

The Chinese Political Economy

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To grasp the true magnitude and implications of the shift of economic power that is currently changing the world, it is essential to understand the Chinese economic reform and its political context. This course aims to provide an integral and detailed review of modern China's topical issues in both economics and politics. The classes will be organized around a number of major themes and will include references to the historical and institutional background. It also serves as a great facilitator for students who are interested in working or doing business in China in the future.

Required Textbooks:

1. Naughton, Barry, 2007. *The Chinese Economy: Transitions and Growth*. MIT Press: Cambridge, MA.
2. Lieberthal, Kenneth, 2004. *Governing China: From Revolution to Reform*. New York: W.W. Norton and Company.

Topics and Reading List:

(Note: * denotes required readings; the articles without * are optional but recommended for the highly motivated students.)

1. Introduction

(Week 36, 04/09, KB+PD)

Motivating questions: Does China really matter in political and economic terms? Will it ever rule the world? Why industrialization did not originate in China? Why Chinese growth engine was reignited after 1978, and what explains China's spectacular growth in the past thirty years?

*Gerald Segal, "Does China Matter?," *Foreign Affairs*, Vol. 78, No. 5 (September/October 1999), pp. 1-13.

*Naughton, Chapter 1

- *Weil, David, "The Solow Model," in *Economic Growth (2nd ed.)*, Ch. 3, pp. 48-68.
- *Fogel, Robert. 2007. "Capitalism and Democracy in 2040: Forecasts and Speculations," *NBER Working Paper*, 13184.
- Peter Nolan, "Introduction," in Peter Nolan, *Is China Buying the World* (Cambridge: Polity Press, 2012.), pp. 1-10.
- Martin Jacques, "The Changing of the Guard," in Martin Jacques, *When China Rules the World* (London: Allan Lane, 2009), pp. 1-22.
- Lin, Justin Yifu, 1995. "The Needham Puzzle: Why the Industrial Revolution Did Not Originate in China," *Economic Development and Cultural Change*, 43(2): 269-292.

2. Historical Background: Mao in Command, Great Leap Forward, Cultural Revolution and political campaigns

(Week 37, 11/09, KB)

Motivating questions: What was Maoism about? Why did the Great Leap collapse? Was the Cultural Revolution a reflection of an experiment in permanent revolution or a power struggle within the Party? What are the lessons to be learned?

- *Kenneth Lieberthal, Chapter 3 ("The Maoist System") and Chapter 4 ("The Maoist Era") in Kenneth Lieberthal, *Governing China* (New York: W.W. Norton and Company, 1995), pp. 59-123.
- Henry Kissinger, "The Singularity of China," in Henry Kissinger, *On China* (London: Allan Lane, 2011), pp. 5-32.

3. China's Reform: Initial Experiments

(Week 38, 18/09, PD)

Motivating questions: Why Soviet-style collective farming and production didn't work; why the rural productivity soared after the reform; and what motivated the largest labor migration in human history.

- *Naughton, Chapter 3 & 10
- *Basu, K., "The Lewis Model," in *Analytical Development Economics*, Ch. 7, pp.153-157.
- Li, W. & Yang, D. T. 2005. "The Great Leap Forward: Anatomy of a Central Planning Disaster," *Journal of Political Economy*, 113(4): 840-877.
- Perkins, D. 1988. "Reforming China's Economic System," *Journal of Economic Literature*, 26(2): 601-645.

4. China's political and administrative system. The formal and informal structures and institutions. Who is who in China?

(Week 39, 25/09, KB)

Motivating questions: Where is power located in the Chinese political systems? What is the difference between formal and informal power? Is China ruled by a big state?

*Kenneth Lieberthal, Chapter 6 ("The Organization of Political Power and Its Consequences: The View from the Outside", in *Governing China*, pp. 157-182.

*Susan W. Lawrence and Michael F. Martin, "Understanding China's Political System," CSR Report for Congress (May 10, 2012) (33 p.)

Andrew Mertha, "'Fragmented Authoritarianism 2.0': Political Pluralization in the Chinese Policy Process," *The China Quarterly*, No. 200 (December 2009), pp. 995-1012.

John Burns, "Downsizing the Chinese State: Government Retrenchment in the 1990s," *The China Quarterly*, No. 175 (September 2003), pp. 775-802.

5. China's Reform in State-Owned Enterprises (SOEs): Getting the incentives right

(Week 40, 02/10, PD)

Motivating questions: What are the fundamental problems of SOEs? What's the approach to economic reform and what has been achieved? What does China's industrial structure look like today?

*Naughton, Chapter 13

*Qian, Y. et al. 1999. "From Federalism, Chinese Style, to Privatization, Chinese Style," *Economics of Transition*, 7(1): 103-131.

*Jefferson, G. and Rawski, T. 1990. "Enterprise Reform in Chinese Industry," *Journal of Economic Perspectives*, 8(2): 47-70.

