Class Location and Time:  Tuesdays, Thursdays 10:30-11:50, Hamburg Hall 2003

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Office Hours:  By appointment

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Office Hours:  Tues., 12-3 PM, Hamburg Hall 3026

Required Materials:

The CAMEO E-Reader.  Unless otherwise noted, required readings for this course can be accessed from the CMU Library CAMEO website. Go to CAMEO (http://www.library.cmu.edu/using/reserves), and then enter either my name or either of the course numbers for this course. That will direct you to electronic copies of the required readings that can be accessed on-line or downloaded. There are two separate pages of links to the readings; to access the second page select “next” from the menu at the top. To access the first page from the second, select “previous.” Please be aware that the articles are in alphabetical order, not the order in which they appear in the syllabus. This is a limitation of the software. While it may be inconvenient to look up readings in this fashion, it is a much cheaper way of giving students access to the material than a traditional course reader, which has cost well over $100 in recent years.

Course WebPage:  This course will use the Canvas system. As of the first day of class, all registered students should have complete access to the course web page. Important class information, including copies of the lecture notes, will be distributed regularly via this web page. Please check it often. Everything you need will be in the "course documents" folder of the website. *Electronic copies of some course readings will be placed on the Canvas site in a subfolder called “Electronic Reserve Readings.”* These readings are denoted in the syllabus with the phrase “Canvas Reserve.”

Course Introduction

For most of the past 40 years, no region of the world has been more economically dynamic than Asia. This economic growth transformed the patterns of world trade, lifted millions out of absolute poverty, and so captivated the attention of Western economists and business leaders that it was commonplace by the early 1990s to refer to the economic achievements of these countries as the “East Asian miracle.”
The nature of this apparent miracle changed dramatically over the course of the 1990s as the most advanced economy in the region, Japan, suffered a sharp growth slowdown, and a number of the other "miracle" economies were engulfed in a regional economic crisis in the latter half of the decade. These events highlighted weaknesses in the East Asian growth model that had been hidden during the boom years.

Despite these economic problems, accelerating growth in the world's most populous countries, China and India, helped sustain regional progress and kept global attention focused on economic growth in Asia through the 2000s, even though the growth and the international attention were largely concentrated in a different set of countries. However, new worries about Chinese economic growth have shaken global markets in recent years. Is China's growth miracle ending? How does the economic history of Asia's more advanced economies inform our view of the future economic prospects for India and China? In what ways are China and India pursuing a different path to economic development than that taken by their predecessors? How can investors, consumers, and producers in the United States benefit from continued Asian growth? What can U.S. policymakers do to support continued growth in the region and ensure that America continues to benefit from it? The economic future of billions of human beings depends quite significantly on the answers to these questions.

**Course Objectives**

This course is designed to provide future business leaders and policymakers with the essential knowledge necessary to evaluate economic opportunities and risks in Asia. The course will use analytical tools drawn from several fields of economics and finance as well as guest lectures by outside experts to focus on the key strengths that sustained economic growth in Asia for decades, the weaknesses that undermined that growth in the 1990s, and what lies ahead. Considerable attention will be paid to recent developments in India and China and the prospects for continued growth in these economies over the next decade. The course will also focus on recent efforts by the U.S. government to promote growth in the region and better position U.S. exporters, investors, and consumers to benefit from that growth.

Students should acquire from this course an understanding of the roots of Asian economic success, the current economic situation in the region, efforts by the United States to promote and benefit from Asian economic growth, and scenarios for the short to medium run future. More importantly, students will acquire a set of conceptual and analytical tools that they can use to understand the impact and significance of future developments in the region.

**Outcome Measurement**

Midterm and final examinations will be used to measure student mastery of the key analytical frameworks and concepts that form the intellectual core of the course. Homework exercises and classroom discussion will offer students the opportunity to
practice these tools and hone their understanding of key concepts prior to the examinations.

Course Structure

The content of the course can be divided into five sections.

Part 1 – Japan

In the 1960s and early 1970s, the Japanese economy grew more quickly than had any other industrial economy in human history. By the 1980s, Japanese firms were displacing their American and European competitors in global markets and many respected observers expected Japan to overtake the United States as the world’s leading economy. Yet, in the 1990s, the Japanese economy performed more poorly than almost any of the “experts” predicted. While this performance improved somewhat in the 2000s, Japan today is far from the economic powerhouse many expected it to be at this point in the history of the region. What went wrong? What are the lessons for the rest of the region from Japan’s stunning rise to economic prominence? What are the lessons from its significant slowdown in the 1990s and 2000s?

Part 2 – South Korea, Taiwan, and Southeast Asia

Even after the Japanese economy began to falter in the early 1990s, commentators continued to believe that the world’s economic center of gravity was shifting to Asia, in part due to the continued rapid economic growth of East Asia’s Newly Industrializing Economies (NIEs), such as South Korea and Taiwan, and several nations in Southeast Asia. This portion of the course examines the economic foundations of rapid growth in South Korea, Taiwan, and Southeast Asia, and compares them to those that supported rapid growth in Japan. The Asian financial crisis of 1997-1998 was a major turning point for these economies, and the poor performance of many of them during and after the crisis led to a reevaluation of their strengths and weaknesses.

While it will not be possible to explore in depth the economic histories of all the nations in Southeast Asia, we will take a much closer look at Vietnam. After suffering through a devastating war and a decade of economic reversals, Vietnam became a growth star in the region, lifting millions out of poverty and emerging as an increasingly significant exporter of a wide range of goods. Former President Obama’s visit to Vietnam in the summer of 2016 brought fresh global attention to this strong record of economic growth. What factors have driven it, and can it be sustained?

