

Syllabus

China's Economic and Political Development (Chinas wirtschaftliche und politische Entwicklung)

M.WIWI-VWL.0174

Winter semester 2019/20

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1. General information

1.1 Course content

Over the last decades, China has experienced an unprecedented economic rise. According to World Bank estimates, more than 850 million people have been lifted out of extreme poverty. Today, China is the world's largest exporter and the second largest economy. The country's own global development strategy, the Belt and Road Initiative, intends to connect China with more than 150 countries through a "belt" of infrastructure development and investment projects. This challenges the long-standing dominance of Western providers of international development finance. More broadly, China's emergence has led to significant challenges, both domestically and internationally.

This Master seminar intends to shed light onto selected major aspects of China's economic and political development, it reviews the relevant economic literature, and seeks to foment discussions between students on the related challenges and possible solutions. The seminar starts with economic research on China's economic rise from a macro and micro perspective. We then turn to some of the challenges that China faces domestically—including inequality, poverty, urbanization, and environmental impacts. We also discuss economic research on China's political development, which includes corruption, favoritism, and media censorship. Finally, we cover international aspects of China's emergence, including its trade relations, investment decisions, and effects of its foreign aid.

Chapter 1	China's economic growth
Chapter 2	Innovation
Chapter 3	Inequality and poverty
Chapter 4	Historical roots of China's development
Chapter 5	Education
Chapter 6	Political evaluation and promotion
Chapter 7	Corruption
Chapter 8	Media, propaganda and censorship
Chapter 9	Gender
Chapter 10	Environment
Chapter 11	Political economy of trade and investment
Chapter 12	Development aid
Chapter 13	China in global governance
Chapter 14	Economic effects on the "West"
Chapter 15	Political effects on the "West"
Chapter 16	Other current debates

1.2 Course goals

Students learn how to work through cutting-edge empirical research on China's economic and political development; synthesize and critically review scholarly work; write referee reports; and present research in front of an academic audience.

1.3 Prerequisites

There are no formal requirements but knowledge in the following areas is highly recommended: microeconomics, macroeconomics, and econometrics at Master level.

1.4 Credit points

6 ECTS-LP.

1.5 Registration

Please register via FlexNow until **Wednesday, November 6, 2019**. The attendance at the introductory meeting is compulsory for registration. The number of participants is restricted to 20.

2. Course overview

2.1 Description of the teaching and learning methods

By writing referee reports, students practice their ability to synthesize the results of academic studies and critically review them. With the opportunity to present scholarly work, students practice their ability to present key insights from complex empirical papers as well as defend arguments and empirical approaches from the literature. Through their engagement in discussions with other students and the teaching staff, they train their ability to reflect on the research papers by scholars and statements by other students. **The course language is English.**

2.2 Meetings

Introductory meeting:

- Wednesday, October 30, 16:00-21:00, Room: MZG/Blauer Turm – 9.111

Seminar sessions:

- Wednesday, November 20, 16:00-21:00, Room: Oeconomicum – 1.134
- Wednesday, December 4, 16:00-21:00, Room: Waldweg 26, Altbau - PIZ 4484 – 1.202
- Wednesday, December 18, 16:00-21:00, Room: Waldweg 26, Altbau - PIZ 4484 – 1.202

- Wednesday, January 8, 16:00-21:00, Room: MZG/Blauer Turm – 9.111

2.3 Examination and grading of the module

The grading consists of four components:

- Presentation of two research articles [2x15%]
- Short oral discussions of two papers [2x5%]
- Four referee reports (essays, maximum of 4 pages) [4x15%]
- Participation in class [at the margin]

2.4 Course materials

- The required readings are announced below.
- Supplementary course materials will be announced at the beginning of each meeting and/or published on Stud.IP.

Preliminary reading list:

SESSION 1

Chapter 1: China's economic growth

Zhu, Xiaodong. "Understanding China's Growth: Past, Present, and Future". *Journal of Economic Perspectives* 26, no. 4 (2012): 103–24. <https://doi.org/10.1257/jep.26.4.103>.

