



## Syllabus

# China's Economic and Political Development

(Chinas wirtschaftliche und politische Entwicklung)

M.WIWI-VWL.0174

Winter semester 2021/22

(as of November 2, 2021)

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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	Education
Chapter 5	Historical roots of China's development I
Chapter 6	Historical roots of China's development II
Chapter 7	Political evaluation and promotion
Chapter 8	Corruption
Chapter 9	Media, propaganda, and censorship
Chapter 10	Environment
Chapter 11	Political economy of trade and investment
Chapter 12	Development finance
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 3, 2021**. 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*

**IMPORTANT:** If the coronavirus situations allows, the seminar sessions will be held on campus. If the situations worsens, we may have to shift the seminar sessions to Zoom. Please register for the course on Stud.IP so that you receive all pertinent information in due time.

**Zoom link for online meetings (if applicable):**

<https://uni-goettingen.zoom.us/j/99002432051?pwd=cFkxY2ZTZWZBRXVRdFBWb3VEZUdwQT09>

*Introductory meeting:*

- Wednesday, October 27, 16:00-21:00 c.t., via Zoom (see link above)

*Seminar sessions:*

- Wednesday, November 17, 16:00-21:00 c.t., Room: VG 4.103
- Wednesday, December 1, 16:00-21:00 c.t., Room: VG 4.103
- Wednesday, December 15, 16:00-21:00 c.t., Room: VG 4.103
- Wednesday, January 12, 16:00-21:00 c.t., Room: VG 4.103

*Submission deadlines for referee reports (Tuesday, March 15, 2022, 23:55)*

Please upload on Stud.IP an electronic version of your final referee reports (in PDF format).

Please submit the following four referee reports

- One on the paper of your first presentation
- One on the paper of your second presentation
- One on a randomly drawn paper (will be assigned after the last seminar session)
- One on a paper of your choice

Please upload all 4 referee reports in a separate PDF files with file name „XX\_FIRSTAUTHOR\_STUDENT.pdf“ on Stud.IP until March 15, 2022. Example: If your last name is Xi and you write a report on Zhu’s paper “Understanding China’s Growth: Past, Present, and Future,” please name the file as follows: “01\_Zhu\_Xi.pdf”.

*Communication:*

Instead of emails, we will use the two communication fora on Stud.IP (one for content-related and one for organizational questions).

*2.3 Examination and grading of the module*

The grading consists of four components:

- Presentation of two papers [2x15%]
- Short oral discussions of two papers [2x5%]
- Four referee reports (essays, 3 pages) [4x15%]
- Participation in class [at the margin]

Furthermore, in order to pass the course, participants must

- be present and actively participate during all seminar sessions
- submit all written course requirements (four referee reports) on time
- achieve a weighted average grade exceeding or equal to 4.0

#### *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.

### **3. Referee report requirements**

The length of each referee report must not exceed 3 pages. The cover sheet, reference list, figures, and tables (if any) are excluded from the page count. Please use the following formatting: Font size: 12 pt, line spacing: 1.5 times, alignment: justification, margin (right, left, top and bottom margin): 2.5 cm each. Please make sure that you are consistent in your referencing and bibliography.

Use a referencing style that is in line with basic conventions in the economics literature. Always quote within a work using the same method. The Chair recommends the in-text author-year citation style (see, for example, information sheet “Citation according to the Harvard system”). All sources that you have cited in the text must appear in the reference list. Everything that you have only read but not cited in the text must NOT appear in the reference list. Referee reports need to be written in English. The work must be done independently by the student.

Every idea, statement or fact taken from the refereed paper or any other sources must be appropriately cited. Quotes need to be indicated as such. Plagiarism is sanctioned with the grade 5 (failed). The general rules of the Faculty of Business and Economics apply. A signed declaration must be attached to each scientific work: “I hereby declare that I wrote this referee report independently, without assistance from external parties, and without use of other resources than those indicated. All information taken from other publications or sources in text or in meaning are duly acknowledged in the text. I give my consent to have this thesis checked by plagiarism software.”