Kornai, J. et al. 2003. "Understanding the Soft Budget Constraint," *Journal of Economic Literature*, 41(4): 1095-1136.

6. Nomenklatura and cadre management. Ranking systems and executive remuneration

(Week 41, 09/10, KB)

Motivating questions: What is the relationship between Party and state in China? Who are the cadres in China and how are they managed? Are Party members automatically cadres and vice versa? Are Chinese civil servants highly paid?

- *Kenneth Lieberthal, Chapter 7 (“The Organization of Political Power and Its Consequences: The View from the Inside”), in *Governing China*, pp. 183-218.
- *Kjeld Erik Brødsgaard, “Management of Party Cadres in China,” in Kjeld Erik Brødsgaard and Zheng Yongnian, *Bringing the Party Back In: How China is Governed* (Singapore: Eastern Universities Press, 2004), pp. 57-91.
- Wang Xiaoqi, Chapter 3 “Civil Service Reform Policy and Implementation,” in *China’s Civil Service Reform*, China’s Civil Service Reform (London: Routledge: 2012), pp. 41-66.

Week 42 (holiday week, no class)

**7. China’s Re-integration into the Global Economy:
Trade as the growth engine**

(Week 43, 23/10, PD)

Motivating questions: How did China re-open its door to the world? What are the features of the export-led growth? What’s role of the state? How is China’s growth model connected to the global imbalances?

- *Naughton, Chapter 16, 17
- *Michael Spence, “[Why China grows So Fast?](#),” *Wall Street Journal*, Jan. 23, 2007.
- Feenstra, R. and Wei, S.J. 2009 “Introduction to ‘China’s Growing Role in World Trade’,” *NBER Working Papers*, 14716.
- Bransetter, L. and Lardy, N. 2006. “China’s Embrace of Globalization,” *NBER Working Paper*, 12373.

**8. Party-business relations. Vested interests and interest groups
and who is who in Chinese big business?**

(Week 44, 30/10, KB)

Motivating questions: How is Chinese big business to be defined? Is there a new oil and steel gang in China? How are Chinese CEOs appointed?

- *Erica Downs, “Business Interest Groups in Chinese Politics: The Case of the Oil Companies,” in Cheng Li (ed.), *China’s Changing Political Landscape* (Washington, D.C.: The Brookings Institution, 2008), pp. 121-141.
- *Kjeld Erik Brødsgaard, “Politics and Business Group Formation in China: Is the Party in Control?,” *The China Quarterly* (September 2012), pp. 1-25.
- Deng Guosheng and Scott Kennedy, “Big Business and Industry Association Lobbying in China: The Paradox of Contrasting Style,” *The China Journal*, No. 63 (January 2010), pp. 1+1-125.

9. What China Has Done Right: Taking stock

(Week 45, 06/11, PD)

Motivating questions: What are the pros and cons of gradualism vs. the big bang? What was China's reform strategy, or was there one at all? And how should we characterize the Chinese economy: state capitalism, or something else?

*Qian, Y. "How Reform Worked in China," in Dani Rodrik, editor, *In Search of Prosperity: Analytic Narratives on Economic Growth*, Princeton University Press, 2003, pp. 297-333.

*Coase, R. and Wang, N. "[How China Made Its Great Leap Forward](#)," *Wall Street Journal*, April 6, 2012.

Xu, Chenggang. 2011. "The Fundamental Institutions of China's Reform and Development," *Journal of Economic Literature*, 49(4): 1076-1151.

Huang, Y. S. 2008. "Just How Capitalist Is China?," MIT Sloan Working Papers. Special Report on State Capitalism, *Economist Magazine*, Jan. 21, 2012.

Week 46 (13/11, no class)

10. The Rocky Road Ahead: Problems and challenges

(Week 47, 20/11, KB+PD)

Motivating questions: With political reform seriously lacking, is China's growth sustainable in the long run? Will China democratize? What is the future role of the Chinese Communist Party?

*Qian, Y. and Wu, J.N. 2003. "China's Transition to A Market Economy: How Far Across the River", in N.C. Hope, et al., editors, *How Far Across the River: Chinese Policy Reform at the Millennium*, Stanford University Press, pp.31-63.

*David Shambaugh, "International Perspectives on the Communist Party of China," *China: An International Journal*, Vol. 10, No. 2 (August 2012), pp. 8-22-

Martin Jacques, "Concluding Remarks: The Eight Differences that Define China," in Martin Jacques, *When China Rules the World* (London: Allan Lane, 2009), pp. 414-435.

North, Douglas C. 1994. "Economic Performance through Time," *American Economic Review*, 84(3): 359-368.

Friedman, Milton. "[The Relation between Economic Freedom and Political Freedom](#)," in *Capitalism and Freedom*, Univ. of Chicago Press, 1962.