The pace and scale of China's economic transformation have no historical precedent. In 1978, China was one of the poorest countries in the world. The real per capita GDP in China was only one-fortieth of the U.S. level and one-tenth the Brazilian level. Since then, China's real per capita GDP has grown at an average rate exceeding 8 percent per year. As a result, China's real per capita GDP is now almost one-fifth the U.S. level and at the same level as Brazil. This rapid and sustained improvement in average living standard has occurred in a country with more than 20 percent of the world's population so that China is now the second-largest economy in the world. I will begin by discussing briefly China's historical growth performance from 1800 to 1950. I then present growth accounting results for the period from 1952 to 1978 and the period since 1978, decomposing the sources of growth into capital deepening, labor deepening, and productivity growth. But the main focus of this paper will be to examine the sources of growth since 1978, the year when China started economic reform. Perhaps surprisingly, given China's well-documented sky-high rates of saving and investment, I will argue that China's rapid growth over the last three decades has been driven by productivity growth rather than by capital investment. I also examine the contributions of sector-level productivity growth, and of resource reallocation across sectors and across firms within a sector, to aggregate productivity growth. Overall, gradual and persistent institutional change and policy reforms that have reduced distortions and improved economic incentives are the main reasons for the productivity growth.

Li, Hongbin, Lei Li, Binzhen Wu, and Yanyan Xiong. "The End of Cheap Chinese Labor". *Journal of Economic Perspectives* 26, no. 4 (2012): 57–74. <https://doi.org/10.1257/jep.26.4.57>.

In recent decades, cheap labor has played a central role in the Chinese model, which has relied on expanded participation in world trade as a main driver of growth. At the beginning of

China's economic reforms in 1978, the annual wage of a Chinese urban worker was only \$1,004 in U.S. dollars. The Chinese wage was only 3 percent of the average U.S. wage at that time, and it was also significantly lower than the wages in neighboring Asian countries such as the Philippines and Thailand. The Chinese wage was also low relative to productivity. However, wages are now rising in China. In 2010, the annual wage of a Chinese urban worker reached \$5,487 in U.S. dollars, which is similar to wages earned by workers in the Philippines and Thailand and significantly higher than those earned by workers in India and Indonesia. China's wages also increased faster than productivity since the late 1990s, suggesting that Chinese labor is becoming more expensive in this sense as well. The increase in China's wages is not confined to any sector, as wages have increased for both skilled and unskilled workers, for both coastal and inland areas, and for both exporting and nonexporting firms. We benchmark wage growth to productivity growth using both national- and industry-level data, showing that Chinese labor was kept cheap until the late 1990s but the relative cost of labor has increased since then. Finally, we discuss the main forces that are pushing wages up.

Chapter 2: Innovation

Eberhardt, Markus, Christian Helmers, and Zhihong Yu. "What Can Explain the Chinese Patent Explosion?" *Oxford Economic Papers* 69, no. 1 (2017): 239–62. <https://doi.org/10.1093/oep/gpw042>.

After more than three decades of high growth based on its low-wage advantage and relatively favorable demographics--in combination with market-oriented reforms and openness to the world economy--China is at a crossroads with a much higher wage and a shrinking workforce. Future growth will depend, by necessity, more on the generation of increased productivity, and domestic innovation will play an important part in this. In this paper, we assess the likelihood that China can make the necessary transition. Using data on expenditure on research and development, and patent applications, receipts, and citations, we show that the Chinese economy has become increasingly innovative. We will argue that rising wages and expanding markets are among the important drivers of China's growth in innovation. On the other hand, we find evidence of resource misallocation in the innovation area: while state-owned firms receive more subsidies, private firms exhibit more innovation results. Innovation can presumably progress even faster if resource misallocation can be tackled.

Wei, Shang-Jin, Zhuan Xie, and Xiaobo Zhang. "From 'Made in China' to 'Innovated in China': Necessity, Prospect, and Challenges." *Journal of Economic Perspectives* 31, no. 1 (2017): 49–70. <https://doi.org/10.1257/jep.31.1.49>.

We analyse the 'explosion' of patent filings by Chinese residents, both domestically and in the USA during the early 2000s, employing a unique data set of 374,000 firms matching patent applications to manufacturing census data. Our analysis reveals that patenting is highly concentrated among a small number of firms, operating in the information and communication technology (ICT) sector. Although increases in patent filings by these companies are partly driven by increased R&D intensity, our analysis suggests that the explosion of patent filings at the Chinese patent office is driven by factors other than underlying innovative behaviour, including government subsidies that encourage patent filings directly.

Chapter 3: Inequality and poverty

Ravallion, Martin, and Shaohua Chen. "China's (Uneven) Progress against Poverty." *Journal of Development Economics* 82, no. 1 (2007): 1–42. <https://doi.org/10.1016/j.jdeveco.2005.07.003>.