Reading list:

### **INTRODUCTORY MEETING**

**Fuchs, Andreas, and Nils-Hendrik Klann. “Paying a Visit: The Dalai Lama Effect on International Trade”. *Journal of International Economics* 91, no. 1 (2013): 164-77. <https://doi.org/10.1016/j.jinteco.2013.04.007>**

Is political compliance a precondition for healthy trade relations with China? The Chinese government frequently threatens that meetings between its trading partners' officials and the Dalai Lama will be met with animosity and ultimately harm trade ties. We run a gravity model of exports to China from 159 partner countries between 1991 and 2008 to test the extent to which bilateral tensions affect trade with autocratic China. In particular, we empirically investigate whether countries that receive the Dalai Lama despite China's opposition experience a significant reduction in their exports to China. In order to account for the potential endogeneity of meetings with the Dalai Lama, the number of Tibet Support Groups and the travel pattern of the Tibetan leader are used as instruments. Our empirical results support the idea that countries officially receiving the Dalai Lama at the highest political level are punished through a reduction of their exports to China. However, this ‘Dalai Lama Effect’ is only observed for the Hu Jintao era and not for earlier periods. Furthermore, we find that this effect is mainly driven by reduced exports of machinery and transport equipment and that it disappears in the second year after a meeting took place.

### **SESSION 1**

#### **Chapter 1: China’s economic growth**

**1. 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.

**2. 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**

**3. 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.

**4. Cheng, Hong, Ruixue Jia, Dandan Li, and Hongbin Li. “The Rise of Robots in China.”** *Journal of Economic Perspectives* 33, no. 2 (2019): 71–88. <https://doi.org/10.1257/jep.33.2.71>.

China is the world’s largest user of industrial robots. In 2016, sales of industrial robots in China reached 87,000 units, accounting for around 30 percent of the global market. To put this number in perspective, robot sales in all of Europe and the Americas in 2016 reached 97,300 units (according to data from the International Federation of Robotics). Between 2005 and 2016, the operational stock of industrial robots in China increased at an annual average rate of 38 percent. In this paper, we describe the adoption of robots by China’s manufacturers using both aggregate industry-level and firm-level data, and we provide possible explanations from both the supply and demand sides for why robot use has risen so quickly in China. A key contribution of this paper is that we have collected some of the world’s first data on firms’ robot adoption behaviors with our China Employer-Employee Survey (CEES), which contains the first firm-level data that is representative of the entire Chinese manufacturing sector.

5. Liu, Qing, Ruosi Lu, Yi Lu, and Tuan Anh Luong. “Import Competition and Firm Innovation: Evidence from China.” *Journal of Development Economics* 151 (2021): 102650. <https://doi.org/10.1016/j.jdeveco.2021.102650>.

This paper investigates whether and how import competition affects firm innovation. Using China's World Trade Organization (WTO) accession as a quasi-natural experiment, we find that import competition reduces firm innovation, which is consistent with the Schumpeterian effect. We also find heterogeneous treatment effects across firm productivity and patent types in a way consistent with preference and knowledge spillover effects, but not with escape-competition and trapped-factor effects.

### **Chapter 3: Inequality and poverty**

6. Chen, Shaohua, and Martin Ravallion. “Reconciling the Conflicting Narratives on Poverty in China.” *Journal of Development Economics* 153 (2021): 102711. <https://doi.org/10.1016/j.jdeveco.2021.102711>.

The prevailing narrative of a huge reduction in income poverty in China since reforms began in 1978 does not accord with all the evidence. The paper tries to reconcile the conflicting findings. The rise in poverty counts indicated by the strongly-relative measures in the literature is not credible given the properties of these measures. More surprising, and revealing, is the story told by the official lines, which were revised twice since the original 1985 line. The paper shows that the official lines are neither absolute nor strongly relative. Rather, they are weakly relative, with a positive elasticity to the mean that is less than unity. The paper provides a new annual series of weakly-relative poverty measures consistent with the official lines. Poverty has certainly not vanished in China, but substantial progress is indicated.

7. Alesina, Alberto F., Marlon Seror, David Y. Yang, Yang You, and Weihong Zeng. “Persistence Despite Revolutions.” NBER Working Paper 27053 (2021). <https://www.nber.org/papers/w27053>.

