



**Department of Economics**

**Hong Kong University of Science and Technology**

**China's Economic Model: Key Insights and the Way forward**

**Lecturer: Prof. Alicia Garcia Herrero**

**Office Hours:**

**Office Number:** By Appointment

**Phone: 95207397**

**Time and Venue: Monday (Aug 26, Sept 16, 23, Oct 14), 19:00-22:30**

**Friday (Aug 30, Sept 27, Oct 4), 19:00-22:30**

**Sunday (Oct 6), 9:00-12:30**

**Business School Central, Rm 1501- 02, 15/F, 3A Chater Rd,**

**Central**

**\* Class on 27 Sept only - UCC, Address: 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong**

**\* Class on 6 Oct only – LSK 2003, Lee Shau Kee Building, HKUST**

**Email: [alicia@ust.hk](mailto:alicia@ust.hk)**

***Course Outline:***

***The course overviews the key characteristics of the Chinese economy with a big emphasis on its transformation. Key attention is put on China's way forward both in terms of challenges and opportunities***

**1. *Course Evaluation:***

**Class Participation** \_\_\_\_\_ **15%**

**Class Presentations** \_\_\_\_\_ **35%**

**Final Exam** \_\_\_\_\_ **50%**

**This course is composed of 8 sessions:**

1. August 26: Topic 1 (below)
2. August 30: Topic 2 and 3
3. September 16: Topic 4
4. September 23: Topic 5
5. September 27: Topic 6 and 7
6. October 4: Topic 8
7. October 6: Students' presentations
8. October 14: Exam and students' presentations

**The first six classes will cover the eight topics listed below in that order.** Students are welcome to read the material beforehand so as to enhance class participation. More materials may be added during the course as the program is intended to be as up-to-date as possible. Class participation will be ensured in the form of **role play**. Role play will not be announced in advance as it aims at encouraging free flow of ideas. Still pre-viewing the material in this program can help feel prepare for the role play.

**The last two sessions will be dedicated to class presentations.** Presentations will be conducted in pairs. Both the team composition and the topic will be chosen by students but will need to be directly related to the program. We shall aim at confirming topics and teams by the sixth class (i.e., by September 23).

**Students will take final exam during the first hour of the last session (October 15).** Students will be asked to write an essay on a key issue on the China economy among those covered in class. No notes will be allowed. No make-up exams will be administered except under fully justified circumstances. If student cannot attend exam, he/she should notify me so as to make alternative arrangements BEFORE the exam. In the case of absence due to medical reasons, the student is required to submit medical certificate.

### **Detail course outline and references:**

#### ***General handbook for the course***

*China's Economy. What Everyone Needs to Know*, Arthur Kroeber, April 2016

#### **1. China's growth model and current situation**

*"China's Economy. What Everyone Needs to Know"* (chapter 1-4 and 11), Arthur R. Kroeber, Oxford University Press. April 2016

*"People's Republic of China"*, Markus Rodlauer and Petya Koeva Brooks, IMF Country Report No. 18/240 Article IV, July, 2018  
<https://www.imf.org/en/Publications/CR/Issues/2018/07/25/Peoples-Republic-of-China-2018-Article-IV-Consultation-Press-Release-Staff-Report-Staff-46121>

*"A New Development Strategy for 2030"* Chapter 2 *China 2030 Building a Modern, Harmonious, and Creative Society*, Robert B. Zoellick, LI Wei, and Jim Yong Kim, 2012  
<https://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf>

*"China's New Sources of Economic Growth"*, ANU Press, July 2016.  
<https://press.anu.edu.au/publications/series/china-update-series/chinas-new-sources-economic-growth-vol-1>

*"From Old to New China Tectonic Shifts for Asia in 2016"*, A. García-Herrero and Trinh D. Nguyen, December 15<sup>th</sup> 2015 (Available in Canvas)

## 2. China's monetary policy and exchange rate regime

*"China's Economy. What Everyone Needs to Know"* (chapter 6), Arthur R. Kroeber, Oxford University Press. April 2016

*"China: Navigating through the PBoC's growing number of monetary instruments: Where are we heading"*, Alicia García-Herrero and Iris Pang, Natixis China Hot Topics, March 10th, 2016

<https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/k17Oyfy3tI2CfDegTEgEpg==>

*"Chinese banks liquidity problem: Regulation and lack of collateral as key culprits"*, Alicia García Herrero, Gary Ng, March 2017

<https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/YqSuOhO62WgW7ION9W8qog==>

*"China's exchange rate policy: adding a countercyclical factor to gain control"*, Alicia Garcia Herrero, Jianwei Xu, Aug 2017

<https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/wYYMPdS2g4WxwsB0MPL24Q==>

*"Too crowded bets on "7" for USDCNY could be dangerous"*, Alicia Garcia-Herrero and Jianwei XU, Natixis, May 2019.

