



## **Syllabus SOSC5720 Economic Development in China**

**Spring 2021**

### **Course Information**

Instructor: Dr. Jin Wang      Office: Room 2355      Email: [sojinwang@ust.hk](mailto:sojinwang@ust.hk)

Class time: Tuesdays 12–2:50 PM

Zoom: classes will be conducted via zoom meeting. There is a “zoom meeting” function on our course canvas website. Please join the scheduled meetings via zoom with your UST account.

Office Hours: Thursdays, 3:30–4:30 PM

Course website: <http://canvas.ust.hk/>

### **Course Description**

This course focuses on economic reforms and development in China. We will study the pathology of Chinese economy, the largest developing economy in the world. In particular, we will try to explain what prevented China from economic development, why China’s economic reform since 1978 created a rapid economic development and what the problems are in China’s economic development.

The course is a combination of solid analysis on Chinese institutions as well as comprehensive investigations on Chinese statistical data. Though we do use certain empirical papers as supporting evidence, this course does not place an emphasis on sheer statistical techniques. Nonetheless, basic knowledge in statistics or economics will benefit.

### **Intended Learning Outcomes**

- Enhance understandings of economic development with applications to Chinese economy and Chinese institutions.
- Apply basic economic theory and empirical analysis to major Chinese economic development episodes and major Chinese institutions.
- Explore frontier literature recently published on Chinese economic development in leading journals.
- Translate interest in Chinese economy into a significant research question and write a good quality research paper.

### **Main Reference and Textbooks**

1. Xu, Chenggang (2011), “The Fundamental Institutions of China’s Reforms and Development,” *The Journal of Economic Literature*, 49(4): 1076-1151. Despite being an article, it is comprehensive almost like a textbook.

Link: <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jel.49.4.1076>

2. Brandt, Loren and Thomas Rawski (2008), *China's Great Economic Transformation*, Cambridge University Press.

Link: <http://catalog.ust.hk/catalog/archives/716732>

3. Required reading list: a selection of articles will be uploaded to the canvas website each week along with discussion questions.

## **Assessments**

The assessments of the course will be composed of four parts.

- Class discussion and participation — 10%
- Assignments — 25%
- Mid-term group presentation — 25%
- Final term paper — 40%

**NOTE:** for all of the assessments **late submissions will NOT be accepted.**

**Class Discussion and Participation** For each lecture, sufficient time will be reserved for student discussions of the topic covered. Please read the key readings assigned in advance and come well-prepared to discuss the insights you have gained from them.

**Assignments** Students will complete three assignments throughout the semester. The assignment Topics include:

- 1) Get to know Chinese Statistical Data (an exercise on Chinese data searching and analysis) and some useful empirical methodology (an exercise on dealing with [Chinese] Statistical data: basic regression and interpretation of the results): **10%**; to be submitted in academic calendar **week 6**.
- 2) Referee report: You will write a referee report of a recent NBER working paper on Chinese economic development. The purpose of a referee report is to critically evaluate the features and bugs of a paper: **10%**; to be submitted in **week 9**.
- 3) A two-page reading report on the main reference: **5%**; to be submitted in **week 12**.

**Mid-term Group Presentation** The seventh week of the class **March 16<sup>th</sup>** will be reserved for group presentations. The topics of the presentations will be chosen from the recently published papers on Chinese Economic Development in leading economics journals. Depending on the enrollment size, the class will be divided into several groups. Students need to submit the presentation slides through their email to us the day before the presentation. We will take a note of each group's performance (the extent of preparation, the clarification of the presentation, the Question and Answer session), in order to give fair grades.

**Final Term Paper** The final paper should be revolved around a topical issue in contemporary China. The references and topics covered in the course might provide you with some helpful guidelines. And for those of you who already acquired sound quantitative skills you can choose to undertake empirical analysis using available datasets. You are welcome to consult me regarding the choice of

your essay before working on it. The last week of the class **May 4<sup>th</sup>** will be reserved for you to present your own research in class. You may incorporate the comments received during your talk into the final revisions. The length of the final essay: no more than 20 pages. The submission date of the final paper: **May 21<sup>st</sup>**.

