

BOSTON COLLEGE

EC 374: Economic Reform in China and Latin America

Professor Chong-en Bai
Carney 148, 552-3690
Office Hours: Friday 3:00-5:00pm

Spring, 1998
Fulton 110
T,Th 9:00

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Carney 139, 552-3685
Office Hours: T 3:30-5:30, F 8:30-10:30

Overview:

This course will examine recent market-oriented reforms in China and Latin America. Students will be introduced to the tightening of macroeconomic policy, the liberalization of trade policy, the restructuring of property rights and corporate governance, and the reorganization of credit and labor markets. The course will give heavy emphasis to the development of analytical tools based on contemporary microeconomic theory. Intermediate micro theory (EC 201 or 203) is a prerequisite for this course.

Requirements:

The course will be taught in two modules, the first dealing with Latin America and the second with China. Each module will require a paper, an exam, and active class participation. The exams, to be given on **February 26** and **May 6**, will cover the assigned readings and the material presented in class. Each of the exams will be worth 25% of the final course grade. Each of the papers will be worth 20% of the final course grade. The remaining 10% of the course grade will be based on class participation.

Papers:

The first paper will be due on **February 19**, six weeks into the course. This essay will be a brief policy advocacy paper. Students will be asked to propose the next three steps for the reform agenda of a particular Latin American country.

The second paper will be due on **April 28**, the last day of class. Students will be asked to choose an aspect of the Chinese economy, survey the prereform problems and the history of reform, and propose further reform measures in the area.

The papers may not be longer than eight pages. Detailed instructions will be given in class.

Grading:

First exam: 25%
Second exam: 25%
First paper: 20%
Second paper: 20%
On-going class participation: 10%

Books, Coursepack, and Websites:

A coursepack which includes most of the journal articles is available in the bookstore.

We also recommend purchase of the following books:

- Eliana Cardoso and Ann Helwege, Latin America's Economy: Diversity, Trends, and Conflicts, MIT Press, 1992;
- Sebastian Edwards, Crisis and Reform in Latin America: From Despair to Hope, Oxford University Press, 1995;
- Inter-American Development Bank, Latin America After a Decade of Reforms, Johns Hopkins University Press, 1997;
- Carl Riskin, China's Political Economy, Oxford University Press, 1987;
- Janos Kornai, The Socialist System, Princeton University Press, 1992;
- Barry Naughton, Growing out of the Plan: Chinese Economic Reform 1978-1993, Cambridge University Press, 1995.

Students are likely to find helpful information at several key websites, among them:

- www.eclac.org
www.iadb.org
www.securities.com
www.worldbank.org

Lest We Lose Sight of the Obvious:

Come to class. Ask questions. Don't plagiarize. Don't cheat. Enough said.

Reading Lists

Jan 13. The Current Situation

- Inter-American Development Bank, Latin America After a Decade of Reforms (1997), Part One: "Latin America and the Caribbean in 1996: Adjusting to Reform," pp.3-27. [IDB]

Jan 15. Overview of the Reforms

- Sebastian Edwards, Crisis and Reform in Latin America: From Despair to Hope (1995), Chapter 1: "Introduction: The Launching of the Reforms," pp. 1-13. [Edwards] IDB, Part Two: "A Decade of Structural Reforms: All Pain and No Gain?" pp. 32-96.

Jan 20-22. Why Reform? Economic Growth and the Distribution of Income

- Lant Pritchett, "Divergence, Big Time," Journal of Economic Perspectives 11:3, Summer, 1997, pp. 3-17.
- Nancy Birdsall, David Ross, and Richard Sabot, "Inequality and Growth Reconsidered: Lessons from East Asia," World Bank Economic Review 5:3, September, 1995, pp. 477-508.
- Eliana Cardoso and Ann Helwege, Latin America's Economy: Diversity, Trends, and Conflicts (1992), Chapter 9, "Poverty," pp. 223-249. [Cardoso/Helwege] Edwards, Chapter 8, "Poverty, Income Distribution, and Human Resources," pp. 252-292.

Jan 27-29. Macroeconomic Stabilization

Cardoso/Helwege, Chapter 6, "Inflation," and Chapter 7, "Stabilization," pp. 139-201.
Edwards, Chapter 4, "Macroeconomic Adjustment," pp. 69-114.
IDB, "Fiscal Performance," pp. 103-122.

Feb 3-5. Trade Reform

Paul Krugman, "Protection in Developing Countries," in Rudiger Dornbusch, ed.,
Policymaking in the Open Economy (1993), pp. 127-148.
Cardoso/Helwege, Chapter 4, "From Import Substitution to Trade Liberalization," pp. 73-107.
Edwards, Chapter 5, "The Opening of Latin America," pp. 115-164.

Feb 10-12. Reform of Property

Edwards, Chapter 6, "Privatization and Deregulation," pp. 170-199.
Cardoso/Helwege, Chapter 10, "Agrarian Reform," pp. 251-279.

Feb 17-19. Reforming Credit Markets, Big and Small

Edwards, Chapter 7, "Capital Market Deregulation, Savings, and Investment," pp. 200-249.
Guillermo Calvo, Leonardo Leiderman, and Carmen Reinhart, "Inflows of Capital to Developing Countries in the 1990s," Journal of Economic Perspectives 10:2, Spring 1996, pp. 123-139.
David Bornstein, "The Barefoot Bank with Cheek," Atlantic Monthly, December 1995, pp. 40-47.