[https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/rwzbKoKB1ZcAwK8\\_awfIKw==](https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/rwzbKoKB1ZcAwK8_awfIKw==)

*"Further rate liberalization in China to foster a market-driven reduction in lending rates"*, Alicia García Herrero, Gary Ng, 21 August 2019 (Available in Canvas)

## 3. China's reform agenda

*"China's Economy. What Everyone Needs to Know"* (chapter 5), Arthur R. Kroeber, Oxford University Press. April 2016

*"People's Republic of China"*, Markus Rodlauer and Petya Koeva Brooks, IMF Country Report No. 18/240 Article IV, July, 2018

<https://www.imf.org/en/Publications/CR/Issues/2018/07/25/Peoples-Republic-of-China-2018-Article-IV-Consultation-Press-Release-Staff-Report-Staff-46121>

*"China Economic Quarterly: The State Sector's New Clothes"*, Gavekal Dragonomics, Jun 2016 (Available in Canvas)

*"How to handle state-owned enterprises in EU-China investment talks"*, Alicia Garcia Herrero, Jianwei Xu, Jun 2017

<http://bruegel.org/2017/06/how-to-handle-state-owned-enterprises-in-eu-china-investment-talks/>

#### 4. China's financial sector

*“China Bank Monitor 2018: Half way through clean-up and deleveraging, a new bank-led stimulus is being launched”*, Alicia García Herrero, Gary Ng, March 2019

[https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/6\\_h0CrSYwLHxjTNC-m44A==](https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/6_h0CrSYwLHxjTNC-m44A==)

*“Takeaway from Natixis China Banking Monitor 2018”*, Alicia García Herrero, Gary Ng, March 2019

[https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/KLYE97KkCTUIgIf\\_60sReg==](https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/KLYE97KkCTUIgIf_60sReg==)

*“China's stimulus centered in reducing the credit crunch of the private sector”*, Alicia García Herrero, Jianwei Xu, Gary Ng, January 2019

<https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/W895bmkQU3oe3dn35RbAtw==>

*“What can we read from China's bond markets for growth, private credit and capital flows”*, Alicia García Herrero, Gary Ng, June 2019

<https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/TUEgXJHnk78W71WKEiC1xw==>

*“NATIXIS China Onshore Bond Monitor: Lax monetary policy lifted bond issuance for the public sector and banks, but private firms are still left behind”*, Alicia García Herrero, Gary Ng, 2019

[https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/dJ3MUR0PYdTJ\\_Be3a19bZg==](https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/dJ3MUR0PYdTJ_Be3a19bZg==)

*“NATIXIS China Offshore Bond Monitor: Credit rally in the offshore market explained not only by the FED but also by the reduced supply”*, Alicia García Herrero, Gary Ng, 2019

[https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/EnjVF\\_Lsq1uFIP9mUZbWQ==](https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/EnjVF_Lsq1uFIP9mUZbWQ==)

*“China's financial leverage: An endless cat and mouse game continues to benefit large banks”* Alicia García Herrero, Gary Ng, September 2017

<https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/zkPhdxNMP8vN1dOv8cxPcA==>

*“China's ‘matryoshka’ approach for debt-to-equity swaps could be good for banks, but bad for investors”*, Alicia Garcia-Herrero and Gary Ng, March 8, 2018.

<http://bruegel.org/2018/03/chinas-matryoshka-approach-for-debt-to-equity-swaps-could-be-good-for-banks-but-bad-for-investors/>

## 5. China's financial and capital account liberalization

*“Is China taking financial liberalisation seriously? The Chinese financial system after the great global imbalances”* A. García Herrero, Centre for European Policy Studies (CEPS), September 25th, 2014

<http://www.eurocapitalmarkets.org/events/lunchtime-events/china-taking-financial-liberalisation-seriously-chinese-financial-system>

*“Are foreign investors back to China? The short answer is yes but temporary”*, Alicia Garcia Herrero, Jianwei Xu and Gary Ng, October 2018

[https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/iwSEowr6BNpJp9i0rlmr\\_g==](https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/iwSEowr6BNpJp9i0rlmr_g==)

*“RMB internationalization: NATIXIS annual report”*, Alicia Garcia Herrero, Jianwei Xu, May 2018

<https://research.natixis.com/GlobalResearchWeb/main/globalresearch/viewdocument?id=bIZjNIQ86-LVYxGxoAZLBw==>

*“Internationalising the currency while leveraging massively: the case of China”*, Alicia García Herrero, BRUEGEL Working Paper, October 2015

<http://bruegel.org/2015/10/internationalising-the-currency-while-leveraging-massively-the-case-of-china/>

*“Navigating through the mist: Introducing Natixis China Capital Flow Tracker”*, Alicia García Herrero, Iris Pang, Gary Ng, October 2016

<https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/FkSHQLXEEHWSEhzVFpvvog==>

*“Heightened pressure on capital outflows in Q3 2018 and beyond due to increasingly divergent monetary policy”*, Alicia Garcia-Herrero and Gary Ng, Q3, 2018.

