

The Beijing Center, Fall 2010
ECON 399: China in the World Economy: Han Dynasty to the Present
Instructor: Frank Hawke

The class will meet on Monday from 1930 to 2215 on September 13, 20, 27; October 18, 25, November 8, 15, 22, 29, December 6, 13 (final). During the term we will fit in two other sessions for a total of 13 sessions. Each session we will meet at room 439.

In order to understand China in the world economy, it is necessary to take an “in-out; then-now” approach. In other words, to understand how and why China was interacting with the world economy at any given time, it is important to know what was going on inside of China at that time. Similarly, in order to have a full appreciation for how and why China interacts with the world economy today, it is necessary to understand how it has done so in the past.

This course will examine China’s role in the world economy from three angles:

- 1. Historical: one can argue (and many do) that a world economy, and in fact a world history, did not exist until Vasco da Gama rounded the Cape of Good Hope in 1496 and, in the largest instance of cutting out the middleman ever recorded, opened a sea route between Europe and Asia. One can also argue that from 1496 until 1978, when Deng Xiaoping and the Communist Party initiated its “reform and opening up” policy, China did not play a willing and autonomous role in the world economy.**

The course will examine China’s economic interactions with the outside world beginning with the Han Dynasty up to the present.

History is always more interesting when you approach it with an agenda. Our agenda will be to delve into two questions of historical significance: (A) ‘The Great Divergence’: why was it Europe, and more specifically England, that first broke out of the Malthusian trap and embarked on a path of modern economic growth, when it would seem that China much earlier had many of the precursors for that transformation? Why did Europe, often exploiting technology first developed in China, “discover” China and not the other way around? To what extent was Europe’s ‘Age of Discovery’ a reflection of other monumental trends taking place there that led to industrialization and the onset of modern economic growth that continues today? Why did it not happen in China? Would it have happened in China eventually? More important, how has this history shaped today’s China and its role in the world economy? (B) Between the Treaty of Nanking in 1842, which ushered in China’s modern era, and the onset of war in 1937, what role did foreign economic actors play in China? What was their economic legacy? What were their political and psychological legacies? How did Western economic imperialism during that period shape China’s post-’49 policies and performance?

2. **Economic:** once China ‘opened up’ after 1978, its economy, relatively isolated before then, gradually became more closely linked with the world economy. Therefore, in order to understand China’s role in the world economy today, one must understand the main elements of China’s domestic economy and how they have affected China’s external economic and political relations. We will examine how China has achieved its extraordinary growth and ask if it is sustainable and to what extent China needs to “re-balance” its economy. With a focus on China’s energy sector, we will examine China’s voracious appetite for natural resources and its global impact. We will then examine the challenges and opportunities presented by China’s phenomenal emergence through the prism of the U.S.-China economic relationship. Students will read about intellectual property issues, China’s labor situation, the RMB and the implications of China’s large foreign exchange reserves and holdings of U.S. government securities, the significance of China’s accession to the WTO, dumping and countervailing duties and the growing trend toward protectionism on both sides, as reflected in the increasing difficulty in getting M&A transactions approved. The students will learn the basics of foreign exchange, the current account and the capital account.
3. **The firm level:** how are Chinese and foreign companies responding to the challenges and opportunities of China’s economic rise? The global business environment is evolving just as fast, if not faster, than China is growing. We will examine how China is trying to create Chinese companies that can compete globally. We will also look at the strategies that different types of foreign firms are employing to address the challenges and opportunities of China’s emergence. Finally, the students will be divided into ‘foreign companies’ that will enter into negotiations to acquire a Chinese state-owned enterprise. The students will discuss the acquisition with representatives of various government agencies that have (varying) interests in the transaction. Students will learn the basics of the time value of money and discounted cashflow in order to evaluate various proposals.

Course Requirements and Form of Assessment

I do not grade on a curve, which means that, theoretically at least, the entire class can receive A’s or the entire class can fail. The most important corollary of this, however, is that you are not competing with one another. With the exception of the weekly quizzes and the final, I encourage you to work together, discuss and collaborate.

- **Students will be evaluated based on the following criteria:**
- **Attendance and group discussion: 15%**
- **Group presentations: 15%**
- **Weekly quizzes (mid-term grade): 30%**
- **Final (to be distributed during the next to last session and due at the beginning of the last session): 25%**
- **Simulation performance: 15%**

Attendance is not optional, it is required. Attendance will be taken each session. If you are not able to attend class please advise me ahead of time, including the reason. If you cannot advise ahead of time please advise afterward. Failure to attend does not excuse you from knowing the material and may affect the class participation portion of your grade.

