

September 2012

AEM/ECON 4540

China's and India's Growth Miracles

Fall 2012

Professor Eswar Prasad

The growing economic might of emerging markets, particularly China and India, and their increasing integration into global trade and finance have put them firmly at the center stage of the world economy. In this course, we will undertake a comparative analysis of the growth experiences of emerging market economies—with a particular focus on China and India—through the twin lenses of international finance and development economics. We will examine the roles of trade and financial openness, institutions, government policies, and labor markets in determining the trajectory of growth. In particular, we will focus on the roles of domestic financial sector development and international financial integration, and the interaction between them, in the process of economic development. This will essentially serve as a guided tour through key concepts in international trade and finance. Finally, we will discuss growth prospects for China and India, the myriad domestic and external challenges that they face in sustaining high growth, and the implications for the world at large.

- Prerequisites: Intermediate-level courses in macroeconomics, international economics, and econometrics/statistics.
- Lecture hours: Mondays, 2:00 p.m. – 4:25 p.m.
145 Warren Hall
- Grading: Letter grade only. Grade will be based on assignments, term paper and class participation
- Credits: 3
- Teaching Assistant: Parul Sharma (ps552)
- TA's Office Hours: Tuesdays & Thursdays, 9:00 am to 10:00 am
334 Warren Hall
- Course Support: Carol Thomson (cmt8)
132 Warren Hall
- Professor's Office
Hours: By appointment (through Carol Thomson)

COURSE SCHEDULE

Lecture 1, August 27th

Lecture 2, September 4th

Topic: Determinants and Implications of Growth Patterns in China and India

Bosworth, Barry, and Susan Collins, 2008, "Accounting for Growth: Comparing China and India," *Journal of Economic Perspectives*, Vol. 22:1, pp. 45-66.

Gordon, James, and Poonam Gupta, 2004, "Understanding India's Services Revolution," IMF Working Paper No. 04/171.

Kochhar, Kalpana, Utsav Kumar, Raghuram Rajan, Arvind Subramanian, and Ioannis Tokatlidis, 2006. "India's Pattern of Development: What Happened, What Follows?" *Journal of Monetary Economics*, Vol. 53, pp. 981-1019

Guo, Kai, and Papa N'Diaye, 2009, "Employment Effects of Growth Rebalancing in China" IMF Working Paper 09/169.

Lardy, Nicholas, 2006, "China: Toward a Consumption-Driven Growth Path," Peterson Institute for International Economics Policy Brief No. 06-6.

Prasad, Eswar, 2009, "Is China's Growth Miracle Built to Last?" *China Economic Review*, Vol. 20:1, pp. 103-123.

Prasad, Eswar, 2009, "Rebalancing Growth in Asia," NBER Working Paper No. 15169.

"Reserve Army of Underemployed," *The Economist*, Sept 4th 2008.

We will have guest presentations about data resources available at Cornell to work on China and India, and also to generate comparative perspectives with other emerging market economies. Some data issues (and potential pitfalls) will also be discussed.

Lecture 3, September 10th

Topic: Balance of Payments, Exchange Rates

Callen, Timothy, 2007, "PPP Versus the Market: Which Weight Matters," *Finance and Development*, Vol. 44:1.

Catao, Luis, 2007, "Why Real Exchange Rates," *Finance and Development*, Vol. 44:3, pp. 46-47.

Mankiw, Gregory, N., 2002, *Macroeconomics*, fifth edition, Worth Publishers. Section 5.3, pp. 127-141. [On reserve at the library]

Lecture 4, September 17th

Topic: Capital Controls, Capital Account Liberalization

Bhagwati, Jagdish, 1998, "The Capital Myth: The Difference between Trade in Widgets and Dollars," *Foreign Affairs*, Vol. 7:3, pp. 7-12.

Kose, Ayhan, and Eswar Prasad, 2004, "Liberalizing Capital," *Finance and Development*, Vol. 41:3, pp. 50-51.

Kose, Ayhan M., Eswar Prasad, Kenneth Rogoff, and Shang-Jin Wei, 2007, "Financial Globalization: Beyond the Blame Game," *Finance and Development*, Vol. 44:1, pp. 9-13.