Can efforts to eradicate inequality in wealth and education eliminate intergenerational persistence of socioeconomic status? The Chinese Communist Revolution and Cultural Revolution aimed to do exactly that. Using newly digitized archival records and contemporary census and household survey data, we show that the revolutions were effective in homogenizing the population economically in the short run. However, the pattern of inequality that characterized the pre-revolution generation re-emerges today. Almost half a century after the revolutions, individuals whose grandparents belonged to the pre-revolution elite earn 16 percent more income and have completed more than 11 percent additional years of schooling than those from non-elite households. We find evidence that human capital (such as knowledge, skills, and values) has been transmitted within the families, and the social capital embodied in kinship networks has survived the revolutions. These channels allow the pre-revolution elite to rebound after the revolutions, and their socioeconomic status persists despite one of the most aggressive attempts to eliminate differences in the population.

### **Chapter 4: Education**

8. 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.

**9. Chen, Yi, Ziyang Fan, Xiaomin Gu, and Li-An Zhou. 2020. "Arrival of Young Talent: The Send-Down Movement and Rural Education in China." *American Economic Review* 110 (11): 3393–3430. <https://doi.org/10.1257/aer.20191414>.**

This paper estimates the effects on rural education of the send-down movement during the Cultural Revolution, when about 16 million urban youth were mandated to resettle in the countryside. Using a county-level dataset compiled from local gazetteers and population censuses, we show that greater exposure to the sent-down youths significantly increased rural children's educational achievement. This positive effect diminished after the urban youth left the countryside in the late 1970s but never disappeared. Rural children who interacted with the sent-down youths were also more likely to pursue more-skilled occupations, marry later, and have smaller families than those who did not.

## **SESSION 2**

### **Chapter 5&6: Historical roots of development**

**10. Chen, Ting, James Kai-sing Kung, and Chicheng Ma. 2020. "Long Live Keju! The Persistent Effects of China's Civil Examination System." *Economic Journal* 130 (631): 2030–64. <https://doi.org/10.1093/ej/ueaa043>.**

China's civil examination system (keju), an incredibly long-lived institution, has a persistent impact on human capital outcomes today. Using the variation in the density of jinshi—the highest qualification—across 278 Chinese prefectures in the Ming-Qing period (c. 1368–1905) to proxy for this effect, we find that a doubling of jinshi per 10,000 population leads to an 8.5% increase in years of schooling in 2010. The persistent effect of keju can be attributed to a multitude of channels including cultural transmission, educational infrastructure, social capital and, to a lesser extent, political elites.

**11. Keller, Wolfgang, Carol H. Shiue, and Xin Wang. 2021. "Capital Markets in China and Britain, 1770–1860: Evidence from Grain Prices." *American Economic Journal: Applied Economics* 13 (3): 31–64. <https://doi.org/10.1257/app.20180299>.**

Based on comprehensive grain price data, we employ a storage model to estimate consistent interest rates and compare capital market development between Britain and China. Interest rates for Britain were lower than China's on average by about 3 percentage points from 1770 to 1860. For country pairs with bilateral distance less than 200 kilometers, the regional capital market integration in the Yangzi Delta in China comes close to the British average; but at larger distances, spatial interest rate correlations in Britain are twice those of the Delta and three or more times as high as elsewhere in China. Overall, our results suggest capital market development differences at an early date, so that capital market performance may be important for the Great Divergence that emerged between China and Western countries at this time.

- 12. 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://www.nber.org/system/files/working\\_papers/w14917/w14917.pdf](https://www.nber.org/system/files/working_papers/w14917/w14917.pdf)**

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

- 13. Banerjee, Abhijit, Esther Duflo, and Nancy Qian. “On the Road: Access to Transportation Infrastructure and Economic Growth in China.” *Journal of Development Economics* 145 (2020): 102442. <https://doi.org/10.1016/j.jdeveco.2020.102442>.**

This paper estimates the effect of access to transportation networks on regional economic outcomes in China over a twenty-year period of rapid income growth. It addresses the problem of the endogenous placement of networks by exploiting the fact that these networks tend to connect historical cities. Our results show that proximity to transportation networks have a moderately sized positive causal effect on per capita GDP levels across sectors, but no effect on per capita GDP growth. We provide a simple theoretical framework with empirically testable predictions to interpret our results. We argue that our results are consistent with factor mobility playing an important role in determining the economic benefits of infrastructure development.

