

ECON 3730 Money and Finance in China

2nd Semester 2009-2010

Prerequisite: ECON 2130 Money and Banking or
ECON 2220 Foundations of Chinese Economy

Objective: This subject aims at fostering an understanding of the functions and the administration of money and finance in Mainland China, and their impact on the economy at both the micro and the macro levels. Fiscal, monetary and exchange rate systems will be analyzed from optimality as well as policy viewpoints. The developments of financial reforms and their policy implications in the post-1994 and post-2001 periods will be emphasised. Financial relations between the Mainland and Hong Kong will also be investigated.

Instructor Prof. Tsang Shu-ki (Room WLB629)

Assessment: Class participation	10%
Assignments/projects (groups)	25%
Test (10 short questions)	15%
Examination	50%

Subject Content:

- I. Introduction
 - a. Brush-up on Chinese economic developments before and after 1978
 - b. Broad trends in Chinese fiscal, monetary and foreign exchange systems

- II. Pre-reform characteristics of fiscal, monetary and foreign exchange systems
 - a. The role of money and public finance when real sector planning dominates
 - i. micro theories
 - ii. macro balances
 - iii. political and sectoral objectives
 - b. Relations between public finance and the monetary circuit: domination, accommodation and reversal
 - c. Residual functions of external trade and the passivity of the exchange rate regime

- III. The traditional system of public finance in China
 - a. Overall framework, administration and functions
 - b. Public expenditure patterns and policies
 - c. Remittance, taxation and public debts
 - d. Fiscal imbalance

- IV. The traditional system of money and banking in China
 - a. The role of money in China compared with that in a market economy
 - b. The monobanking system in China: functions and problems
 - c. The performance of monetary control: micro-efficiency and macro-stability in the pre-reform era
 - d. The subjugation of the monetary to the fiscal: objectives and consequences in the context of the aggregate economy and China's development strategy

- V. China's public finance under reform
 - a. Objectives, strategies, constraints, achievements and problems
 - b. Reforms in revenue and expenditure policies and their shortcomings
 - c. Fiscal imbalance, liberalization and decentralization
 - i. Fiscal decline: Is China still socialist?
 - ii. Central-local fiscal conflicts and implications
 - iii. From profit remittance to fiscal contracts to direct taxation
 - iv. The reforms of indirect taxation
 - d. Changes in the budgetary system
 - e. New forms of fiscal financing and policies
 - f. The reforms of 1994-2008: achievements and limitations

- VI. Monetary and financial reforms
 - a. Modes of monetary and financial reforms: macro and micro changes
 - b. Monetization of the economy: micro and macro implications
 - c. The fiscal versus the monetary: reversal of fortunes?
 - d. Further monetary and financial reforms: the more the better?
 - e. The fiscal-monetary-debt mess: complicated problems (including nonperforming loans---NPLs) and solutions (including asset management corporations---AMCs, equity injection, corporatisation and listing of commercial banks)
 - f. The micro and macro reforms of 1994-2009

- g. Central banking in China in 1994-2009

VII. China's foreign exchange liberalization

- a. Recap of the pre-reform foreign exchange regime
- b. The evolution of reforms since 1979
- c. Exchange rate policies for a CPE in reform
- d. 1994: unification of exchange rates, swap centres versus bank-based markets, and current account convertibility
- e. The reforms of 1994-2004
- f. The reforms of 2005-09: basket and convertibility

VIII. Optimal fiscal-monetary-forex mix in the reform process

- a. Optimal sequencing
- b. Coordinated one-off "surgery" after a lengthy period of gradualism?
- c. Overall assessment of the comprehensive fiscal, monetary and foreign exchange reforms of 1994-2009: promises, problems and prospects
- d. The implications of WTO accession on money and finance in China

IX. Financial Relations between Mainland China and Hong Kong

- a. Financial relations since 1979
- b. "One country, two systems" and "one country, two currencies"
- c. "Do China and Hong Kong constitute an "optimal currency area"?"
- d. Should there be monetary integration between Mainland China and Hong Kong dollar: from the status quo to re-pegging to monetary union?
- e. Monetary policy coordination between the Mainland and Hong Kong

Major References:

[Useful websites for updated information, discussions and analyses \(* In English or with English version\)](#)