Academic Integrity

Please refer to the following web link for policies on academic integrity:

http://www.luc.edu/cas/pdfs/CAS_Academic_Integrity_Statement_December_07.pdf

Textbook & references

Textbooks: students will be required to read portions of the following books, in addition to articles and hand-outs:

- 1. Naughton, Barry, *The Chinese Economy: Transitions and Growth*. The MIT Press, 2007**
- 2. Fairbank, John King and Merle Goldman, *China: A New History, Second Enlarged Edition*, Belknap Press, 2006**
- 3. Adshead, S.A.M., *China in World History*, 3rd edition, St. Martin's Press, Inc., 2000**

Various journal papers, articles and other readings (see below)

In addition, students may check the following websites for useful information:

<http://www.mofcom.gov.cn> (PRC: Ministry of Commerce)

<http://www.stats.gov.cn> (PRC: China Statistical Bureau)

<http://sdpc.gov.cn> (PRC: China Development and Reform Commission)

<http://www.wto.org> (World Trade Organization)

Many of the readings will be sent to you by email in pdf format. Please ensure that you are able to download, read and print pdf files. I will send you the readings from my email, which is TBA . Sometimes I will send from TBA . Please ensure that your email settings do not screen out mail from those two addresses. Please also ensure that I have the correct email address for you, and that your email address can receive sizeable attachments, as I will send to only one address for each student.

Students are responsible for the material presented in all mandatory readings, in addition to classroom presentations and discussions. Material in the readings will not necessarily be presented in class and material in class will not necessarily be reflected in the readings.

At the beginning of each session there will be a brief quiz on the relevant assigned readings. The cumulative grade on these quizzes will constitute your mid-term grade. I will throw out the lowest quiz score when determining your cumulative grade. There will be no mid-term exam although I will advise you at the midpoint of the term how you are doing.

Students will be divided into groups for the purpose of presenting various viewpoints, in addition to the negotiation simulation. Students are expected to participate actively within the groups and in the presentations.

Course Outline

Session 1

Survey/Course Introduction/Why do we care?/Introduction to the pre-reform section

Session 2

- 1. Han – Tang**
- 2. The Great Divergence**

Mandatory reading

Fairbank: pp. 46-87 (40)

Adshead: pp. 21-53, 72-108 (68)

Session 3

- 1. Northern & Southern Song**
- 2. The Great Divergence**

Mandatory reading

Fairbank: pp. 88 – 107 (19)

Adshead: pp. 126 – 172 (46)

Session 4

- 1. Yuan – Ming**
- 2. The Great divergence**

Presentations from groups 1-3

Mandatory reading

Fairbank: pp. 108 – 141 (23)

Adshead: pp. 194 - -242 (48)

Session 5

- 1. Qing – Opium War**
- 2. The Great Divergence**

Presentations from groups 4-7

Mandatory reading

Fairbank: pp. 143 – 195 (52)

Adshead: pp. 264 – 309 (45)

Angus Maddison, *Chinese Economic Performance in the Long Run, 960-2030 AD*, pp. 23 – 42, “Intensive and Extensive Growth in Imperial China” (handout) (19)

Session 6

- 1. Opium War – WW II**
- 2. Impact of imperialism on China’s development**

Presentations from groups 8-10

Mandatory reading

Fairbank: 195 – 278 (83)

Angus Maddison, *Chinese Economic Performance in the Long Run, 960-2030 AD*, pp. 43 – 58, “Economic Decline and External Humiliation, 1820 – 1949” (handout) (15)

Joseph M. Bryant, “The West and the Rest Revisited: Debating Capitalist Origins, European Colonialism, and the Advent of Modernity,” Canadian Journal of Sociology, 31(4) 2006 (handout) (37)

Rhoads Murphey, “The Treaty Ports and China’s Modernization: What Went Wrong?”, excerpts (handout)

Other Selected Readings TBA

Sessions 4, 5 and 6: Group presentations/discussion: the class will be divided into groups. Each group will be assigned a reading(s) to report on during one of sessions 4-6. Each presentation will take no more than 25 minutes during which your group MUST present (1) the gist of the readings, and (2) integrate the reading(s) into the issue being discussed in class, that is, either the great divergence or the economic impact of imperialism on China. A written presentation in a format of your choice must accompany the presentation and be distributed to the class after the presentation.