### **Chapter 7: Political evaluation and promotion**

- 14. 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.

- 15. Fisman, Raymond, Jing Shi, Yongxiang Wang, and Weixing Wu. “Social Ties and the Selection of China’s Political Elite.” *American Economic Review* 110, no. 6 (2020): 1752–81. <https://doi.org/10.1257/aer.20180841>.**

We study how sharing a hometown or college connection with an incumbent member of China’s Politburo affects a candidate’s likelihood of selection as a new member. In specifications that include fixed effects to absorb quality differences across cities and colleges, we find that hometown and college connections are each associated with 5–9 percentage point reductions in

selection probability. This "connections penalty" is equally strong for retiring Politburo members, arguing against quota-based explanations, and it is much stronger for junior Politburo members, consistent with a role for intra-factional competition. Our findings differ from earlier work because of our emphasis on within-group variation, and our focus on shared hometown and college, rather than shared workplace, connections.

**16. Wallace, Jeremy L. "Juking the Stats? Authoritarian Information Problems in China." *British Journal of Political Science* 46, no. 1 (2016): 11–29. <https://doi.org/10.1017/S0007123414000106>**

Economic statistics inform citizens of general conditions, while central leaders use them to evaluate local officials. Are economic data systematically manipulated? After establishing discrepancies in economic data series cross-nationally, this article examines Chinese sub-national growth data. It leverages variation in the likelihood of manipulation over two dimensions, arguing that politically sensitive data are more likely to be manipulated at politically sensitive times. Gross domestic product (GDP) releases generate headlines, while highly correlated electricity production and consumption data are relatively unnoticed. In Chinese provinces, the difference between GDP and electricity growth increases in years with leadership turnover, which is consistent with juking the stats for political reasons. The analysis points to the political role of information and the limits of non-electoral accountability mechanisms in authoritarian regimes.

## **Chapter 8: Corruption**

**17. 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/qjv027>.**

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.

**18. Jiang, Junyan, and Muyang Zhang. "Friends with Benefits: Patronage Networks and Distributive Politics in China." *Journal of Public Economics* 184 (2020): 104143. <https://doi.org/10.1016/j.jpubeco.2020.104143>.**

Existing research on distributive politics mainly focuses on the influence of electoral competition between political parties, but less is known about non-electoral mechanisms of resource allocation inside a dominant party. This study examines how informal patron–client networks within the ruling Communist Party shape the distribution of intergovernmental transfers in China, a major one-party regime. Using a new dataset on city-level fiscal transfers and a novel method to infer informal political connections through past promotions, we show that provincial leaders allocate significantly more transfers to localities governed by officials who are part of their networks. This bias persists even when we use a specification that only exploits variations in connection caused by exogenous turnovers of higher level leadership. We

evaluate two plausible motivations behind this bias—network-based policy coordination and collective corruption—and find evidence in stronger support of the former. Our findings suggest that private networks may function as an important, albeit costly, tool of mobilization in one-party systems.

### **SESSION 3**

#### **Chapter 9: Media, propaganda and censorship**

**19. 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.

#### **Chapter 10: Environment**

**20. 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.

**21. Hsiang, Solomon, and Nitin Sekar. “Does Legalization Reduce Black Market Activity? Evidence from a Global Ivory Experiment and Elephant Poaching Data.” NBER Working Paper No. 22314 (2016). <https://www.nber.org/papers/w22314>.**

Black markets are estimated to represent a fifth of global economic activity, but their response to policy is poorly understood because participants systematically hide their actions. It is widely hypothesized that relaxing trade bans in illegal goods allows legal supplies to competitively displace illegal supplies, but a richer economic theory provides more ambiguous predictions. Here we evaluate the first major global legalization experiment in an internationally banned market, where a monitoring system established before the experiment enables us to observe the behavior of illegal suppliers before and after. International trade of ivory was banned in 1989, with global elephant poaching data collected by field researchers since 2003. A one-time legal sale of ivory stocks to China and Japan in 2008 was designed as an experiment, but its global impact has not been evaluated. We find that international announcement of the legal ivory sale corresponds with an abrupt ~66% increase in illegal ivory production across two continents, and a possible ten-fold increase in its trend. An estimated

~71% increase in ivory smuggling out of Africa corroborates this finding, while corresponding patterns are absent from natural elephant mortality, Chinese purchases of other precious materials, poaching of other species, and alternative explanatory variables. These data suggest the widely documented recent increase in elephant poaching likely originated with the legal sale. More generally, these results suggest that changes to producer costs and/or consumer demand induced by legal sales can have larger effects than displacement of illegal production in some global black markets, implying that partial legalization of banned goods does not necessarily reduce black market activity.