Feb 24. Reforming Labor Markets, Formal and Informal

Alejandra Cox, "Labor Market Regulation in Latin America: An Overview," in Labor Markets in Latin America: Combining Social Protection with Market Flexibility, eds. Sebastian Edwards and Nora Lustig, Washington: Brookings, 1997, pp. 127-150.
Douglas Marcouiller, Veronica Ruiz de Castilla, and Christopher Woodruff, "Formal Measures of the Informal-Sector Wage Gap in Mexico, El Salvador, and Brazil," Economic Development and Cultural Change 45:2, Jan. 1997, pp. 367-392.

Feb 26. First Exam

The second half of the course is an introduction to economic development and reform in China. The conditions before the reform and different stages of the reform will be discussed. Besides the textbooks recommended for purchase, we will also draw heavily from the following book:

Justin Yifu Lin, Fang Cai, and Zhou Li, The China Miracle, The Chinese University Press, 1996.

All books are on reserve and some journal articles are included in the reading package that is available for purchase in the bookstore.

Part I. The Chinese Economy under Traditional Socialism 1949---1978

1: The Chinese Communist Party and Its Economic Ideology

Kornai, J.: The Socialist System, (Chapter 3: "Power", pp.33---48), Princeton University Press, 1992.
Riskin, Chapter 3.

2: The Institutional Transition (1949---1955) --- The Formation and Characteristics of the Chinese State Sector

Lin et al, Chapters 1 and 2.
Riskin, Chapter 3, pp.41---52.

3: The "Great Leap Forward" --- The Establishment of the Agricultural Commune System

Riskin, Chapter 6, pp.114---145.
Lin, Justin Yifu, "Collectivization and China's Agricultural Crisis in 1959-1961," *Journal of Political Economy*, 96(6), 1990.

4: Features and Operations of the Chinese Centrally Planned Economy

Lin et al, Chapter 3.
Kornai, J.: "The Socialist System", (Chapter 7), Princeton University Press, 1992.

5: The Cultural Revolution and the Economics Behind it (10/20)

Riskin, Chapters 8 and 9.

Part II. The First Wave of Reform: 1978---1989

1: Why Reform?

Riskin, Chapter 11.
Perry, E. and C. Wong: "Introduction: The Political Economy of Reform in Post-Mao China: Causes, Content, and Consequences", (pp.1---10), in Perry and Wong (eds): "The Political Economy of Reform in Post-Mao China", Harvard University Press, 1985.
Harding, H.: "China's Second Revolution --- Reform after Mao", (Part I: The Origin of Reform, pp.11---20, pp.38---39), The Brookings Institute, Washington D.C., 1987.

2: The Fast-Paced Rural Reform and the Open-Door Policy 1977---1980

Riskin, C.: "China's Political Economy", (Chapter 12), Oxford University Press, 1987.
Hartford, K.: "Socialist Agricultural is Dead; Long Live Socialist Agricultural Organizational Transformation in Rural China", (pp.1---10), in Perry and Wong (eds): "The Political Economy of Reform in Post-Mao China", Harvard University Press, 1985.
Lin, Justin Yifu, "Rural Reforms and Agricultural Growth in China," *American Economic Review*, 82(1):\ 34-51, March, 1992.
McMillan, John, Whalley, John, and Zhu, Lijing, "Impact of China's Economic Reforms on Agricultural Productivity Growth," *Journal of Political Economy*, 97(5), 1991.

3: Incremental Reforms in Urban Areas and the Dual-Track System

Lin et al, Chapters 5 and 6.

Wu, J. and R. Zhao: "The Dual Pricing System in China's Industry", in B. Reynolds (eds): "Chinese Economic Reform: How Far, How Fast?", Academic Press, Inc., 1988.

Byrd, W.: "The Impact of the Two-Tier Plan/Market System in Chinese Industry", in B. Reynolds (ed): "Chinese Economic Reform: How Far, How Fast?", Academic Press, Inc., 1988.

Part III. The Chinese Economic Reform after 1989

1: The Aftermath of the Tian-An-Men Square and the Changed Mechanisms of Reform

Harding, H.: "The Problematic Future of China's Economic Reforms", in Joint Economic Committee, Congress of the United States (eds): "China's Economic Dilemmas in the 1990s: The problems of reforms, modernization, and interdependence", M.E. Sharpe, New York, 1990.

2: Restructuring Property Rights Without Privatization --- the Enterprise Reform

Jefferson, G. and T. Rawski: "Enterprise Reform in Chinese Industry", Journal of Economic Perspective, Spring, 1994.

Byrd, W. and Lin, Q.: "China's Rural Industry: An Introduction", in W. Byrd and Q. Lin (eds): "China's Rural Industry", Oxford University Press, 1990.

3: Cultivating the Factor Markets --- the Labor Market and Capital Market

World Bank: "China ---Financial Sector Policies and Institutional Development", ("Summary and Conclusions" pp.xi---xxiii), Washington DC, 1990.

4: Re-Establishing Governance: Public Finance and Central Banking

Naughton, B.: "Macroeconomic Management and System Reform in China", in G. White (ed): "The Chinese State in the Era of Economic Reform", M. E. Sharpe, Inc., 1991.

Prime, P.: "Taxation Reform in China's Public Finance", in Joint Economic Committee, Congress of the United States (eds): "China's Economic Dilemmas in the 1990s: The problems of reforms, modernization, and interdependence", M.E. Sharpe, New York, 1990.

5: More problems

Lin et al, Chapters 7 and 8.

Clarke, C.: "China's Transition to the Post-Deng Era", in Joint Economic Committee, Congress of the United States (eds): "China's Economic Dilemmas in the 1990s: The problems of reforms, modernization, and interdependence", M.E. Sharpe, New York, 1990.