**GPPS 455: Financing the China Economic Miracle**

Spring, 2023

Instructor: Victor Shih

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Mondays, Wednesdays: 3:30-4:50pm

Location: 3202

Office Hours: Tuesdays 3:30-5:30pm at RBC 1319 (sign up [here](https://docs.google.com/spreadsheets/d/1EalifwNsbiUJeg3qkQWmC6nIgsCpUA22olfR41WT_kk/edit?usp=sharing))

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Summary: This course will first examine the theoretical foundation of China’s financial system, as well as the pitfalls and benefits of this system. It then will examine the role of different financial institutions and instruments in this system. Finally, after decades of state controlled financing, this course inquires whether systemic risks are building up in the Chinese financial system.

By the end of the course, students will have command of the following topics:

* Basic theories of financial repression and how countries used it to accelerate the pace of growth in the past 100 years, as well as the pitfalls of financial repression
* Advanced knowledge of the structure of China’s financial system, including how industrial ministries work with the central bank and commercial banks to achieve specific macro and industry specific objectives
* The role of the Chinese Communist Party in controlling financial institutions in China, as well as how the party-based command structure can mobilize financial resources in China
* The pitfalls of regulation in banking, securities, and asset management and how they gave rise to financial frauds and non-performing credit.
* The rise and regulation of shadow banking in China
* The role that central and local government debt played in China’s financial system and on-going challenges in the financial system

Grade:

15% discussion questions on Canvas

20% class participation

20% midterm (**May 1st in-class, closed book written midterm)**

5% group project proposal (**due on May 10th via Canvas**)

10% group project presentation (**June 5th and June 7th in class**)

30% group project paper (**due June 9th at 11:59pm PST via Canvas**)

Required Books:

Carl Walter. 2022. *The red dream : the Chinese Communist Party and the financial* *deterioration of China* ([available electronically](https://ebookcentral.proquest.com/lib/ucsd/detail.action?pq-origsite=primo&docID=7080004)).

Andrew Collier. 2017. *Shadow banking and the rise of capitalism in China.* Singapore: Palgrave McMillan ([available electronically](https://link.springer.com/book/10.1007/978-981-10-2996-7) on the UCSD Library website)

**April 24th, May 29th, May 31st classes are on Zoom; there is no class on May 3rd ; otherwise classes and exam are in person.** Readings in article format are available in the “Reading” folder on Canvas. Discussion questions are submitted weekly, ideally before the Wednesday class each week in the “Discussion” section of Canvas. Students can omit submitting discussion questions for one week during the course without penalty.

**Please note that plagiarism is taken very seriously in this class. All cases of plagiarism will be prosecuted fully according to university policy. Please see here for the definition of plagiarism: http://senate.ucsd.edu/Operating-Procedures/Senate-Manual/Appendices/2**

**April 3rd, 5th : Financial Repression**

Please watch Khan Academy clips [on banking (lessons 1-4).](https://www.khanacademy.org/economics-finance-domain/core-finance/money-and-banking/banking-and-money/v/banking-1)

Gerschenkron, Alexander. 1962. *Economic Backwardness in Historical Perspective: A Book of Essays*. Cambridge, MA: The Belknap Press of Harvard University Press.—selections, pp. 5-51

Lardy, Nicholas. 2008. Financial repression. Peterson Institute Policy Brief.

**April 10th , 12th :** **China’s Main Bank System and the Politics of Finance**

Shih, Victor. 2008. *Factions and Finance in China: Elite Conflicts and Inflation*. New York: Cambridge University Press. Chapter 3. (Electronic edition [here](https://www.cambridge.org/core/books/factions-and-finance-in-china/C03A806642C88C39EDB9FB83CF2189BA)).

Carl Walter. 2022. *Red Dream:* Chapters 1-4

Heilmann, S. (2005). Regulatory innovation by Leninist means: Communist Party supervision in China's financial industry. *China Quarterly*(181).

Shih, Victor. 2017. How the party-state runs the economy: a model of elite decision-making in the financial market. In Willy Lam (eds.) *Routledge Handbook of the Chinese Communist Party.* London: Routledge.

**April 17th, 19th : the Bond and Stock Markets**

Schipke, Alfred, Markus Rodlauer, and Longmei Zhang. 2019. "China's bond market: characteristics, prospects, and reforms." In *The Future of China's Bond Market*, ed. A. Schipke, M. Rodlauer and L. Zhang. Washington DC: IMF.

Zong, Jun, Bo Li, and Laura E. Kodres. 2019. "Asset-backed securities." In *The Future of China's Bond Market*, ed. A. Schipke, M. Rodlauer and L. Zhang. Washington DC: IMF.