**22. Elliott, Robert JR, Eric Strobl, and Puyang Sun. “The Local Impact of Typhoons on Economic Activity in China: A View from Outer Space.” *Journal of Urban Economics* 88 (2015): 50–66. <https://doi.org/10.1016/j.jue.2015.05.001>.**

We examine the impact of typhoons on local economic activity in coastal China. To capture potential damages from an individual typhoon we use historical typhoon track data in conjunction with a detailed wind-field model. We then combine our damage proxy with satellite derived nightlight intensity data to construct a panel data set that allows us to estimate the impact of typhoons at a spatially highly disaggregated level (approx. 1 km). Our results show that typhoons have a negative and significant, but short-term, impact on local activity – a typhoon that is estimated to destroy 50% of the property reduces local economic activity by 20% for that year. Over our period of analysis (1992–2010) total net economic losses are estimated to be in the region of \$US 28.34 billion. To assess the damage risk from future typhoons we use simulated probability distributions of typhoon occurrence and intensity and combine these with our estimated effects. Results suggest that expected annual losses are likely to be around \$US 0.54 billion.

### **Chapter 11: Political economy of trade and investment**

**23. Che, Yi, Julian 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.

**24. 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.

- 25. Stone, Randall W., Yu Wang, and Shu Yu. "Chinese Power and the State-Owned Enterprise." *International Organization* (2021), forthcoming. <https://doi.org/10.1017/S0020818321000308>.**

China has become a leading source of outward foreign direct investment (FDI), and the Chinese state exercises a unique degree of influence over its firms. We explore the patterns of political influence over FDI using a comprehensive firm-level data set on Chinese outward FDI from 2000 to 2013. Using six country-level measures of affinity for China, we find that state-owned and globally diversified firms appear to conform most closely to official guidance. Official investment directives and state visits link investments to state policies; Taiwan recognition and Dalai Lama meetings anchor our political interpretations; and UN General Assembly voting and temporary UN Security Council membership suggest that this intervention may be systematic. The results are robust to country, year, and sector fixed effects, and most do not hold for private or small firms. The results suggest that China uses FDI by prominent state-owned enterprises as an instrument to promote its foreign policy.

## **Chapter 12: Development finance**

- 26. Cervellati, Matteo, Elena Esposito, Uwe Sunde, and Song Yuan. "Malaria and Chinese Economic Activities in Africa." *Journal of Development Economics* (2021), forthcoming. <https://doi.org/10.1016/j.jdeveco.2021.102739>.**

We present novel evidence for the influence of malaria exposure on the geographic location of Chinese economic activities in Africa. The hypothesis is based on the observation that many Chinese aid projects and infrastructure contractors rely on Chinese personnel. High malaria exposure might constitute an important impediment to their employment and productivity. Combining data on Chinese aid and construction projects with geo-localized information about the presence of individuals from internet posts reveals a lower density of Chinese activities and of Chinese workers in areas with a high malaria exposure. This effect is mitigated partly through heterogeneity across sectors and immunity of the local population, through the selection of Chinese workers from regions in China with historically high malaria risk, and through the availability of malaria treatment.

- 27. Blair, Robert A., Robert Marty, and Philip Roessler. "Foreign Aid and Soft Power: Great Power Competition in Africa in the Early Twenty-first Century." *British Journal of Political Science* (2021), forthcoming. <https://doi.org/10.1017/S0007123421000193>.**

Is foreign aid an effective instrument of soft power? Does it generate affinity for donor countries and the values they espouse? This article answers these questions in the context of Chinese aid to Africa and the competing aid regime of the United States. The study combines data on thirty-eight African countries from Afrobarometer, AidData, and the Aid Information Management Systems of African finance and planning ministries. The authors use spatial difference-in-differences to isolate the causal effects of Chinese and US aid. The study finds that Chinese aid to Africa does not increase (and may in fact reduce) beneficiaries' support for China. By contrast, US aid appears to increase support for the United States and to strengthen recipients' commitment to liberal democratic values, such as the belief in the importance of elections. Chinese aid does not appear to weaken this commitment, and may strengthen it. The study also finds that Chinese aid increases support for the UK, France and other former colonial powers. These findings advance our understanding of the conditions under which

competing aid regimes generate soft power and facilitate the transmission of political principles and ideals.