[https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/s7VN-3jJ0\\_BdFdBaG\\_Su3w==](https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/s7VN-3jJ0_BdFdBaG_Su3w==)

*“China's financial opening: Will it be different this time?”*, Alicia Garcia-Herrero and Gary Ng, May 9, 2018.

<http://bruegel.org/2018/05/chinas-financial-opening-will-it-be-different-this-time/>

## 6. China's fiscal policy and indebtedness

*“China's Economy. What Everyone Needs to Know”* (chapter 6), Arthur R. Kroeber, Oxford University Press. April 2016

*“No systematic risk from China's household debt but uncertainties looming”*, Alicia Garcia-Herrero and Jianwei Xu, February 7, 2018.

[https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/QZthA8T\\_HGj6Vs1jLpWipw==](https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/QZthA8T_HGj6Vs1jLpWipw==)

*“NATIXIS China Local Government Monitor: Local government risk higher in 2018 with lower cost of funding and decreasing disparities across provinces”*, Alicia García Herrero, Jianwei Xu, June 2019

<https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/UXhCrlcfP2LJS4y3sjQrIw==>

*“A primer on China’s debt: Piling up slowly in 2018 but expect an acceleration in 2019”*, Alicia García Herrero, Jianwei Xu and Gary Ng, March 2019

[https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/\\_9bvN2ITke1Wg-j1RMnKA==](https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/_9bvN2ITke1Wg-j1RMnKA==)

*“A primer on China’s fiscal position: Worsening but with less off-balance sheet financing”*, Alicia García Herrero, Jianwei Xu and Gary Ng, January 2019

<https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/32oQNTvAIh3yQP5r1OIIfg==>

*China’s corporate monitor*, Alicia García Herrero, Jianwei Xu and Gary Ng, NATIXIS, 2018

<https://research.natixis.com/GlobalResearchWeb/main/globalresearch/viewdocument?id=ReHj1WRvNxPN0PiyyPPCQA==>

*“Can the Chinese government afford bailing out its zombie state-owned companies”*, Alicia García Herrero, Jianwei Xu, Oct 2017

[https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/APwLtgN-mRlq\\_4mJ6aymmw==](https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/APwLtgN-mRlq_4mJ6aymmw==)

## 7. *China’s innovation*

*“China’s Digital Economy: Opportunities and Risks”*, Longmei Zhang and Sally Chen, IMF, January 17, 2019.

<https://www.imf.org/en/Publications/WP/Issues/2019/01/17/Chinas-Digital-Economy-Opportunities-and-Risks-46459>

*“How big is China’s digital economy?”*, Alicia García Herrero, Jianwei Xu, HKUST IEMS Working Paper, July 2018.

<https://iems.ust.hk/assets/publications/working-papers-2018/iemswp2018-56.pdf>

*“The China effect on global innovation”*, Mckinsey Global Institute, October 2015.

[https://www.mckinsey.com/~media/McKinsey/Featured%20Insights/Innovation/Gauging%20the%20strength%20of%20Chinese%20innovation/MGI%20China%20Effect\\_Full%20report\\_October\\_2015.ashx](https://www.mckinsey.com/~media/McKinsey/Featured%20Insights/Innovation/Gauging%20the%20strength%20of%20Chinese%20innovation/MGI%20China%20Effect_Full%20report_October_2015.ashx)



**8. *China in the World: Relations with the US, Europe and China's Grand Strategy: The Belt and Road Initiative (BRI)***

***Trade-war related papers***

*"US-China strategic competition: US panicking at China's big hedge?"*, Alicia Garcia-Herrero and Jianwei XU, May 8, 2019.

<https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/K6lSEeaEgBvx-pfq7glw5A==>

*"Why this round of U.S. protectionism is different"*, Alicia Garcia-Herrero and Jianwei XU, April 24, 2018.

<http://bruegel.org/2018/04/why-this-round-of-u-s-protectionism-is-different/>

*"US Tariffs Aim to Contain China's Technological Rise"*, Alicia Garcia-Herrero, April 10, 2018.

<http://bruegel.org/2018/04/u-s-tariffs-aim-to-contain-chinas-technological-rise/>

*"What Are the Targets in the US-China Trade War"*, Alicia Garcia-Herrero, April 10, 2018.