While the incidence of extreme poverty fell dramatically in China over 1980–2001, progress was uneven over time and across provinces. Rural areas accounted for the bulk of the gains to

the poor, though migration to urban areas helped. Rural economic growth was far more important to national poverty reduction than urban economic growth; agriculture played a far more important role than the secondary or tertiary sources of GDP. Taxation of farmers and inflation hurt the poor; local government spending helped them in absolute terms; external trade had little short-term impact. Provinces starting with relatively high inequality saw slower progress against poverty, due both to lower growth and a lower growth elasticity of poverty reduction.

Piketty, Thomas, Li Yang, and Gabriel Zucman. “Capital Accumulation, Private Property, and Rising Inequality in China, 1978–2015”. *American Economic Review* 109, no. 7 (2019): 2469–96. <https://doi.org/10.1257/aer.20170973>.

We combine national accounts, surveys, and new tax data to study the accumulation and distribution of income and wealth in China from 1978 to 2015. The national wealth-income ratio increased from 350 percent in 1978 to 700 percent in 2015, while the share of public property in national wealth declined from 70 percent to 30 percent. We provide sharp upward revision of official inequality estimates. The top 10 percent income share rose from 27 percent to 41 percent between 1978 and 2015; the bottom 50 percent share dropped from 27 percent to 15 percent. China’s inequality levels used to be close to Nordic countries and are now approaching US levels.

Chapter 4: Historical roots of development

Meng, Xin, and Nancy Qian. “The Long Term Consequences of Famine on Survivors: Evidence from a Unique Natural Experiment using China’s Great Famine”. NBER Working Paper No. 14917 (2009). <https://doi.org/10.3386/w14917>.

This paper estimates the long run impact of famine on survivors in the context of China’s Great Famine. To address problems of measurement error of famine exposure and potential endogeneity of famine intensity, we exploit a novel source of variation in regional intensity of famine derived from the unique institutional determinants of the Great Famine. To address attenuation bias caused by selection for survival, we estimate the impact on the upper quantiles of the distribution of outcomes. Our results indicate that in-utero and early childhood exposure to famine had large negative effects on adult height, weight, weight-for-height, educational attainment and labor supply.

Shiue, Carol H., and Wolfgang Keller. “Markets in China and Europe on the Eve of the Industrial Revolution”. *American Economic Review* 97, no. 4 (2007): 1189–1216. <https://doi.org/10.1257/aer.97.4.1189>.

Why did Western Europe industrialize first? An influential view holds that its exceptionally well-functioning markets supported with a certain set of institutions provided the incentives to make investments needed to industrialize. This paper examines this hypothesis by comparing the actual performance of markets in terms of market integration in Western Europe and China, two regions that were relatively advanced in the preindustrial period, but would start to industrialize about 150 years apart. We find that the performance of markets in China and Western Europe overall was comparable in the late eighteenth century. Market performance in England was higher than in the Yangzi Delta, and markets in England also performed better than those in continental Western Europe. This suggests strong market performance may be necessary, but it is not sufficient for industrialization. Rather than being a key condition for subsequent growth, improvements in market performance and growth occurred simultaneously.

SESSION 2

Chapter 5: Education

Cantoni, Davide, Yuyu Chen, David Y. Yang, Noam Yuchtman, and Y. Jane Zhang. “Curriculum and Ideology”. *Journal of Political Economy* 125, no. 2 (2017): 338–92. <https://doi.org/10.1086/690951>.

We study the causal effect of school curricula on students’ political attitudes, exploiting a major textbook reform in China between 2004 and 2010. The sharp, staggered introduction of the new curriculum across provinces allows us to identify its causal effects. We examine government documents articulating desired consequences of the reform and identify changes in textbooks reflecting these aims. A survey we conducted reveals that the reform was often successful in shaping attitudes, while evidence on behavior is mixed. Studying the new curriculum led to more positive views of China’s governance, changed views on democracy, and increased skepticism toward free markets.

Li, Hongbin, Pak Wai Liu, and Junsen Zhang. “Estimating Returns to Education Using Twins in Urban China.” *Journal of Development Economics* 97, no. 2 (2012): 494–504. <https://doi.org/10.1016/j.jdeveco.2011.05.009>.

This paper empirically estimates the return to education using twins data that the authors collected from urban China. Our ordinary least-squares estimate shows that one year of schooling increases an individual’s earnings by 8.4%. If we use a within-twin fixed effects model, the return is reduced to 2.7%, but rises to 3.8% after the correction of measurement error. These results suggest that a large portion of the estimated returns to education is due to omitted ability or the family effect. We further investigate why the true return is low and the omitted ability bias high, and find evidence showing that it may be a consequence of China’s education system, which is highly selective and exam oriented. More specifically, we find that high school education may mainly serve as a mechanism to select college students, but as a human capital investment per se it has low returns in terms of earnings. In contrast, both vocational school education and college education have a large return that is comparable to that found in the United States.