## SESSION 4

### **Chapter 13: China in global governance**

**28. Zeitz, Alexandra O. “Emulate or Differentiate?” *Review of International Organizations* 16 (2021): 265–292. <https://doi.org/10.1007/s11558-020-09377-y>. [Corrections](#).**

Foreign aid relationships are valuable to donors as a means of improving development outcomes and influencing recipient country policy. The emergence of new donors can lead to competition as donors vie for influence over recipient government policy and attention. How does such competition affect the behavior of traditional donors? I draw attention to how the rise of China as a provider of development finance is changing the type of development that traditional donors support. Chinese development finance is particularly targeted at large infrastructure projects, and this focus can exert pressure on traditional donors. I suggest traditional donors can either emulate China’s approach to development, i.e. offer projects in infrastructure-intensive sectors, or differentiate themselves and specialize in alternative approaches to development, e.g. focus on governance and social sector interventions. I test this using data on the terms of World Bank and Chinese development finance in over 100 countries. I find the World Bank responds to competitive pressure from China by emulating the Chinese emphasis on infrastructure, allocating a greater share of its development projects in infrastructure-intensive sectors when recipient countries receive more Chinese development finance. Furthermore, subnational data shows that the World Bank also emulates China’s approach to development in response to competition at the regional level. China’s growing role as a provider of development finance affects traditional donor behavior, shaping the type of development donors support by introducing bottom-up competitive pressure.

**29. Kim, Soo Yeon, and Jesselene Lee. “Gaining Ground, Gaining Influence? Vote Shares and Power in the AIIB.” Working Paper. [https://www.peio.me/wp-content/uploads/2020/02/PEIO13\\_paper\\_100\\_1.pdf](https://www.peio.me/wp-content/uploads/2020/02/PEIO13_paper_100_1.pdf).**

This paper examines the distribution of voting power in the Asian Infrastructure Investment Bank (AIIB), in comparison to that in existing international institutions. A comparative analysis of the institutional design of the AIIB and other institutions informs the hypothesis: states’ vote shares in the AIIB are shaped by their respective vote shares in other institutions, conditioned on states’ developing status. The findings suggest that most states gain in vote shares in the AIIB, relative to their vote shares in other institutions; this increase in vote share is larger for states at lower levels of development. This paper contributes to literature on the distribution of voting power in international institutions, as well as the impact of international institutions created by rising powers on global governance.

**30. Kaya, Ayse, Christopher Kilby, and Jonathan Kay. “Asian Infrastructure Investment Bank as an Instrument for Chinese Influence? Supplementary versus Remedial Multilateralism.” *World Development* 145 (2021): 105531. <https://doi.org/10.1016/j.worlddev.2021.105531>.**

Starting even before its founding in 2015, the Asian Infrastructure Investment Bank (AIIB) has attracted controversy. Critics—especially the U.S. administration—claim the bank is an instrument of China intended to advance narrow Chinese interests and thereby undermine U.S. influence globally. But does AIIB lending show any Chinese influence? Analysis on AIIB lending patterns has been scant. Based on AIIB loan data through the end of 2019, our analysis suggests the AIIB is facilitating “remedial multilateralism” for China, whereby countries economically distant from China have privileged access to AIIB loans. This is contrary to expectations from “supplementary multilateralism,” whereby the multilateral setting reinforces existing bilateral ties. The paper advances the notions of supplementary and remedial multilateralism and provides a comprehensive analysis of AIIB loans in the first four



years of the institution's operation. It, thus, contributes to the understanding of how China's rise is affecting the landscape of multilateral development finance.