- Group 1:** Max Weber, The Religions of China, “Introduction” by C.K. Yang, pp. xiii – xliii (handout) (30); Albert Feuerwerker, “Chinese Economic History in Comparative Perspective”, pp. 224-241 (handout)
- Group 2:** Mark Elvin, Patterns of the Chinese Past, pp. 17-22; 285-319 (handout); Daniel Little, “The High Level Equilibrium Trap”, pp. 1-19 (handout)
- Group 3:** David Landes, The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor, pp. 17-29, 55-59, 79-99, 335-350, 512-533 (handout); David Landes, “Why Europe and the West? Why Not China?”, *Journal of Economic Perspectives*, Spring 2006, pp. 3-22 (handout)
- Group 4:** Andre Gunder Frank, ReOrient: Global Economy in the Asian Age, pp. 8-51; 258-320 (62) (handout); Jack Goody, The East in the West, pp. 1-10; 226-249
- Group 5:** R. Bin Wong, China Transformed: Historical Change and the Limits of European Experience, pp. 1-70 (handout)
- Group 6:** R. Bin Wong, China Transformed: Historical Change and the Limits of European Experience, pp. 1-7; pp. 71-151 (handout)
- Group 7:** Kenneth Pomeranz, The Great Divergence, pp. 3-27 211-297 (handout); P.H.H Vries, “Are Coal and Colonies Really Crucial? Kenneth Pomeranz and the Great Divergence” (handout)
- Group 8:** Joel Mokyr, The Lever of Riches: Technological Creativity and Economic Progress, pp. 3-16; 151-192; 209-239, 301-304 (handout) ; Edward Dreyer, Zheng He: China and the Oceans in the Early Ming Dynasty, pp. 1-47; 135-144; 165-186 (handout)

- Group 9:** Jack M. Potter, Capitalism and the Chinese Peasant: Social and Economic Change in a Hong Kong Village, Introduction & Conclusion; skim the rest (handout); Rhoads Murphey, “The Treaty Ports and China’s Modernization: What Went Wrong?” (handout) ; James Peck, “The Roots of Rhetoric: The Professional Ideology of America’s China Watchers”, Bulletin of Concerned Asian Scholars, Nol. 2, No. 1, October-December 1969 (handout); The Editors, “Introduction to Special Section on Imperialism in China”, pp. 2-3; Andrew Nathan, “Imperialism's Effects on China”, pp. 3-9, Joseph Esherick, “Harvard on China: The Apologetics of Imperialism”, pp. 9-17, Bulletin of Concerned Asian Scholars, Vol. 4, No. 4, December 1972 (handout)
- Group 10:** Albert M. Feuerwerker, *The Foreign Establishment in China in the Early 20th Century*, pp. 59-99 (handout); Robert Dernberger, “The Role of the Foreigner in China’s Economic Development” (handout)

Session 7

Liberation to 1978/Introduction to the simulation

Mandatory reading

Naughton: pp. 50 – 83 (33)

Angus Maddison, *Chinese Economic Performance in the Long Run, 960-2030 AD*, pp. 59 - 91, “Dynamics of Development in the New China” (handout) for sessions 7 & 8 (32)

Wu Jinglian, “China's Economy: 60 Years of Progress”, Caijing, Parts I and II, pp. 1-20 (handout) (20)

Simulation scenario and related handouts

Session 8

Culture and Business/review of simulation financial model

Mandatory Reading

Trompenaars & Hampden-Turner, Riding the Waves of Culture. Ch. 3-8, pp. 20-123 (handout) (103)

The last hour of the session will be devoted to the financial model for the simulation. For the simulation to be a success, each team must have a functioning financial model that at least one team member is adept at using. By this session, each team shall have built its financial model.

Session 9 and Session 10

Negotiation simulation

Session 11

1978 – Present/How to Think about China

Mandatory reading

Naughton, *The Chinese Economy*, pp. 85 – 110; 375 - 423 (73)

Huang Yasheng, Capitalism with Chinese Characteristics, pp. xiii – xviii; 1-45 (50)

Robert Z. Lawrence, “China and the Multilateral Trading System”, in China, Asia and the New World Economy (23)

Ahmed, et. al., “China’s Role as Engine and Conduit of Growth”, pp. 1-4, Conclusion: 21,22 (handout) (6)

WTO, “The WTO in Brief” (handout) (8)

Session 12

1. Doing Business in China or What Indiana Jones Should Have Known

- A. Aligning interests
- B. The role of the state
- C. Importance of due diligence
- D. Dispute resolution
- E. Understanding the culture
- F. Finding the right people/building the right team

2. Approaching the China Market

- A. Equity joint ventures (jvs)
- B. Cooperative (jvs)
- C. Wholly foreign-owned entities
- D. Representative offices
- E. Distribution
- F. Import & exports in China
- G. Mergers & Acquisitions
- H. Anti-trust and competition laws
- I. Intellectual property protection
- J. Employment issues
- K. Taxation