Chapter 6: Political evaluation and promotion

Guo, Gang. “China’s Local Political Budget Cycles”. *American Journal of Political Science* 53, no. 3 (2009): 621–32. <https://doi.org/10.1111/j.1540-5907.2009.00390.x>.

This article examines the political budget cycles in Chinese counties. The shift to a more performance-based cadre evaluation and mobility system during the reform era has created an incentive structure for local leaders to increase government spending at strategically important time points during their tenure to enhance the prospect of official promotion. Such expenditures help local leaders to impress their superiors with economic and political achievements, especially those visible and quantifiable large-scale development projects. At the same time, economic and fiscal decentralization increased the capacity of local leaders to influence government budget expenditures as the need rises. The hypothesized curvilinear relationship between a leader’s time in office and increased spending was tested using a comprehensive data set of all Chinese counties from 1997 through 2002. The panel data analysis shows that growth in local government spending per capita is the fastest during a leader’s third and fourth years in office.

Shi, Xiangyu, and Tianyang Xi. “Race to safety: Political competition, neighborhood effects, and coal mine deaths in China”. *Journal of Development Economics* 131 (2018): 79–95. <https://doi.org/10.1016/j.jdeveco.2017.10.008>.

When political agents are subject to centralized performance evaluation, their efforts and performances tend to be correlated with one another in the “neighborhood”. Using quarterly data from prefecture-level cities in China, this paper finds evidence of positive neighborhood effects on coal mine deaths: the number of accidental deaths in a city is positively associated with those in its political neighbors. The neighborhood effects are confined by provincial borders, but do not diminish as the geographic scope of the neighborhood increases. Moreover, the effects are amplified by regulatory reforms and political cycles that increase the salience of coal mine safety. The findings of neighborhood effects on coal mine deaths are consistent with the logic of relative performance evaluation (RPE) as a mechanism for shaping policy outcomes.

Chapter 7: Corruption

Chen, Ting, and James Kai-sing Kung. “Busting the “Princelings”: The Campaign Against Corruption in China’s Primary Land Market”. *Quarterly Journal of Economics* 134, no. 1 (2019): 185–226. <https://doi.org/10.1093/qje/qjy027>.

Using data on over a million land transactions during 2004–2016 where local governments are the sole seller, we find that firms linked to members of China’s supreme political elites—the Politburo—obtained a price discount ranging from 55.4% to 59.9% compared with those without the same connections. These firms also purchased slightly more land. In return, the provincial party secretaries who provided the discount to these “princeling” firms are 23.4% more likely to be promoted to positions of national leadership. To curb corruption, President Xi Jinping stepped up investigations and strengthened personnel control at the province level. Using a spatially matched sample (e.g., within a 500-meter radius), we find a reduction in corruption of between 42.6% and 31.5% in the provinces either targeted by the central inspection teams or whose party secretary was replaced by one appointed by Xi. Accordingly, this crackdown on corruption has also significantly reduced the promotional prospects of those local officials who rely on supplying a discount to get ahead.

Pan, Jennifer, and Kaiping Chen. “Concealing Corruption: How Chinese Officials Distort Upward Reporting of Online Grievances”. *American Political Science Review* 112, no. 3 (2018): 602–20. <https://doi.org/10.1017/S0003055418000205>.

A prerequisite for the durability of authoritarian regimes as well as their effective governance is the regime’s ability to gather reliable information about the actions of lower-tier officials. Allowing public participation in the form of online complaints is one approach authoritarian regimes have taken to improve monitoring of lower-tier officials. In this paper, we gain rare access to internal communications between a monitoring agency and upper-level officials in China. We show that citizen grievances posted publicly online that contain complaints of corruption are systematically concealed from upper-level authorities when they implicate lower-tier officials or associates connected to lower-tier officials through patronage ties. Information manipulation occurs primarily through omission of wrongdoing rather than censorship or falsification, suggesting that even in the digital age, in a highly determined and capable regime where reports of corruption are actively and publicly voiced, monitoring the behavior of regime agents remains a challenge.

Chapter 8: Media, propaganda and censorship

Chen, Yuyu, and David Y. Yang. “The Impact of Media Censorship: 1984 or Brave New World?” *American Economic Review* 109, no. 6 (2019): 2294–2332. <https://doi.org/10.1257/aer.20171765>.