Lane, Philip R., and Sergio L. Schmukler, 2007, "The International Financial Integration of China and India," World Bank Policy Research Working Paper 4132.

Prasad, Eswar, 2009, "Some New Perspectives on India's Approach to Capital Account Liberalization," *Brookings India Policy Forum*, Volume 5 (2008/09).

Prasad, Eswar, and Shang-Jin Wei, 2005, "China's Approach to Capital Inflows: Patterns and Possible Explanations," International Monetary Fund Working Paper No. 05/79

Reddy, Y.V., 2007, "Point of View: Converting a Tiger," *Finance and Development*, Vol. 44:1, pp. 20-23.

Rodrik, Dani, 1998, "Who Needs Capital-Account Convertibility?" Essays in International Finance, No. 207 (Princeton, NJ: Princeton University Press).

Stiglitz, Joseph, 2004, "Capital-Market Liberalization, Globalization, and the IMF," *Oxford Review of Economic Policy*, Vol. 20:1, pp. 57– 71.

Lecture 5, September 24th

Topic: Exchange Rate Regimes, Monetary Policy

Goodfriend, Marvin, and Eswar Prasad, 2007, "A Framework for Independent Monetary Policy in China," *CESifo Economic Studies*, Vol. 53:1, pp. 2-41.

Goldstein, Morris, and Nicholas Lardy, 2008, "China's Exchange Rate Policy: An Overview of Some Key Issues," in *Debating China's Exchange Rate Policy*, eds. M. Goldstein and N. Lardy (Washington, DC: Peterson Institute for International Economics).

McKinnon, Ronald, 2007, "Why China Should Keep its Exchange Rate Pegged to the Dollar: A Historical Perspective from Japan," *International Finance*, Vol. 10:1, pp. 43-70.

Prasad, Eswar, Thomas Rumbaugh, and Qing Wang, 2005, "Putting the Cart Before the Horse? Capital Account Liberalization and Exchange Rate Flexibility in China," *China and the World Economy*, Vol. 13:4, pp. 3-20.

Prasad, Eswar, 2007, "Exchange Rate Flexibility in China: Why It Really Matters and How to Make Progress," Testimony at the Senate Finance Committee Hearing on "Risks and Reform: The Role of Currency in the U.S.–China Relationship", March 28. Posted at <http://prasad.aem.cornell.edu>.

Prasad, Eswar, 2010, "After the Fall: Central Banking in the Aftermath of the Financial Crisis," *Finance & Development*, Vol. 47:2, pp. 22-26.

Prasad, Eswar and Lei Ye, 2012, "Will the Renminbi Rule," *Finance & Development*, Vol. 48:1, pp. 26-29.

Reinhart, Carmen M., and Kenneth S. Rogoff, 2004, "The Modern History of Exchange Rate Arrangements: A Reinterpretation," *Quarterly Journal of Economics*, Vol. 119:1, pp. 1-48.

Lecture 6, October 1st

Topic: Trade Liberalization, Composition of International Trade

Amiti, Mary, and Caroline Freund, 2007, "China's Export Boom," *Finance and Development*, Vol. 44:3, pp. 38-41.

Branstetter, Lee, and Nicholas Lardy, 2006, "China's Embrace of Globalization", NBER Working Paper #12373.

Cui, Li, 2007, "China's Growing External Dependence," *Finance and Development*, Vol. 44:3, pp. 42-45.

Guo, Kai, and Papa N'Diaye, 2009, "Is China's Export-Oriented Growth Sustainable?" IMF Working Paper 09/172.

Hoekman, Bernard, and Aditya Mattoo, 2008, "Services Trade and Growth," Policy Research Working Paper No. WPS 4461. World Bank.

Lecture 7, October 15th

Topic: Macroeconomic Policies and Growth in China

Guest Lecturer from IMF: Steven Barnett, Division Chief, IMF Asia and Pacific Department

Before class, read the latest IMF Staff Report on China (for 2011), available online at:

www.imf.org/external/pubs/ft/scr/2011/cr11192.pdf

Lecture 8, October 22nd

Topic: Finance and its Role in Growth

Allen, Franklin, Jun, Qian, and Meijun Qian, 2005, "Law, Finance, and Economic Growth in China," *Journal of Financial Economics*, Vol. 77, pp. 57-116.