Mandatory reading

Nicholas Lardy, “China: Rebalancing Economic Growth” (handout) (24)

Bert Hofman and Louis Kuijs, “Rebalancing China’s Growth” in Goldstein and Lardy, eds., Debating China’s Exchange Rate Policy, (handout) (12)

Dan Rosen & Trevor Houser, “China Energy: A Guide for the Perplexed” (handout) (50)

‘Focus on China ‘ selections from Thomas A. Pugel, International Economics, pp. 56-57; 78-79; 170; 336-337 (handout) (7)

Take home finals will be distributed

Session 13

Take home final is due at the beginning of class

The US-China economic relationship: behind the polemics. What 30 years ago was established as a ‘marriage of convenience’ based on mutual interests of a geo-political nature, has evolved into a complex and highly unbalanced economic relationship that may not be sustainable. This session will examine: (1) China's currency peg and its ramifications. Is the RMB under-valued and if so, what are the implications of that, and what is China doing about it? (2) Does China exploit its labor and in the process gain an unfair advantage over countries (such as the U.S.) where labor rights are better protected? (3) Does China dump products into the U.S. and other markets? (4) How significant is the problem of intellectual property (IP) theft and is China doing enough to stop it? (5) Food and product safety: what are the issues and what is being done? (6) Is the U.S. hypocritical in criticizing China for not opening its market when the U.S. embargoes the sale of high tech products to China and refuses to allow Chinese investments in certain U.S. companies on national security grounds?

Discussion of issues in the U.S.-China economic relationship in a roundtable format with representatives of the U.S. government.

Take home finals distributed

Mandatory reading

Overall trade issues:

U.S. Trade Representative, 2008 REPORT TO CONGRESS ON CHINA’S WTO COMPLIANCE, December 2008, pp. 1-16; 72-78 (handout) (22)

Congressional Research Service, China-U.S. Trade Issues, June 23, 2009
Wayne M. Morrison, Specialist in International Trade and Finance, Foreign Affairs, Defense, and Trade Division, pp. 1-26 (handout) (26)

Impact of the global financial crisis:

Congressional Research Service, China and the Global Financial Crisis: Implications for the United States, August 17, 2009

Wayne M. Morrison, Specialist in International Trade and Finance, Foreign Affairs, Defense, and Trade Division, pp. 1-10 (handout) (10)

The RMB and China's foreign reserves:

Exchange rate regimes: Congressional Research Service. "East Asia's Foreign Exchange Rate Policies" by Michael F. Martin, Analyst in Asian Trade and Finance, Foreign Affairs, Defense, and Trade Division (handout) (6)

The RMB and China's foreign reserves from a U.S. policy perspective: Congressional Research Service, "China's Currency: A Summary of the Economic Issues," January 29, 2009, Wayne M. Morrison, Specialist In International Trade and Finance, Foreign Affairs, Defense, and Trade Division; Marc Labonte, Specialist in Macroeconomic Policy, Government and Finance Division (handout) (6)

The RMB and China's foreign reserves from a Chinese policy perspective: Yongnian Zheng, Jingtao Yi, "China's Rapid Accumulation of Foreign Exchange Reserves and Its Policy Implications" in China and World Economy, Vol. 15, No. 1, 2007 (handout) (12)

A very good analysis of the RMB situation: Jonathan Anderson, "The Real Case for Revaluation", UBS, 2007.07.13 (handout) (12)

On China's labor practices:

SECTION 301 PETITION AGAINST THE CHINESE GOVERNMENT filed with USTR, EXECUTIVE SUMMARY for the Executive Council, AFL-CIO, and Members of Congress, Mark Barenberg, Professor of Law, Columbia University (handout) (5)

USTR, Statement from USTR Spokesman Regarding Labor Petition, July 21, 2006 (handout) (3)

The following material from Nicholas Lardy was submitted in response to the AFL-CIO's similar petition in 2004. The thrust of his arguments remained valid with regard to the 2006 petition:

Nicholas Lardy, Peterson Institute, "Do China's Abusive Labor Practices Encourage Outsourcing and Drive Down American Wages?", Testimony before the Senate Democratic Policy Committee Hearing, March 29, 2004 (handout) (2)

The following supports the Lardy testimony above:

Nicholas Lardy, Senior Fellow Institute for International Economics, "Charts and Graphs Showing Chinese Wages and Exports", Senate Democratic Policy Committee Hearing, March 29, 2004 (handout) (2)

Packet of clippings on the recent UNOCAL, XUGONG, 3COM and HUIYUAN transactions and the Committee on Foreign Investment in the U.S. (CFIUS); the changing investment environments in the U.S. and China as a result of growing protectionism (handout)