## Schedule

Lecture	Date	Topic
1	Feb 2 <sup>nd</sup>	Course Overview and Introductions
2	Feb 9 <sup>th</sup>	Economic Decentralization
3	Feb 16 <sup>th</sup>	Political Centralization
4	Feb 23 <sup>rd</sup>	Central and Local Relationship in China
5	Mar 2 <sup>nd</sup>	Regional Competition and Sub-national Governments' Incentives
6	Mar 9 <sup>th</sup>	Regional Reform and Experiments: Agricultural reform; SEZ experiment
7	Mar 16 <sup>th</sup>	<b>Mid-term Group Presentations</b>
8	Mar 23 <sup>rd</sup>	Township and Village Enterprise Development
9	Mar 30 <sup>th</sup>	Soft Budget Constraint and Financial Market Reform
	<a href="#">April 6<sup>th</sup></a>	<a href="#">Public Holiday; No lecture</a>
10	April 13 <sup>th</sup>	State-Owned Enterprise Reform and Privatization
11	April 20 <sup>th</sup>	Major problems in China's Economic Development
12	April 27 <sup>th</sup>	
13	May 4 <sup>th</sup>	<b>Final Research Paper Presentations</b>

Note: Course contents may change; any changes will be announced in class and on the course website.

## **Topics and Readings**

### **1 Introduction: an overview**

Readings:

- \* Chenggang Xu, “The Fundamental Institutions of China’s Reforms and Development,” Section 1
- \* Perkins, Dwight and Thomas Rawski (2008), “Forecasting China’s Economic Growth to 2025,” in Loren Brandt and Thomas Rawski (eds.), *China’s Great Economic Transformation*, Cambridge University Press.

### **2 Economic Decentralization**

Readings:

- \* Chenggang Xu, “The Fundamental Institutions of China’s Reforms and Development,” Section 2.1
- \* Liu, Guoguang, Zhuyuan Zhang, Zhikai Dong and Li Wu (eds.) (2006), Research Report on China’s Ten Five Year Plans (Zhongguo Shige Wunian Jihua Yanjiu Baogao), Beijing: People’s Press, Chapter 3, 5, 6.

link: <http://catalog.ust.hk/catalog/archives/630392>

Wang, Shaoguang (1995), “The rise of the regions: fiscal reform and the decline of central state capacity in China,” in Andrew G. Walder (ed.), *The Waning of the Communist State: Economic Origins of Political Decline in China and Hungary*, Berkeley: University of California Press.

link: <http://catalog.ust.hk/catalog/archives/317664>

- \* Lin, Justin and Liu, Zhiqiang (2000), “Fiscal Decentralization and Economic Growth in China”, *Economic Development and Cultural Change*, 49(1): 1-21.
- \* Jin, H., Y. Qian and B. R. Weingast (2005), “Regional decentralization and fiscal incentives: Federalism, Chinese style”, *Journal of Public Economics*, 89(9-10): 1719-1742.

### **3 Political Centralization**

Readings:

- \* Chenggang Xu, “The Fundamental Institutions of China’s Reforms and Development,” Section 2.2.
- \* Edin, Maria (2003), “State Capacity and Local Agent Control in China: CCP Cadre Management from a Township Perspective,” *The China Quarterly*, 173: 35-52.
- \* Xu, Xianxiang, Wang Xianbin and Shu Yuan, 2007, “Local officials and economic growth”, *Economic Research (Jingji Yanjiu)*, 42: 18–31.

### **4 Central and Local Relationship in China**

- \* Chenggang Xu, “The Fundamental Institutions of China’s Reforms and Development”, Section 2.3.
  - \* Huang, Yasheng (1996), “Central–local relations in China during the reform era: the economic and institutional dimensions,” *World Development*, 24(4): 655-672.
  - \* Shirk, Susan L., *The Political Logic of Economic Reform in China*, Berkeley: University of California Press, 1993, Chapter 4.
- Sheng, Yumin (2005), “Central-Provincial Relations at the CCP Central Committees: Institutions, Measurement and Empirical Trends, 1978-2002,” *China Quarterly*, 182: 338-355.
- Bai, Gang (1996), *The General History of China’s Political Institution (Zhongguo Zhengzhi Zhidu Tongshi)*, Volume I, Beijing: People’s Press.