Chamon, Marcos, and Eswar Prasad, 2010, "Why are Saving Rates of Urban Households in China Rising?" *American Economic Journal – Macroeconomics*, Vol.2:1, pp. 93-130.

Dobson, Wendy, and Anil Kashyap, 2006, "The Contradiction in China's Gradualist Banking Reforms," *Brookings Papers on Economic Activity*, pp. 103-148.

Feyzioglu, Tarhan, Nathaniel John Porter, and Elöd Takáts, 2009, "Interest Rate Liberalization in China," IMF Working Paper No. 09/171.

Feyzioglu, Tarhan, 2009, "Does Good Financial Performance Mean Good Financial Intermediation in China?" IMF Working Paper No. 09/170.

Prasad, Eswar, 2007, "Reform and Liberalization of China's Financial Sector," Testimony at the U.S. House of Representatives Committee on Financial Services Hearing on "U.S. Interests in the Reform of China's Financial Sector", June 6. Posted at <http://prasad.aem.cornell.edu>

Prasad, Eswar, and Raghuram Rajan, 2008, "Next Generation Financial Reforms for India," *Finance and Development*, Vol. 45:3, pp. 23-27.

Setser, Brad, 2006, "The Chinese Conundrum: External Financial Strength, Domestic Financial Weakness," *CESifo Economic Studies*, Vol. 52:2, pp. 364-395.

Lecture 9, October 29th

Topic: The Global Financial Crisis: Implications for Emerging Markets

Emerging Markets: Resilience and Growth Amidst Global Turmoil, M. Ayhan Kose and Eswar Prasad, Brookings Institution Press, 2010.

Kose, M. Ayhan, Christopher Otrok, and Eswar Prasad, 2008, "How Much Decoupling? How Much Converging?" *Finance and Development*, Vol. 45:2.

Dervis, Kemal, 2012, "Convergence, Interdependence and Divergence," *Finance and Development*, Vol. 49:3.

Lecture 10, November 5th

Topic: Sustainability of Growth, Domestic and External Risks, Comparative Perspectives on Long-Term Growth Prospects

Blanchard, Olivier, and Francesco Giavazzi, 2006, "Rebalancing Growth in China: A Three-Handed Approach," *China and the World Economy*, Vol. 14:4, pp. 1-20.

Goldstein, Morris, and Nicholas R. Lardy, 2004, "What Kind of Landing for the Chinese Economy?" Policy Brief No. PB04-7 Washington, DC: Peterson Institute for International Economics.

Huang, Yasheng, and Tarun Khanna, 2003, "Can India Overtake China?" *Foreign Policy* July-August, pp. 74-81.

Lardy, Nicholas, 2006, "China: Toward a Consumption-driven Growth Path," Policy Brief 06-6, Washington, DC: Peterson Institute for International Economics.

Perkins, Dwight, and Thomas Rawski, 2007, "Forecasting China's Economic Growth Over the Next Two Decades," Harvard University manuscript.

Prasad, Eswar, 2009, "Is China's Growth Miracle Built to Last?" *China Economic Review*, Vol. 20:1, pp. 103-123.

Rosen, Daniel, and Trevor Houser, 2007, "China Energy: A Guide for the Perplexed," *China Balance Sheet*, CSIS.

Lecture 11, November 12th

Topic: Policies and Growth Prospects in China and the Asian Region

Guest Lecturer from IMF/World Bank

Lecture 12, November 19th

Topic: Different Approaches to Reform, Socio-Political Considerations

Keidel, Albert, 2007, "China Regional Disparities: The Causes and Impact of Regional Inequalities in Income and Well-Being," Carnegie Endowment for International Peace.

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

Prasad, Eswar, and Raghuram Rajan, 2006, "Modernizing China's Growth Paradigm," *American Economic Review*, Vol. 96:2, pp. 331-336.

