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Course Description

New World Order: According to the authoritative estimates of the Angus Maddison, the U.S. has been the world's leading economy for the past century. However, recent international comparisons by the World Bank show that China overtook the U.S. as the world's largest economy in 2014 and that India overtook Japan as the world's third largest economy in 2012. The new economic order is China, the U.S., India, and Japan. In this course we consider the projections of economic growth for the next decade.

International Policy Coordination: A second major trend in the world economy is that Developing Asia, excluding Japan, will overtake the G7, an organization of the world's seven leading industrialized economies formed in 1975 and 1976. This will be driven by growth in China, the world's largest economy, and India, the world's most rapidly growing economy. The rise of Developing Asia and emerging and transition economies like Russia and Brazil was anticipated in the shift from the G7 to the G20 for international policy deliberations in 2009. The G20 includes the G7, the European Union, and leading emerging economies such as China, India, Russia, and Brazil. What impact would the Covid-19 pandemic have on economic growth projections?

Rise of Asia. This seminar assesses the future role of Asia in the tri-polar world economy—Asia, Europe, and North America. The seminar focuses on China, India, Japan, and the Four Asian Tigers—Hong Kong, Singapore, South Korea, and Taiwan. Japan was the first to reform its economy, following the resumption of Japanese sovereignty in 1952. This was followed by two decades of rapid growth. The lessons of Japanese economic development were absorbed in the 1970s and 1980s by the Four Asian Tigers and all have become advanced economies.

Transition to a Market Economy. China's transition to a market-based economy began in 1978 and this gained momentum during the following decade and a half. This led to three decades of double-digit growth. India's reforms began in the 1980s and accelerated in 1991 in the aftermath of a financial crisis, when India was required to follow a recovery program by the International Monetary Fund. The Indian growth rate has gradually risen and is now among the most rapid of the world's major economies. A substantial part of the seminar will be devoted to a detailed comparison of the economic performance of China and India over the past three decades and their prospects for the next decade.

Imbalances. Although economic reforms have generated rapid growth in China and India, sustained growth has resulted in severe imbalances. For example, the ratio of investment to GDP in China has attained historic highs, while the proportion of GDP devoted to personal consumption is at historic lows. The loosening of Indian fiscal policy that preceded the financial and economic crisis has produced rapid growth in the national debt and an unsustainable government deficit. Japan's response to the crisis produced a sharp appreciation in the Japanese yen, prolonging the Lost Decades beginning in 1991. The appreciation has been reversed by looser monetary policy by the Bank of Japan.

Globalization. One of the key elements in the successful reforms in Japan, the Four Tigers, China, and India is opening to international trade, contributing to the rapid globalization of the world economy. A second important element is the development of modern financial institutions. This has led to the creation of markets for debt and equity that supplement and then substitute for bank lending. A final stage of financial development is the integration of financial markets with international capital markets. The risks involved in international financial integration have been exposed by the global financial and economic crisis following the emergence of the Covid-19 pandemic.

Crisis and Response. For China, India, and Japan the final topic for the seminar is the policy response to the Covid-19 pandemic. China has relied primarily on massive lending by government banks to finance private investment and public investment in infrastructure such as fast trains. India's unsustainable government deficit has proved to be persistent. While China and India boomed in the aftermath of the crisis, both are now experiencing slower growth. Japan's response to the crisis was relatively passive, resulting in deflation and lagging economic growth.

Reading List. Three books include many of the assigned readings for the course. *China Economic Update*, a December 2020 report by the World Bank, provides a comprehensive discussion of the Chinese economy, including the agenda for reform. This is available on the website of the World Bank. *India Development Update*, a July 2020 report by the World Bank, presents a similarly comprehensive discussion of the Indian economy. Required reading for Japan and the Four Asian Tigers consists of empirical papers and book chapters. *The World Economy*, edited by Dale Jorgenson, Kyoji Fukao, and Marcel Timmer, includes assigned readings on China, India and Japan.

Lectures. The first four meetings of the course will provide a survey of the major Asian economies, beginning with the sources of recent economic growth and growth projections for Asia over the next decade. These will be contrasted with the prognostications in the widely cited paper by Paul Krugman, “The Myth of Asia’s Miracles.” In 1994 Krugman compared China and the Four Asian Tigers with the former Soviet Union and predicted an imminent collapse. Although this failed to materialize, his perspective is reflected in a continuing stream of literature focusing on the demise of rapid growth of Japan and expressing skepticism about continued economic growth in China and India.

Class Presentations. The remaining nine meetings of the seminar will be devoted to student presentations and discussion. Two topics will be covered in each meeting. All members of the seminar are expected to complete the assigned readings in advance and to contribute to the discussions. One hour will be devoted to each topic with an initial presentation (~20 minutes) by the student leader, followed by discussion and a short summation by the instructor. The implications for the Covid-19 pandemic will be an important part of each presentation.

Paper Requirement. The paper requirement is intended to provide students with research experience useful in preparing an undergraduate dissertation. Each student will submit a seminar paper (~15 pages) suitable as a dissertation chapter. A well-formulated paper topic involves a hypothesis about a leading economic issue and empirical tests to resolve the issue. The paper could involve econometric methods, but graphical and tabular presentations are also essential. The empirical papers on the course reading list provide numerous models for students to follow in designing their research.

Seminar Papers. A written outline of the seminar paper (~ 5 pages) is due at class time on March 3 and should be submitted electronically. The outline should begin with a discussion of the significance of the economic issue. The outline should then describe the hypothesis to be tested, the data sources to be used, and the anticipated outcome. All papers are due at the end of Reading Period on May 5. Grades for late papers will be reduced by one grade for each day. For example, a paper handed in May 6 that would have been graded A on May 5 will be graded A-, an A- would be graded B+, and so on.

Office Hours. The instructor’s virtual office hours are 2-4 p.m. on Mondays. Special virtual office hours on January 27 and February 3 will provide students with an opportunity to discuss their plans for a class presentation and their initial thoughts about a paper topic. Special virtual office hours on February 22 and March 1 will provide an opportunity for students to discuss their paper topics in more detail. Teaching Fellow Ronak Jain rjain@g.harvard.edu is available to discuss paper topics, including data sources and econometric modeling, and will hold regular virtual office hours on Tuesdays from 1:00-3:00 p.m.

Grades. Two-thirds of the course grade will be based on the student’s term paper and one third on the presentation of topics for class discussion and contributions to the class discussion throughout the term.

Student enrollment is limited.