

Introduction to the Economy of China

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- ▶ Over the second half of the nineteenth century, China experienced a gradual decline both politically and economically, in the waning years of the Qing empire.
- ▶ This was followed by forty years of civil war, internecine violence and a Japanese invasion from 1911 to 1949.
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China rising?

- ▶ Since the death of Mao in 1976, China has experienced a dramatic increase in GDP growth, productivity growth, and a rapid decline in poverty; the share of impoverished villages declined from 40.65% in 1980 to 10.55% in 1990 and 4.75% in 2001.
- ▶ GDP growth increased from approximately 4 percent annually prior to the reform to 9.5 percent during 1978-2005.
- ▶ China is now the second largest economy in the world; its per capita GDP is now around 15% of U.S. per capita GDP at PPP levels, compared to less than 3% in the early 1950s.
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Summary statistics

Table 1.1. *China's GDP as percent of GDP for other large nations, 1978–2004^a*

	1952	1978	1990	2000	2004
United States	9.5	13.6	27.9	51.7	64.0
Japan	78.5	38.5	70.5	165.9	219.2
Germany	n.a.	50.8	113.3	244.8	322.1
India	63.9	78.0	122.2	190.6	203.1 ^b

^a Calculated at purchasing-power parity.

^b Based on data for 2003.

Source: Heston, Summers, and Aten (2006).

Table 1.2. *China's per capita GDP as a percent of figures for other nations, 1952–2005^{a,b}*

	1952	1978	1990	2000	2005
United States	2.7	3.2	6.3	11.6	15.7
Japan	11.8	4.6	7.7	16.7	21.3
Korea	25.4 ^c	15.0	16.4	25.5	30.1
India	42.6	53.7	90.3	151.4	188.5

Prerequisites and requirements

- ▶ Prerequisites include Econ 110 and 255 (intermediate micro and econometrics), or equivalent.
- ▶ Exceptions require my written permission.
- ▶ Your grade will be based on quizzes, class participation, literature critiques, an oral presentation and a final paper.

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Readings

- ▶ Readings for this course will primarily consist of economics papers, as well as some readings from a textbook.
- ▶ Your compliance with mandatory readings will be tested in quizzes.
- ▶ Each research paper's methodology will be reviewed in class, and you will have the opportunity to ask questions.
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Quizzes and literature critique

- ▶ There will be two quizzes over the semester; one at the midpoint, and one at the end of the semester.
- ▶ Each student will be required to write two five-page literature critiques of an academic paper from a list of papers provided; they will count for 30% combined.
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- ▶ For example: how has educational policy evolved over the course of the reform period, and what impact has it had on student welfare? What are the objectives of China's grain policy, and how have those objectives changed over time? What impact has Chinese industrial development had on the environment?
- ▶ The question of interest should be answered demonstrating mastery of the literature as well as any relevant data; original data analysis is encouraged, though this can be data at any level and does not necessarily require regressions.
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- ▶ The presentations will be done in the last 5-6 class sessions; exact scheduling will be confirmed later.
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- ▶ Accordingly, the readings will be balanced between textbook readings that provide background and academic papers.
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Social indicators

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- ▶ There has been a rapid decline in infant mortality.
- ▶ Life expectancy has increased from mid-40s to over 70.
- ▶ The fertility rate has also plummeted.