#### **Chapter 14: Economic effects on the “West”**

**31. Dauth, Wolfgang, Sebastian Findeisen, and Jens Suedekum. “The Rise of the East and the Far East: German Labor Markets and Trade Integration.” *Journal of the European Economic Association* 12, no. 6 (2014): 1643–1675. <https://doi.org/10.1111/jeea.12092>**

We analyze the effects of the unprecedented rise in trade between Germany and “the East” (China and Eastern Europe) in the period 1988–2008 on German local labor markets. Using detailed administrative data, we exploit the cross-regional variation in initial industry structures and use trade flows of other high-income countries as instruments for regional import and export exposure. We find that the rise of the East in the world economy caused substantial job losses in German regions specialized in import-competing industries, both in manufacturing and beyond. Regions specialized in export-oriented industries, however, experienced even stronger employment gains and lower unemployment. In the aggregate, we estimate that this trade integration has caused some 442,000 additional jobs in the economy and contributed to retaining the manufacturing sector in Germany. This is almost exclusively driven by the rise of Eastern Europe, not by China. We also conduct an analysis at the individual worker level, and find that trade had a stabilizing overall effect on employment relationships.

**32. Priebe, Jan, and Robert Rudolf. “Does the Chinese Diaspora Speed Up Growth in Host Countries?” *World Development* 76 (2015): 249–262. <https://doi.org/10.1016/j.worlddev.2015.07.007>.**

We compiled a new, enhanced data set on the population share of overseas Chinese covering 147 countries over the period 1970–2010. Linking the migration and economic growth literature, this article attempts to estimate the impact of the Chinese diaspora on economic growth in host countries. Regression results from both, “Barro-type” and dynamic panel data models suggest that a country's initial relative endowment with overseas Chinese is positively related to subsequent growth. Results are robust to a number of sensitivity tests. The effect is transmitted via increased trade openness, enhanced investment, and general TFP effects.

#### **Chapter 15: Political effects on the “West”**

**33. 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.

**34. 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**

**35. 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.

**36. Hackenesch, Christine, and Julia Bader. “The Struggle for Minds and Influence: The Chinese Communist Party’s Global Outreach.” *International Studies Quarterly* 64, no. 3 (2020): 723–33. <https://doi.org/10.1093/isq/sqaa028>.**

This paper addresses a largely overlooked actor in China’s foreign relations, the International Department of the Communist Party of China (ID-CPC). Using publicly available documentation, we systematically analyze the patterns of the CPC’s external relations since the early 2000s. Building on an intense travel diplomacy, the ID-CPC maintains a widely stretched network to political elites across the globe. The ID-CPC’s engagement is not new; but since Xi Jinping took office, the CPC has bolstered its efforts to reach out to other parties. We find that party relations not only serve as an additional channel to advance China’s foreign policy interests. Since President Xi has come to power, party relations also emerged as a key instrument to promote China’s vision for reforming the global order. Moreover, China increasingly uses the party channel as a vehicle of authoritarian learning by sharing experiences of its economic modernization and authoritarian one-party regime. The cross-regional analysis of the CPC’s engagement with other parties helps us to better understand the

role of the CPC in Chinese foreign policy-making, pointing to a new research agenda at the intersection of China's foreign relations, authoritarian diffusion, and transnational relations.

**37. Fuchs, Andreas, Lennart Kaplan, Krisztina Kis-Katos, Sebastian Schmidt, Felix Turbanisch, and Feicheng Wang. “Mask Wars: China’s Exports of Medical Goods in Times of COVID-19.” AidData Working Paper #108. <https://www.aiddata.org/publications/mask-wars-chinas-exports-of-medical-goods-in-times-of-covid-19>.**

The COVID-19 outbreak has cut China's supply of and raised the world's demand for face masks, disinfectants, ventilators, and other critical medical goods. This article studies the political and economic factors that facilitated access to Chinese medical equipment during the first two months of the global pandemic. Regression results show that both political and economic ties with Chinese provinces increased Chinese exports of critical medical goods to partner countries. Friendly political relations, such as local diplomatic missions and sister linkages, appear to work as a substitute for pre-existing economic ties at the provincial level. These findings imply that countries are well advised to diversify their sources or develop closer relations with China's provinces to secure better medical equipment access in crises.

*Note: Dates and contents subject to change!*