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

Ravallion, Martin, and Shaohua Chen, 2007, "China's (Uneven) Progress Against Poverty," *Journal of Development Economics*, Vol. 82:1, pp. 1-42.

Ravallion, Martin, and Shaohua Chen, 2001, "When Economic Reform is Faster Than Statistical Reform: Measuring and Explaining Income Inequality in Rural China," *Oxford Bulletin of Economics and Statistics*, Vol. 61:1, pp. 33-56.

Xiaolian, Hu, 2007, "China's Approach to Reform," *Finance and Development*, Vol. 44:3, pp. 36-37.

Lecture 13, November 26th

Topic: Implications of China's and India's Emergence and Future Growth for World Economy

Kroeber, Arthur, 2011, "The Chinese Yuan Grows up Slowly: Fact and Fiction about China's Currency Internationalization," Policy Paper. Washington: New America Foundation.

Lardy, Nicholas, and Patrick Douglass, 2011, "Capital Account Liberalization and the Role of the Renminbi," Working Paper 11-6. Washington: Peterson Institute for International Economics.

Prasad, Eswar, 2011, "Rebalancing Growth in Asia," *International Finance*, Vol. 14:1, pp. 27-66.

Prasad, Eswar and Lei Ye, 2012, "The Renminbi's Role in the Global Monetary System," Brookings Institution Report.

Yu, Yongding, 2012, "Revisiting the Internationalization of the Yuan," ADBI Working Paper No. 366.

BACKGROUND READINGS & REFERENCE MATERIALS

Emerging Markets: Resilience and Growth Amidst Global Turmoil, M. Ayhan Kose and Eswar Prasad, Brookings Institution Press, 2010.

The Renminbi's Role in the Global Monetary System, Eswar Prasad (with Lei Ye), Brookings Institution Report, February 2012.

The Oxford Companion to Economics in India, edited by Kaushik Basu, Oxford University Press, 2007.

China's Growth and Integration into the World Economy, edited by Eswar Prasad, IMF Occasional Paper No. 232, 2004.

The Chinese Economy: Transitions and Growth, Barry Naughton, MIT Press, 2007.

China and India: Learning from Each Other, edited by Jahangir Aziz, Steven Dunaway, and Eswar Prasad, IMF Press, 2007.

India After Gandhi: The History of the World's Largest Democracy, Ramachandra Guha, HarperCollins, 2007.

Sustaining China's Economic Growth after the Global Financial Crisis, Nicholas R. Lardy, 2012, Peterson Institute Press.

COURSE ASSIGNMENTS AND REQUIREMENTS

Common Points about Formatting, Submission of Assignments

1. All text should be double-spaced (except footnotes and references, which can be single-spaced).
2. Use 12-point font for text (important: do not use smaller font size), at least 1” margins on all sides.
3. Follow formatting instructions for tables and figures.
4. Put on the subject line “4540: Assignment I” or whatever the relevant document is.
5. Email the documents in pdf format to Parul Sharma (ps552) and Carol Thomson (cmt8).
6. Put your name at the top right corner of each assignment.

Indicative Grade Allocation

Assignment I (Macro Data: Basic):	5 percent
Assignment II (GDP Comparisons):	5 percent
Assignment III (Trade, Exchange Rate):	5 percent
Assignment IV (Capital Flows):	5 percent
[Top three grades of assignments I-IV will be used to determine final grade]	
Assignment V (Data Note):	10 percent
Assignment VI (Research Note):	15 percent
Assignments VII-IX (Research Proposal, First Draft, Final Draft):	60 percent (10+20+30)

Assignment Schedule

Number	Description	Handed out	Due date
I.	Macro Data: Basic	Aug. 27	Aug. 31
II.	GDP Comparisons	Sept. 4	Sept. 7
III.	Trade, Exchange Rate	Sept. 10	Sept. 14
IV.	Interest Rates	Sept. 17	Sept. 21
V.	Data Note	Sept. 24	Sept. 28
VI.	Research Note	Oct. 1	Oct. 12
VII.	Research Proposal	Oct. 15	Oct. 29
VIII.	First Draft	Oct. 29	Nov. 16
IX.	Final Draft	Nov. 19	Dec. 7