- *中國政府網 <http://www.gov.cn/> --- the most important official gateway ;
- 中國經濟資訊網 (China Economic Information Network): www.cei.gov.cn/ ; 及其中的 50 人論壇 ("The 50 Forum"): <http://www.cei.gov.cn/LoadPage.aspx?Page=transform&CategoryAlias=zonghe/jjfx&ProductAlias=50lt&BlockAlias=50zxtj&PAlias=50lt> ;
- *China Economy: <http://ce.cei.gov.cn/> (the English version);
- 中國經濟網 www.cei.gov.cn/ ;
- *China Economic Net: <http://en-1.cei.gov.cn/main/index.shtml> (the English

version);

*國家統計局網址 (Website of National Bureau of Statistics of China) :

www.stats.gov.cn/ ;

*國家發展和改革委員會 (National Development and Reform Commission) : www.drcnet.com.cn/ ;

*國務院發展研究中心資訊網 : www.drcnet.com.cn/ ;

*中國財政部 (Ministry of Finance) :
<http://www.mof.gov.cn/caizhengbuzhuzhan/> ;

中國財經報: cfen.com.cn/zjindex.htm ;

中國財經網: www.fec.com.cn/ ;

*中國人民銀行 (People's Bank of China): www.pbc.gov.cn ;

*中國銀監會: (China Banking Regulatory Commission) www.cbrc.gov.cn/ ;

*中國證監會 : (China Securities Regulatory Commission)
<http://www.csrc.gov.cn/n575458/index.html> ;

*國家外匯管理局 : (State Administration of Foreign Exchange)
www.safe.gov.cn ;

中國貨幣網 : (Website of the interbank markets in China)
<http://www.chinamoney.com.cn/column/zaxiang/shouye/index.html> ;

中國證券報 www.cs.com.cn/index.htm ;

中國債券信息網: <http://www.chinabond.com.cn/d2s/index.html> ;

*中國商務部: (Ministry of Commerce) www.mofcom.gov.cn/ ;

金融时报金时网(<http://www.financialnews.com.cn/>) ;

中國經濟網 : www.ce.cn/ ;

中國經濟時報: www.cet.com.cn/ ;

*經濟觀察報 (The Economic Observer) : <http://www.eeo.com.cn/> ;

南方報業網: www.nanfangdaily.com.cn/southnews/ ;

二十一世紀經濟報導 : <http://www.21cbh.com/> ;

*香港中文大學中國研究服務中心 : (Universities Service Centre for China Studies of the CUHK) www.usc.cuhk.edu.hk/ ;

*新華網 (Xinhua Net) : <http://www.xinhua.org/> (in English:
<http://www.chinaview.cn/>) ;

*China Business Review: <http://www.chinabusinessreview.com/>;

*China Economic Review: <http://www.chinaeconomicreview.com/>;

騰訊網: <http://finance.qq.com/> .

*****Students are expected to visit some of the websites and the test will be partially based on information available from them.**

Journals

Journal of Comparative Economics, China Economic Review, The China Quarterly, Journal of Contemporary China, 經濟研究、財貿經濟、中國金融、中國財政 etc.

Overall

*** 中國人民大學書報資料中心，《複印報刊資料》，(F61)〈財政與稅務〉(S560 6417)、(F62)〈金融與保險〉(S563 8012)。

* 《中國財政與金融》，北京大學出版社，1985年。

* R. McKinnon, *The Order of Economic Liberalization*, John Hopkins University Press, 1991

* R. McKinnon, *Gradual versus Rapid Liberalization in Socialist Economies: Financial Policies in China and Russia Compared*, CIS Press, 1994.

*The World Bank, *China: Macroeconomic Stability in a Decentralized Economy*, 1995.

* The World Bank, *The Chinese Economy: Fighting Inflation, Deepening Reforms*, 1996.

*Tsang Shu-ki, *Financial Restructuring*, in Lo Chi Kin, Suzanne Pepper and Tsui Kai Yuen (eds.), *The China Review 1995*, The Chinese University Press, 1995, chapter 21.

*Ma Jun, *Intergovernmental Relations and Economic Management in China*, St. Martin's Press, 1997.

Oppers, S.E., *Macroeconomic Cycles in China*, IMF Working Paper WP/97/135, 1997.