Carl Walter, Fraser Howie. 2012. *Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise.* New York:Wiley: Chapters 4-7

Sheng, Andrew. 2013. Private Equity in China: Injecting Equity into Entrepreneurial Growth. Fung Global Institute Policy Brief (12/2013).

Bank of America. 2015. Shadow banking monitor 24, financial system vulnerable to A-share losses, pp. 1-10.

Huang Yi, Wang Pengfei, Miao Jianjun. 2016. “Saving China’s Stock Market”

**April 24th , 26th : 2000 Bank Bailouts and Asset Management Companies**

**April 24th Class on Zoom!**

Carl Walter. 2022. *Red Dream:* Chapter 5-6

Ma, Guonan. 2006. Who foot China’s bank restructuring bill. In Garnaut, R. and Song, L. (eds) *The Turning Point in China’s Economic Development*. ANU E-press.

Shih, Victor, Huang, Louie & Lee Johnny. 2005. Non-performing loans: stuck in quick sand. *China Economic Quarterly* 2005: 4Q.

Deutsche Bank. 2014. China Cinda: A misplaced sense of security: pp. 13-35

**May 1st , 3rd: In Class Mid-term on May 1st , May 3rd NO CLASS**

**May 8th, 10th : Shadow Bank**

**Group Project Proposal Due on May 10th**

Andrew Collier. 2017. *Shadow banking and the rise of capitalism in China.* Singapore: Palgrave McMillan: Chapter 6-9.

Bernstein Research. 2012. China banks: sizing the risk of wealth management products; connecting the dots between WMPs and bank deposits.

Shim, I., Liu, J., & Liu, X. (2022). Shadow loans and regulatory arbitrage: evidence from China (BIS).

UBS. 2018. China A-share Strategy: Risks to stock pledges under new shareholding reduction rules

**May 15th , 17th : The 2009 Stimulus and the Local Debt Conundrum**

Shih, Victor. 2010. Local government debt: big rock candy mountain. *China Economic Quarterly*. (June, 2010)

Moody’s. 2012. Chinese regional and local governments: growing use of trust products could challenge credit quality

Andrew Collier. 2017. *Shadow banking and the rise of capitalism in China.* Singapore: Palgrave McMillan: Chapter 3-5

Pettis, Michael. 2013. [Hidden debt must still be repaid](https://carnegieendowment.org/chinafinancialmarkets/53379). China Financial Market Blog.

Bai, Chong'en, Chang-tai Hsieh, and Zheng Song. 2016. "The long shadow of a fiscal expansion." In *Brookings Papers on Economic Activity*. Washington, DC: Brookings Institution.

**May 22nd, 24th:**  **Accumulating Risks in China: Domestic Dimension**

IMF. (2022). *People’s Republic of China: Staff report for the 2022 article IV consultation* (IMF Country Report, Issue: pp. 1-25.

Andrew Collier. 2017. *Shadow banking and the rise of capitalism in China.* Singapore: Palgrave McMillan: Chapter 10-11.

Rogoff, K. S., & Yang, Y. (2020). *Peak China housing*. Cambridge, MA (NBER).

Shih, Victor. 2017. Financial instability in China: possible pathways and their likelihood. *MERICS China Monitor*. Berlin: MERICS.

**May 29th , 31st : Accumulating Risks in China: the International Dimension**

**May 29th and 31st Classes on Zoom**

Krugman, Paul, Rogoff, Ken, Fischer, Stanley & McDonough, William. 1999. Currency crises. In Felstein, Martin (eds.) *International Capital Flows*. Chicago: University of Chicago Press.

Mundell, Robert. Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates. *Canadian Journal of Economic and Political Science*. 29: 4.

Zhou, Xiaochuan. 2016. Transcript of Governor Zhou Xiaochuan’s Press Conference. (<http://www.pbc.gov.cn/english/130721/3029330/index.html>)

Yu, Yongding. 2016. The floor for RMB. *Project Syndicate*. (<https://www.project-syndicate.org/commentary/stemming-renminbi-depreciation-expectations-by-yu-yongding-2016-01?utm_source=project-syndicate.org&utm_medium=email&utm_campaign=authnoteB&barrier=true>)

Horn, S., Parks, B., Reinhart, C., & Trebesch, C. (2023). China as an International Lender of Last Resort. Williamsburg, VA: AidData. (Working Papers 124)

**June 5th, 7th Project Presentations in person**

**June 9th : Final paper due via Canvas before 11:59PM**