<http://bruegel.org/2018/04/what-are-the-targets-in-the-u-s-china-trade-war/>

*"Will U.S. tax reform lure U.S. companies away from China"*, Alicia Garcia-Herrero, March 26, 2018.

<http://bruegel.org/2018/03/will-u-s-tax-reform-lure-u-s-companies-away-from-china/>

*"What can China do to withstand the 200 billion package of US tariff threat?"*, Alicia Garcia-Herrero and Jianwei XU, 13 July, 2018.

<https://research.natixis.com/GlobalResearchWeb/main/globalresearch/viewdocument?id=JleEU3DYU2dufWAc0hPkIQ==>

*"RMB internationalization not a solution to the trade war"*, Alicia Garcia-Herrero and Gary Ng, 13 July, 2018.

[https://research.natixis.com/GlobalResearchWeb/main/globalresearch/viewdocument?id=t49Ct\\_S770xooCDhZH\\_iOw==](https://research.natixis.com/GlobalResearchWeb/main/globalresearch/viewdocument?id=t49Ct_S770xooCDhZH_iOw==)

*"Is the market overreacting to the US-China trade war? Yes if only focusing on trade measures"*, Alicia Garcia-Herrero, Jianwei XU and Gary Ng, 10 July, 2018.

<https://research.natixis.com/GlobalResearchWeb/main/globalresearch/viewdocument?id=N1HHUINfD0WrDpoFJI7s0w==>



## **EU**

“*China-EU Relations: Where to now?*”, Pr Kerry Brown, OBSERVATOIRE CHINE 2016/2017, September 2016.

[http://www.defense.gouv.fr/content/download/487437/7798438/version/1/file/OBS\\_Chine\\_201609-NA11-China+EU+Relations+Where+to+Now.pdf](http://www.defense.gouv.fr/content/download/487437/7798438/version/1/file/OBS_Chine_201609-NA11-China+EU+Relations+Where+to+Now.pdf)

“*EU–China Economic Relations to 2025. Building a Common Future*”, Alicia Garcia Herrero, K.C. Kwok, Tim Summers, Xiangdong Liu, Yansheng Zhang Sep 2017

<http://bruegel.org/2017/09/eu-china-economic-relations-to-2025-building-a-common-future/>

“*China trade relations with the South: What can Africa learn from the Latin American case?*”, Alicia Garcia Herrero, Carlos Casanova, BBVA Research, November 2014.

<https://www.bbva.com/en/publicaciones/chinas-trade-relations-with-the-south-what-can-africa-learn-from-the-latin-american-case/>

“*NATIXIS China M&A Monitor 2018: Focusing on Europe in the midst of total deceleration*”, Alicia Garcia-Herrero, Gary Ng, 19 March, 2019.

<https://www.research.natixis.com/GlobalResearchWeb/Main/GlobalResearch/ViewDocument/mLDIowtz66vncuQnFj6khA==>

## **South-South relations**

“*China Belt and Road: Can Europe Expect Trade Gains?*”, Alicia Garcia-Herrero and Jianwei XU, HKUST IEMS Working Papers No. 2016-38.

<http://iems.ust.hk/publications/iems-working-papers/alicia-can-europe-expect-trade-gains>

“*China Cannot Finance the Belt and Road Alone*”, Alicia Garcia-Herrero, HKUST IEMS Thought Leadership Brief No.17, August 2017.

<https://iems.ust.hk/assets/publications/thought-leadership-briefs/tlb17/hkust-iems-tlb17-garcia-herrero.pdf>

“*China Belt and Road: Can Europe Expect Trade Gains?*”, Alicia Garcia-Herrero and Jianwei XU, HKUST IEMS Thought Leadership Brief No.14, December 2016.

<http://iems.ust.hk/publications/iems-working-papers/alicia-can-europe-expect-trade-gains>

*General Policies:*

**Readings and Lecture Notes:**

I will bring point slides for each week to the class. They will not be posted before. You are encouraged to read the material as suggested during the previous class and read it again – in the light of the presentation and the discussion – after the class.

**Academic Policy:** Students will need to follow HKUST Academic Integrity and Honor Code (<http://www.ust.hk/vpao/integrity>).

**Classroom Courtesy:** Class discussions will be conducted in an orderly fashion. If a student must enter the classroom after class has begun, please do so as quickly and quietly as possible. You are welcome to bring your laptop to class in order to take notes. Note that you may not engage in distracting behavior such as chatting, using mobile phones in class, instant messaging, or checking e-mail. Violators will lose part or all class participation marks.

**Student feedback** is essential for course improvement. At any time during you may approach me or write an anonymous note (e.g., via campus mail, or slip a note under my office door) with comments on the things you like, you do not like or suggestions for improvements.