Tsang Shu-ki, *The Economy*, in Maurice Brousseau, Suzanne Pepper and Tsang Shu-ki (eds.), *The China Review 1996*, The Chinese University Press, 1996, chapter 8.

Tsang Shu-ki, *Inertia, Resistance and Forced Innovation: A longer View of China's Recent Financial Reforms*, *International Journal of Public Administration*, vol.21, no.9, 1998, 1323-1362. A version of the paper can be downloaded at: <http://www.hkbu.edu.hk/~sktsang/IRFI.pdf>.

Ben S. Bernanke, "The Chinese Economy: Progress and Challenges", Remarks by US Fed Chairman Bernanke, at the Chinese Academy of Social Sciences, December 15, 2006 (www.federalreserve.gov/boarddocs/speeches/2006/20061215/default.htm).

Fiscal

** 平新喬，《財政原理與比較財政制度》，上海三聯出版社，1992年。

* 劉溶滄，李茂生主編，《轉軌中的中國財經問題》，北京：中國社會科學出版社，2002年。

*上海財經大學公共政策研究中心，《中國財政發展報告》，上海財經大學出版社，2002年，2003年，2004年。

* 金人慶，《中國財政政策理論與實踐》，中國財政經濟出版社，2005年。

* 項懷誠主編，《1999中國財政報告》，中國財政經濟出版社，1999年。

* 賈康、閻坤，《轉軌中的財政制度變革》，上海遠東出版社，1999年。

*項懷誠主編，《中國財政要論》，北京：中國財政經濟，2000年。

*劉溶滄，趙志耘主編，《中國財政理論前沿》，北京：社會科學文獻出版社，2001年。

*中國社會科學院財政與貿易經濟研究所，《走向"共贏"的中國多級財政》，中國財政經濟出版社，2005年。

* 叢樹海，《中國宏觀財政政策研究》，上海財經大學出版社，1998年。

Vivienne Shue and Christine Wong (eds), *Paying for Progress in China: Public Finance, Human Welfare and Changing Patterns of Inequality*, London ; New York : Routledge, 2007.

** Tsang Shu-ki and Cheng Yuk-shing, *China's Tax Reforms of 1994*, Asian Survey, vol.XXXIV, no.9, pp.769-788. A version of the paper can be downloaded at:
http://www.hkbu.edu.hk/~sktsang/China_tax_1994.pdf.

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V.B. Arora and J. Norregaard, *Intergovernmental Fiscal Relations: The Chinese System in Perspective*, IMF Working Paper WP/97/129, 1997.

Christine P.W. Wong, Christopher Heady, and Wing T. Woo, *Fiscal Management and Economic Reform in the People's Republic of China*, Oxford University Press, 1995.

Christine P.W. Wong (eds.), *Financing local Governments in the People's Republic of China*, Oxford University Press, 1997.

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Money and Banking

**龔浩成, 戴國強主編, 《2007 中國金融發展報告》, 上海財經大學出版社, 2007 年。

** 毛宏君, 《中國金融體制改革新舉措》, 北京大學出版社, 1994 年。

*國務院研究室課題組, 《中國跨世紀金融改革發展研究》, 2002 年。

*趙毅主編, 《中國國有商業銀行不良資產的形成與處置: 資產管理公司運營的理論與實踐》, 北京: 中國物價, 2001 年。

*趙志君 郭益耀 曾澍基 姚兆峰 劉樹成, <銀行業放鬆管制的理論分析與宏觀效果 ---兼論中國加入 WTO 對大陸和香港的影響>, 《經濟研究》, 2002 年 6 月, 頁. 14-22。

*Shucheng Liu, Zhijun Zhao, Shu-ki Tsang, Yue Ma, Matthew S. Yiu and Yak-yeow Kueh, "Banking Deregulation and Macroeconomic Impact on China: A Theoretical Analysis and Implications of WTO Accession to the Mainland and Hong Kong", HKIMR Working Paper No. 8/2002, posted at https://www.hkimr.org/cms/upload/publication_app/pub_full_0_2_40_wp200208_text.pdf.

*Tsang Shu-ki, "Inflation Targeting in China?", HKIMR Working Paper No.19/2002, Hong Kong Institute for Monetary Research, October 2002, posted at https://www.hkimr.org/cms/upload/publication_app/pub_full_0_2_29_wp200219_text.pdf.