## **5 Regional Competition and Sub-national Governments' Incentives**

\*Chenggang Xu, "The Fundamental Institutions of China's Reforms and Development", Section 3.

\*Maskin, Eric, Yingyi Qian, and Chenggang Xu (2000), "Incentives, Information, and Organizational Form." *Review of Economic Studies*, 67(2): 359-78.

\*Qian, Yingyi, and Chenggang Xu (1993), "Why China's Economic Reform Differ: The M-form Hierarchy and Entry/Expansion of the Non-state Sector", *Economics of Transition*, 1(2): 135-170.

\*Li, Hongbin and Lian Zhou (2005), "Political Turnover and Economic Performance: The Incentive Role of Personnel Control in China," *Journal of Public Economics*, 89(9-10): 1743-1762.

Li, Lixing (2011), "The Incentive Role of Creating 'Cities' in China", *China Economic Review*, 22(1): 172-181.

Li, Xing, Chong Liu, Xi Weng and Li-An Zhou (2019), "Target Setting in Tournaments: Theory and Evidence from China", *The Economic Journal*, 129(623): 2888-2915.

## **6 Regional Reform and Experiments**

Readings:

\*Chenggang Xu, "The Fundamental Institutions of China's Reforms and Development", Section 4.1

\*Qian, Yingyi, Gerard Roland and Chenggang Xu (2006), "Coordination and Experimentation in M-Form and U-Form Organizations," *Journal of Political Economy*.

\*Qian, Yingyi, Gerard Roland and Chenggang Xu (2007), "Coordinating Reforms in Transition Economies," *Proceedings of the 5th Nobel Symposium*, Palgrave Macmillan.

Lau, Lawrence J., Yingyi Qian and Gerard Roland (2000), "Reform without Losers: An Interpretation of China's Dual-Track Approach to Transition," *Journal of Political Economy*, 108(1): 120-143.

Shirk, Susan L. (1993), *The Political Logic of Economic Reform in China*, Berkeley: University of California Press, Chapter 6-8.

## **Examples of Regional Reforms and Experiments**

Readings:

\*Chenggang Xu, "The Fundamental Institutions of China's Reforms and Development", Section 4.2

### **Agricultural Reform**

McMillan, John, John Whalley and Lijing Zhu (1989), "The Impact of China's Economic Reforms on Agricultural Productivity Growth", *Journal of Political Economy*, 97(4): 781-807.

\*Lin, Justin (1992), "Rural Reforms and Agricultural Growth in China", *American Economic Review*, 82 (1): 34-51.

### **Special Economic Zones Experiment**

Cai, Dongshi et al. (eds.) (2008), *Xi Zhongxun Governing Guangdong (Xi Zhongxun Zhuzheng Guangdong)*, Beijing: Chinese Communist Party History Press, 2008.

\*Wang, Jin (2013), "The Economic Impact of Special Economic Zones: Evidence from Chinese Municipalities", *Journal of Development Economics*, 101: 133-147.

\*Lu, Yi, Jin Wang and Lianming Zhu (2019), "Place-Based Policies, Creation, and Agglomeration Economies: Evidence from China's Economic Zone Program", *American Economic Journal: Economic Policy*, 11(3): 325-360.

## **7 Mid-term Presentations**

## **8 Town and Village Enterprises Development**

\*Chenggang Xu, "The Fundamental Institutions of China's Reforms and Development", Section 5.1  
Weitzman, Martin and Chenggang Xu (1994), "Chinese Township Village Enterprises as Vaguely Defined Cooperatives," *Journal of Comparative Economics*, 18(2): 121-145.

Che, Jiahua and Yingyi Qian (1998), "Insecure Property Rights and Government Ownership of Firms", *Quarterly Journal of Economics*, 113(2): 467-496.

\*Xu, Chenggang and Xiaobo Zhang (2009), "The Evolution of Chinese Entrepreneurial Firms: Township-Village Enterprises Revisited," in Ronald Coase (ed.), *China's Economic Transformation*, forthcoming.

## **9 Soft Budget Constraint and Financial Market Reform**

Readings:

Dewatripont, Mathias and Eric Maskin (1995). "Credit and Efficiency in Centralized and Decentralized Economies," *The Review of Economic Studies*, 62(4): 541-55.