Media censorship is a hallmark of authoritarian regimes. We conduct a field experiment in China to measure the effects of providing citizens with access to an uncensored internet. We track subjects’ media consumption, beliefs regarding the media, economic beliefs, political attitudes, and behaviors over 18 months. We find four main results: (i) free access alone does not induce subjects to acquire politically sensitive information; (ii) temporary encouragement leads to a persistent increase in acquisition, indicating that demand is not permanently low; (iii) acquisition brings broad, substantial, and persistent changes to knowledge, beliefs, attitudes, and intended behaviors; and (iv) social transmission of information is statistically significant but small in magnitude. We calibrate a simple model to show that the combination of low demand for uncensored information and the moderate social transmission means China’s censorship apparatus may remain robust to a large number of citizens receiving access to an uncensored internet.

Qin, Bei, David Strömberg, and Yanhui Wu. “Media Bias in China”. *American Economic Review* 108, no. 9 (2018): 2442–76. <https://doi.org/10.1257/aer.20170947>.

This paper examines whether and how market competition affected the political bias of government-owned newspapers in China from 1981 to 2011. We measure media bias based on coverage of government mouthpiece content (propaganda) relative to commercial content. We first find that a reform that forced newspaper exits (reduced competition) affected media bias by increasing product specialization, with some papers focusing on propaganda and others on commercial content. Second, lower-level governments produce less-biased content and launch commercial newspapers earlier, eroding higher-level governments’ political goals. Third, bottom-up competition intensifies the politico-economic tradeoff, leading to product proliferation and less audience exposure to propaganda.

SESSION 3

Chapter 9: Gender

Almond, Douglas, Hongbin Li, and Shuang Zhang. “Land Reform and Sex Selection in China”. *Journal of Political Economy* 127, no. 2 (2018): 560–85. <https://doi.org/10.1086/701030>.

China’s land reform in 1978–84 unleashed rapid growth in farm output and household income. In new data on reform timing in 914 counties, we find an immediate trend break in the fraction of male children following the reform. Among second births that followed a firstborn girl, sex ratios increased from 1.1 to 1.3 boys per girl in the 4 years following reform. Larger increases are found among families with more education. The land reform estimate is robust to controlling for the county-level rollout of the One Child Policy. Overall, we estimate land reform accounted for about 1 million missing girls.

Qian, Nancy. “Missing Women and the Price of Tea in China: The Effect of Sex-Specific Earnings on Sex Imbalance”. *Quarterly Journal of Economics* 123, no. 3 (2008): 1251–85. <https://doi.org/10.1162/qjec.2008.123.3.1251>.

Economists have long argued that the sex imbalance in developing countries is caused by underlying economic conditions. This paper uses exogenous increases in sex-specific agricultural income caused by post-Mao reforms in China to estimate the effects of total income and sex-specific income on sex-differential survival of children. Increasing female

income, holding male income constant, improves survival rates for girls, whereas increasing male income, holding female income constant, worsens survival rates for girls. Increasing female income increases educational attainment of all children, whereas increasing male income decreases educational attainment for girls and has no effect on boys' educational attainment.

Chapter 10: Environment

Ebenstein, Avraham, Maoyong Fan, Michael Greenstone, Guojun He, Peng Yin, and Maigeng Zhou. "Growth, Pollution, and Life Expectancy: China from 1991-2012". *American Economic Review* 105, no. 5 (2015): 226–31. <https://doi.org/10.1257/aer.p20151094>.

This paper examines the relationship between income, pollution, and mortality in China from 1991-2012. Using first-difference models, we document a robust positive association between city-level GDP and life expectancy. We also find a negative association between city-level particulate air pollution exposure and life expectancy that is driven by elevated cardiorespiratory mortality rates. The results suggest that while China's unprecedented economic growth over the last two decades is associated with health improvements, pollution has served as a countervailing force.

and

Hanlon, W. Walker, and Yuan Tian. "Killer Cities: Past and Present". *American Economic Review* 105, no. 5 (2015): 570–75. <https://doi.org/10.1257/aer.p20151071>.

The industrial cities of the 19th century were incredibly unhealthy places to live. How much progress has been made in reducing these negative health effects over the past 150 years? To help answer this question, we compare mortality patterns in 19th century England to those in Chinese urban areas in 2000. We document that substantial improvements have been made in improving health in cities over this period. Unlike historical English cities, large cities in China have lower mortality than less populated areas. However, we also provide evidence that in China a substantial relationship between industrial pollution and mortality remains.

