interdependence)** by Baizhu Chen, J. Kimball Dietrich, Yi Feng, and EDITOR (Hardcover - Oct 7, 1999)

**China's Exchange Rate Policy: Options and Prescriptions (Policy Analyses in International Economics)** by Morris Goldstein and Nicholas R. Lardy (Paperback - June 2008)

**The Elephant and the Dragon: The Rise of India and China**, By Robyn Meredith (Paperback – June 2008)

**\*China's Monetary Challenges: Past Experiences and Future Prospects** by Richard C. Burdekin (2008). Chapter 3 & 4.

**[PDF] Can Foreign Entry Transform China's Banking System?**

Stanford Institute for Economic Policy Research. Can Foreign Entry Transform China's Banking System? By Nicholas Hope and Fred Hu [siepr.stanford.edu/papers/briefs/policybrief\\_nov05.pdf](http://siepr.stanford.edu/papers/briefs/policybrief_nov05.pdf) - 2005-11-30

**[PDF] China's Exchange Rate Trap: Japan Redux?**

Page 1. Policy Brief April 2006 Stanford Institute for Economic Policy Research. China's Exchange Rate Trap: Japan Redux? By Ronald McKinnon, Stanford University [siepr.stanford.edu/papers/briefs/policybrief\\_apr06.pdf](http://siepr.stanford.edu/papers/briefs/policybrief_apr06.pdf) - 2006-04-24

**[PDF] Policy Briefing 05/04**

[siepr.stanford.edu/papers/briefs/policybrief\\_feb05.pdf](http://siepr.stanford.edu/papers/briefs/policybrief_feb05.pdf) - 2005-02-10

**\*Additional Readings from Dr. Xu:**

Resources – Environmental Implications

Naughton: pp485-502

Huang: pp286-298

Navarro: pp47-58, pp77-pp109

Education (Labor Market) and Healthcare/Welfare

Naughton: pp192-201

Huang: pp242-260

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Navarro

Shirk