* The World Bank, China: Financial Policies and Institutional Development, 1990.

**Tsang Shu-ki, "Controlling Money during Socialist Economic Reform: the Chinese Experience", Economy and Society, vol.19, no.2, pp.217-242, 1990.

*Xie Ping, China's Monetary Policy: 1998-2002, Stanford Center for International Development, Working Paper No. 217 (<http://scid.stanford.edu/pdf/SCID217.pdf>).

**Stephen Green, Making monetary policy work in China: A report from the money market front line, Stanford Center for International Development, Working Paper No. 245 (<http://scid.stanford.edu/pdf/SCID245.pdf>).

John Bonin and Louis Putterman (eds.), Banking in Transition Economies: Developing Market Oriented Banking Sectors in Eastern Europe, Edward Elgar Press, 1998.

John Bonin, The Development and Reform of Financial Systems in Central and Eastern Europe, Elgar Press, 1994.

Gang Yi, Money, Banking and Financial Markets in China, Westview Press, 1994.

Journal of Banking and Finance, Special Issue: Banks and Capital Markets in Former

Centrally Planned Countries: Their Role in Establishing a Market Economy, vol.17, no.5, September 1993.

林志遠，《社會主義貨幣經濟學》，上海三聯書店，1995年。

陳元主編，《中國金融體制改革》，中國財政經濟出版社，1994年。

劉朝明,張銜著，《中國金融體制改革研究》，中國金融出版社，2003年。

Foreign Exchange

**曾澍基，“中國外匯制度變革的吊詭”，2007年2月13日，上載於 http://www.hkbu.edu.hk/~sktsang/CF_talk_LU_20070213.pdf。

*Tsang Shu-ki, Towards Full Convertibility? China's Foreign Exchange Reforms, China Information, vol.IX, no.1, summer 1994. A version can be downloaded at http://www.hkbu.edu.hk/~sktsang/China_forex_1994.pdf.

*Tsang Shu-ki, Towards the Full Convertibility of the Renminbi? in Maurice Brosseau, Kuan Hsin-chi, and Y.Y. Kueh,.(eds.) The China Review 1997, 1997, chapter 7. A version of the article can be downloaded at http://www.hkbu.edu.hk/~sktsang/China_forex_1997.pdf.

*Ronald McKinnon, China's Exchange Rate Appreciation in the Light of the Earlier Japanese Experience, Hong Kong Institute for Monetary Research, 24 April 2006 (https://www.hkimr.org/cms/upload/seminar_app/sem_paper_0_182_McKinnon_paper060424.pdf).

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H. Mehran et al., Money and Exchange System Reforms in China: An Experiment in

Gradualism, IMF Occasional Paper no.141, 1996.

Emil-Maria Claassen, Exchange Rate Policies in Developing and Post-Socialist Countries, An International Center for Economic Growth Publication, ICS Press, 1991.

Monetary Integration

*曾澍基，"从发展角度看沪港金融互动"，2007年12月6日，上載於 http://www.hkbu.edu.hk/~sktsang/sktsang_Shanghai_071206.pdf.

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*Tsang Shu-ki, "Currency Boards on the Way to Monetary Unions: The Doubly Unplanned Case of Hong Kong " in U. Sepp and M. Randveer (eds.), Alternative Monetary Regimes in Entry to EMU, Eesti Pank, November 2002: 247-270, posted at www.eestipank.info/pub/en/dokumendid/publikatsioonid/seeriad/muud_uuringud/9a_2002/301.pdf.

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*Edgardo Barandiaran and Tsang Shu-ki, One Country, Two Currencies: Monetary Relations between Hong Kong and China, in Warren Cohen and Li Zhao (eds.), Hong Kong under Chinese Rule: The Economic and Political Implications of Reversion, Cambridge University Press, 1997, chapter 6.

*Hong Liang, Do Hong Kong SAR and China Constitute an Optimal Currency Area? An Empirical Test of the Generalized Purchasing Power Parity Hypothesis, IMF Working Paper WP/99/79-EA, June 1999.

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*Mario J. Bleijer et al., Optimum Currency Areas: New Analytical and Policy Development, International Monetary Fund, 1997.

Paul R. Masson and Mark P. Taylor, Policy Issues in the Operation of Currency Unions, Cambridge University Press, 1993.