Kahn, Matthew E., Pei Li, and Daxuan Zhao. "Water Pollution Progress at Borders: The Role of Changes in China's Political Promotion Incentives". *American Economic Journal: Economic Policy* 7, no. 4 (2015): 223–42. <https://doi.org/10.1257/pol.20130367>.

At political boundaries, local leaders have weak incentives to reduce polluting activity because the social costs are borne by downstream neighbors. This paper exploits a natural experiment set in China in which the central government changed the local political promotion criteria and thus incentivized local officials to reduce border pollution along specific criteria. We document evidence of pollution progress with respect to targeted criteria at province boundaries. Heavy metal pollutants, not targeted by the central government, have not decreased in concentration after the regime shift. Using data on the economic geography of key industrial water polluters, we explore possible mechanisms.

Chapter 11: Political economy of trade and investment

Che, Yi, Julan Du, Yi Lu, and Zhigang Tao. "Once an enemy, forever an enemy? The long-run impact of the Japanese invasion of China from 1937 to 1945 on trade and investment". *Journal of International Economics* 96, no. 1 (2015): 182–98. <https://doi.org/10.1016/j.jinteco.2015.01.001>.

In this study, we exploit one of the most important conflicts of the 20th century between what are currently the world's second and third largest economies, that is, the Japanese invasion of China from 1937 to 1945, to investigate the long-term impact of conflicts between countries on cross-border trade and investment. We find that Japanese multinationals are less likely to

invest in Chinese regions that suffered greater civilian casualties during the Japanese invasion, and these regions also trade less with Japan. Our study shows that historical animosity still influences international trade and investment, despite the trend toward an increasingly globalized world.

Fisman, Raymond, Yasushi Hamao, and Yongxiang Wang. “Nationalism and Economic Exchange: Evidence from Shocks to Sino-Japanese Relations”. *Review of Financial Studies* 27, no. 9 (2014): 2626–60. <https://doi.org/10.1093/rfs/hhu017>.

We study the impact of nationalism and interstate frictions on international economic relations by analyzing market reaction to adverse shocks to Sino-Japanese relations in 2005 and 2010. Japanese companies with high China exposure suffer relative declines during each event window; a symmetric effect is observed for Chinese companies with high Japanese exposure. The effect on Japanese companies is more pronounced for those operating in industries dominated by Chinese state-owned enterprises, whereas firms with high Chinese employment experience lower declines. These results emphasize the role of countries’ economic and political institutions in mediating the impact of interstate frictions on firm-level outcomes.

Chapter 12: Development finance

De Soyres, François, Alen Mulabdic, Siobhan Murray, and Nadia Rocha, and Michele Ruta. 2019. How Much Will the Belt and Road Initiative Reduce Trade Costs? Policy Research Working Paper No. 8801. Washington, DC: The World Bank. <http://documents.worldbank.org/curated/en/879031554144957551/pdf/Common-Transport-Infrastructure-A-Quantitative-Model-and-Estimates-from-the-Belt-and-Road-Initiative.pdf>

This paper presents a structural general equilibrium model to analyze the effects on trade, welfare, and gross domestic product of common transport infrastructure. Specifically, the model builds on the framework by Caliendo and Parro (2015)—a Ricardian model with sectoral linkages, trade in intermediate goods and sectoral heterogeneity—to allow for changes in trade costs due to improvements in transportation infrastructure, financed through domestic taxation, connecting multiple countries. The model highlights the trade impact of infrastructure investments through cross-border input-output linkages. This framework is then used to quantify the impact of the Belt and Road Initiative. Using new estimates on the effects on trade costs of transport infrastructure related to the initiative based on Geographic Information System analysis, the model shows that gross domestic product will increase by up to 3.4 percent for participating countries and by up to 2.9 percent for the world. Because trade gains are not commensurate with projected investments, some countries may experience a negative welfare effect due to the high cost of the infrastructure. The analysis also finds strong complementarity between infrastructure investment and trade policy reforms.

Isaksson, Ann-Sofie, and Andreas Kotsadam. “Chinese Aid and Local Corruption.” *Journal of Public Economics* 159 (2018): 146–59. <https://doi.org/10.1016/j.jpubeco.2018.01.002>.