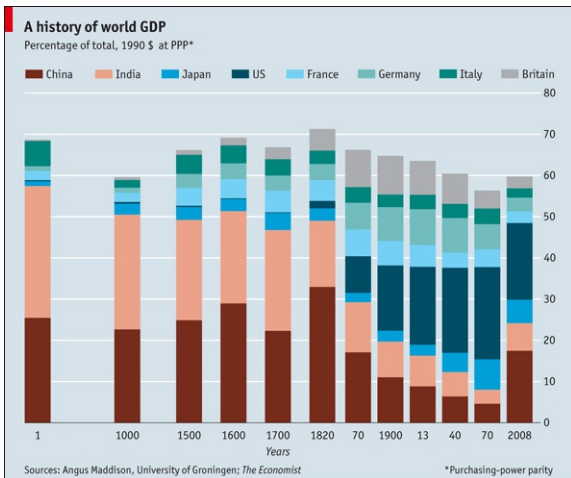
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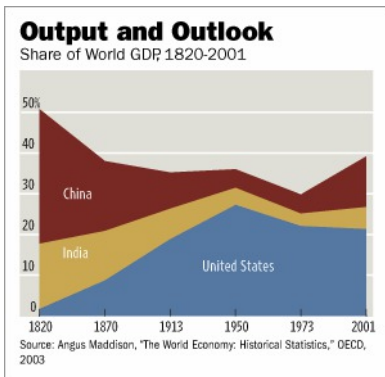
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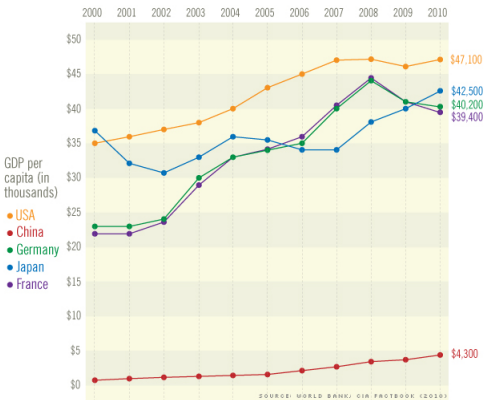
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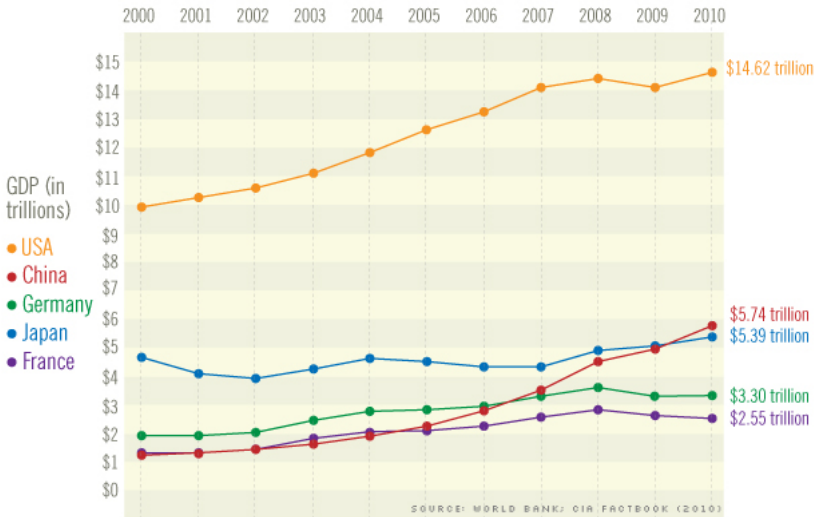
Historical perspective, Part II



China in the world economy, Part I



China in the world economy, Part II



China in the first half of the twentieth century

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- ▶ Following the CCP takeover in 1949, the regime created an economic system largely modeled after the USSR: there were annual and five-year plans, extensive state ownership, central control of prices, and material balance plans that allocated inputs, products and financing.
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The central planning era: achievements

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The central planning era: weaknesses

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- ▶ Industry was characterized by many inefficiencies: emphasis on quantity rather than quality, a focus on investment goods, neglect of innovation, isolation from the international economy.
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- ▶ There was wide agreement among the elite for the need for change, without any sense of reform direction; this was motivated particularly by rapid growth in surrounding East Asian economies.
- ▶ More specifically, as the Cultural Revolution concluded, there were rising reports of reduction in grain stocks, local shortages, and calls for decline in grain procurement - reminiscent of the Great Leap Forward.
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Chinese reform period

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