Maskin, Eric and Chenggang Xu (2001), "Soft budget constraint theories: From centralization to the market," *Economics of Transition*, 9(1): 1-27.

\* Kornai, Janos, Eric Maskin and Gerard Roland (2003), "Understanding the Soft Budget Constraint," *Journal of Economic Literature*, 41(4): 1095-1136.

\*Franklin Allen, Jun Qian and Meijun Qian, "China's Financial System: Past, Present and Future" in Loren Brandt and Thomas Rawski (eds.), *China's Great Economic Transformation*, Cambridge University Press, 2008.

## **10 State-Owned Enterprise Reform and Privatization:**

### **State Owned Enterprise (SOE) Reform**

\*Chenggang Xu, "The Fundamental Institutions of China's Reforms and Development", Section 5.2

\*Lin, Justin and Guofu Tan (1999), "Policy Burdens, Accountability and Soft Budget Constraint," *American Economic Review: Papers and Proceedings*, 89(2): 426-31.

Booth, Charles D. (2004), "Drafting Bankruptcy Laws in Socialist Market Economies: Recent Developments in China and Vietnam", *Columbia Journal of Asian Law*, 18(1): 94-147.

Heilmann, Sebastian (2008), "Experimentation under Hierarchy: Policy Experiments in the Reorganization of China's State Sector, 1978-2008", CID Working Paper No. 172.

### **Privatization**

\*Chenggang Xu, "The Fundamental Institutions of China's Reforms and Development", Section 5.3.

\*Gan, Jie, Yan Guo and Chenggang Xu (2018), "Decentralized Privatization and Change of Control Rights in China", *The Review of Financial Studies*, 31(10): 3854-3894.

## **11-12 Major problems in China's Economic Development**

Readings: \*Chenggang Xu, "The Fundamental Institutions of China's Reforms and Development", Section 6.

### **Law and Regulation Problem**

\*Kung, James, Chenggang Xu and Feizhou Zhou (2013), "From Industrialization to Urbanization: The Social Consequences of Changing Fiscal Incentives on Local Governments' Behavior," in David Kennedy and Joseph E. Stiglitz (eds), *Law and Economics with Chinese Characteristics: Institutions*

for Promoting Development in the Twenty-First Century. New York: Oxford University Press.

\* Han, Li and James Kai-Sing Kung (2015), “Fiscal incentives and policy choices of local governments: Evidence from China”, *Journal of Development Economics*, 116: 89–104.

\* Wang, Zhi, Qinghua Zhang, and Li-An Zhou (2020), “Career Incentives of City Leaders and Urban Spatial Expansion in China”, *The Review of Economics and Statistics*, 102:5, 897-911.

Guo, Xiaolin (2001), “Land expropriation and rural conflicts in China”, *The China Quarterly*, 166: 422–39.

### **Regional Inequality**

\*Benjamin, Dwayne, Loren Brandt, John Giles and Sangui Wang, “Income Inequality during China’s Economic Transition,” in Loren Brandt and Thomas Rawski (eds.), *China's Great Economic Transformation*, Cambridge University Press, 2008.

\* Piketty, Thomas, Li Yang, and Gabriel Zucman (2019), “Capital Accumulation, Private Property, and Rising Inequality in China, 1978–2015”, *American Economic Review*, 109 (7): 2469-96.

### **Pollution**

\*Kahn, Matthew E., Pei Li, and Daxuan Zhao. (2015), “Water Pollution Progress at Borders: The Role of Changes in China's Political Promotion Incentives”, *American Economic Journal: Economic Policy*, 7 (4): 223-42.

\* Jia, Ruixue. (2017). “Pollution for Promotion.” *SSRN Electronic Journal*.

Greenstone, Michael, Guojun He, Ruixue Jia and Tong Liu (2020), “Can technology solve the principal-agent problem? Evidence from China's war on air pollution”, forthcoming at *American Economic Review: Insights*.

### **Conclusion**

\*Chenggang Xu, “The Fundamental Institutions of China’s Reforms and Development,” Section 7.

## **13 final research paper presentation**

## **Final Term paper [hardcopy] submission**