Considering the mounting criticisms concerning Chinese aid practices, the present paper investigates whether Chinese aid projects fuel local-level corruption in Africa. To this end, we geographically match a new geo-referenced dataset on the subnational allocation of Chinese development finance projects to Africa over the 2000–2012 period with 98,449 respondents from four Afrobarometer survey waves across 29 African countries. By comparing the corruption experiences of individuals who live near a site where a Chinese project is being implemented at the time of the interview to those of individuals living close to a site where a Chinese project will be initiated but where implementation had not yet started at the time of the interview, we control for unobservable time-invariant characteristics that may influence

the selection of project sites. The empirical results consistently indicate more widespread local corruption around active Chinese project sites. The effect is seemingly not driven by an increase in economic activity, but rather seems to signify that the Chinese presence impacts norms. Moreover, Chinese aid stands out from World Bank aid in this respect. In particular, whereas the results indicate that Chinese aid projects fuel local corruption but have no observable impact on short term local economic activity, they suggest that World Bank aid projects stimulate local economic activity without any consistent evidence of it fuelling local corruption.

SESSION 4

Chapter 13: China in global governance

Flores-Macías, Gustavo A., and Sarah E. Kreps. “The Foreign Policy Consequences of Trade: China’s Commercial Relations with Africa and Latin America, 1992–2006.” *The Journal of Politics* 75, no. 2 (2013): 357–71. <https://doi.org/10.1017/s0022381613000066>.

What are the foreign policy consequences of China’s growing trade relations? In particular, are states that trade more heavily with China more likely to side with it on key foreign policy issues? Does a shift toward China come at the expense of American influence? We evaluate these questions using data on bilateral trade for China and developing countries in Africa and Latin America between 1992 and 2006. Using ordinary and two-stage least squares to control for endogeneity, we present the first systematic evidence that trade with China generates foreign policy consequences. The more states trade with China, the more likely they are to converge with it on issues of foreign policy. This has implications for the United States, whose foreign policy preferences have diverged from those of China during the period of study and who may find it harder to attract allies in international forums.

Hernandez, Diego. “Are ‘New’ Donors Challenging World Bank Conditionality?” *World Development* 96 (2017): 529–49. <https://doi.org/10.1016/j.worlddev.2017.03.035>.

This paper investigates whether World Bank conditionality is affected by the presence of “new” donors by using panel data for 54 African countries over the 1980–2013 period. Empirical results indicate that the World Bank delivers loans with significantly fewer conditions to recipient countries which are assisted by China. In fact these receive 15% fewer conditions for every percentage-point increase in Chinese aid. Less stringent conditionality is also observed in better off borrowers that are in addition funded by Kuwait and the United Arab Emirates, but this effect vanishes after the start of the new millennium. In contrast, World Bank conditionality is rarely affected by aid inflows from DAC donors, and when it is, conditionality is revised upward. These findings suggest that new donors might be perceived as an attractive financial option to which the World Bank reacts by offering credits less restrictively in order to remain competitive in the loan-giving market and thereby cope with excesses in the supply of development resources.

Chapter 14: Economic effects on the “West”

Autor, David H., David Dorn, Gordon H. Hanson, and Jae Song. “Trade Adjustment: Worker-Level Evidence”. *The Quarterly Journal of Economics* 129, no. 4 (2014): 1799–1860. <https://doi.org/10.1093/qje/qju026>.

We analyze the effect of exposure to international trade on earnings and employment of U.S. workers from 1992 through 2007 by exploiting industry shocks to import competition stemming from China’s spectacular rise as a manufacturing exporter paired with longitudinal

data on individual earnings by employer spanning close to two decades. Individuals who in 1991 worked in manufacturing industries that experienced high subsequent import growth garner lower cumulative earnings, face elevated risk of obtaining public disability benefits, and spend less time working for their initial employers, less time in their initial two-digit manufacturing industries, and more time working elsewhere in manufacturing and outside of manufacturing. Earnings losses are larger for individuals with low initial wages, low initial tenure, and low attachment to the labor force. Low-wage workers churn primarily among manufacturing sectors, where they are repeatedly exposed to subsequent trade shocks. High-wage workers are better able to move across employers with minimal earnings losses and are more likely to move out of manufacturing conditional on separation. These findings reveal that import shocks impose substantial labor adjustment costs that are highly unevenly distributed across workers according to their skill levels and conditions of employment in the pre-shock period.

Utar, Hale, and Luis B. Torres Ruiz. “International competition and industrial evolution: Evidence from the impact of Chinese competition on Mexican maquiladoras”. *Journal of Development Economics* 105 (2013): 267–87. <https://doi.org/10.1016/j.jdeveco.2013.08.004>.

Effects of the competition between two South locations (Mexico and China) in a Northern market (US) are analyzed. By employing a plant-level data set that covers the universe of Mexican export processing plants (maquiladoras) from 1990 to 2006 and relying on an instrumental variable strategy that exploits exogenous intensification of Chinese imports in the world in conjunction with the WTO accession of China, the empirical analysis reveals a substantial effect of intensified Chinese competition on maquiladoras. In particular, competition from China has a negative and significant impact on employment and plant growth, both through the intensive and the extensive margin. As the negative impact is stronger on the most unskilled labor intensive sectors, it triggers significant sectoral reallocation. Suggestive evidence on industrial upgrading among maquiladoras in response to competition with China is also provided. Overall the results provide additional insight into the way low-wage competition shapes the evolution of industries.

Chapter 15: Political effects on the “West”

Lu, Yi, Xiang Shao, and Zhigang Tao. “Exposure to Chinese imports and media slant: Evidence from 147 U.S. local newspapers over 1998–2012”. *Journal of International Economics* 114 (2018): 316–30. <https://doi.org/10.1016/j.jinteco.2018.07.004>.

Does the recent surge in Chinese imports affect the media slant against China in the United States? Using a data set of 147 U.S. local newspapers over 1998–2012, this paper shows that newspapers whose circulation counties face greater exposure to Chinese imports report more negative news about China, and are more likely to endorse Democrats. The results hold with two identification strategies and three measures of media slant. The paper further shows that, in U.S. House and Senate elections between 2000 and 2012, media slant is associated with increased voting shares for Democrats, who are traditionally champions for the poor and critical of globalization.

Colantone, Italo, and Piero Stanig. “Global Competition and Brexit.” *American Political Science Review* 112, no. 2 (2018): 201–18. <https://doi.org/10.1017/S0003055417000685>.

We show that support for the Leave option in the Brexit referendum was systematically higher in regions hit harder by economic globalization. We focus on the shock of surging imports from China over the past three decades as a structural driver of divergence in economic performance across U.K. regions. An IV approach supports a causal interpretation of our

finding. We claim that the effect is driven by the displacement determined by globalization in the absence of effective compensation of its losers. Neither overall stocks nor inflows of immigrants in a region are associated with higher support for the Leave option. A positive association only emerges when focusing on immigrants from EU accession countries. The analysis of individual data suggests that voters respond to the import shock in a sociotropic way, as individuals tend to react to the general economic situation of their region, regardless of their specific condition.

Chapter 16: Other current debates

Cantoni, Davide, David Y. Yang, Noam Yuchtman, and Y. Jane Zhang. “Protests as Strategic Games: Experimental Evidence from Hong Kong’s Antiauthoritarian Movement.” *Quarterly Journal of Economics* 134, no. 2 (2019): 1021–77. <https://doi.org/10.1093/qje/qjz002>.

Which fundamental factors are associated with individuals holding democratic, anti-authoritarian ideologies? We conduct a survey eliciting Hong Kong university students’ political attitudes and behavior in an ongoing pro-democracy movement. We construct indices measuring students’ anti-authoritarianism, and link these to a comprehensive profile of fundamental economic preferences; personalities; cognitive abilities; and family backgrounds. We find that fundamental economic preferences, particularly risk tolerance and pro-social preferences, are the strongest predictors of anti-authoritarian ideology and behavior. We also study simultaneously determined outcomes, arguably both cause and consequence of ideology. Examining these, we find that anti-authoritarians are more pessimistic about Hong Kong’s political outlook and about their fellow students’ support for the movement; their social networks are more political; they consume different media; and, they are more politically informed than other students. Our extraordinarily rich data suggest that individuals’ deep preferences should be considered alongside payoffs and beliefs in explaining political behavior.

Huang, Yi, Chen Lin, Sibio Liu, and Heiwai Tang. “Trade Networks and Firm Value: Evidence from the US-China Trade War.” SSRN Scholarly Paper. Rochester, NY: Social Science Research Network, September 10, 2019. <https://papers.ssrn.com/abstract=3227972>.

This paper evaluates the financial implications of policy shocks for global production networks. We exploit various announcements of tariff hikes across a wide range of goods by both the US and Chinese governments in 2018-2019 as events, starting with the presidential referendum issued by the Trump administration on 22 March 2018, to study the impact of trade policy shocks on firms’ stock market performance. Using various novel datasets, we document significantly heterogeneous responses by firms to the announcements, depending on their direct and indirect exposure through global value chains to US-China trade. In particular, US firms that are more dependent on exports to and imports from China have lower stock returns and higher default risks around the announcement dates, while reduced import competition from China plays a limited role. Consistent patterns of stock price reactions are also found among Chinese firms. Two reverse experiments in 2019 further validate how the complex structure of global trade determines firms’ stock market reactions to policy shocks.

Note: Dates and contents subject to change!