Part 3 – The People’s Republic of China

Even after the Asian financial crisis of 1997-1998, the People’s Republic of China continued to grow at rapid rates. China is now the world’s second largest economy, and many forecasters expect it to overtake the United States in absolute economic size over the next twenty years. How has China managed its unprecedented transition from
communism to a market economy? What role have foreign firms played in this transformation? Is China susceptible to an economic crisis or a prolonged slowdown? We will explore all of these questions, drawing upon recent economic research and outside experts.

**Part 4 – The U.S. and Asia**

The Obama Administration sought to reorient the focus of U.S. economic and geostrategic diplomacy toward Asia, reflecting the strong economic interests the United States has in continued Asian growth and regional stability. The Trump Administration appears to be taking a different approach. We will invite several former U.S. government officials to describe the opportunities, successes, and challenges they see in America’s recent efforts to effectively promote, shape, and benefit from Asian economic dynamism. While expected dates for these guest lectures are provided in the syllabus, actual dates may change due to the work responsibilities of these former officials.

**Part 5 – India Emerges**

From independence through the early 1980s, the Indian economy grew slowly and Indian living standards lagged. Since then, economic reforms have led to a dramatic acceleration of the rate of economic growth in India. Can this higher rate of growth be sustained? How has the Indian road to development differed from that followed by the East Asian nations? What are the challenges and opportunities in the U.S.-India economic relationship?

**Requirements and Grading**

**Class participation:** Class discussions are an integral part of the course, and students are expected to attend class, interact with our guest speakers, ask questions of the instructor, make comments, and participate in these class discussions. To obtain full credit for class participation, the student must engage in these class discussions in a manner that demonstrates thoughtful consideration of the required readings. In other words, students actually have to talk to get full credit. Class participation will account for 10% of the final grade.

**Midterm examination:** There will be an in-class exam on October 12. This exam will test the student’s mastery of the analytical tools developed in the first part of the course. It will account for 35% of the total grade. Because undergraduates and graduate students are both taking this course, there will be an undergraduate version of the midterm and a graduate version of the midterm. Graduate students will be required to answer an additional question.

**Occasional short homework assignments:** There will be a few homework assignments handed out over the course of the semester. You will be required to submit solutions one week later, and the solutions will be graded. Your average score on the homework assignments will account for 10% of the total grade. We will drop the lowest score. You
are allowed to work together with others in the class in order to complete the homework assignments.

**Final examination:** There will be a final examination given during the regular exam period. This will count for 45\% of the total grade. Because undergraduates and graduate students are both taking this course, there will be undergraduate version of the final and a graduate version of the final. Graduate students will be required to answer an additional question.

**Optional review sessions:** The TA will hold optional review sessions for students from time to time throughout the semester, although they will not meet every week. The location and timing of these sessions will be announced later in the term. Students are strongly encouraged (but not required) to attend these sessions when they are held.

**General Class Etiquette**

Students are welcome to bring reasonable amounts of food and drink to class.

Students are allowed to use laptops in class for the purposes of taking notes. Please do not use class time to check e-mail, trade stocks, or play video games.

Students are encouraged to show our guest speakers courtesy and respect. The experts participating in teleconferences or videoconferences are doing us the enormous favor of contributing their experience and insight to our class discussions without any direct compensation from Carnegie Mellon. You are welcome to pose “challenging” questions to our guest speakers, but you are strongly encouraged to do so in a respectful way, recognizing that access of future student generations to these practitioners will be, in part, a function of the quality of their experience in our classroom.

Likewise, students are expected to show one another similar courtesy and respect in classroom discussions. Students are welcome – indeed, encouraged – to “challenge” one another’s ideas in class, as well as the positions taken by the instructor. However, students are expected to do so in a way that maintains an atmosphere of civility and mutual respect.

**Course Outline:**

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Class 1 – Introduction and Overview
August 29

Required Reading

Krugman, Paul, “The Myth of Asia’s Miracle,” Foreign Affairs 73(6), pp. 62-78 (Canvas Reserve)

Discussion Questions
1. Why does Paul Krugman claim that Asia’s “economic miracle” is a myth?
2. What are the empirical and theoretical underpinnings of Krugman’s argument?
3. Is Krugman right?

Class 2 – The Theory of Economic Growth and East Asia, Part 1
August 31

Optional Reading

Jones, Charles, Introduction to Economic Growth, Chapter 2  (Canvas Reserve)

Discussion Questions
1. In the basic model of economic growth, what two factors drive increases in per capita income?
2. Can an increase in investment raise the long-run rate of economic growth?
3. What important economic factors are missing from this simple model?

Class 3 – The Theory of Economic Growth and East Asia, Part 2
September 5

Continuation of Class 2, no additional reading

Class 4 – Postwar Japan: Growth, policies, and institutions
September 7

Required Reading


In addition to this article, please download and study the posted lecture notes before class

Discussion Questions
1. Why did the Japanese economy grow so quickly in the 1950s and 1960s?
2. What factors caused a deceleration of Japanese economic growth in the 1970s?
3. What government policies contributed to successful Japanese economic growth?
4. How were Japan’s postwar financial markets regulated?

Class 5 – Postwar Japan: Growth, policies, and institutions
September 12

Required Reading

Kuttner, Kenneth, Tokuo Iwaisako, and Adam Posen, "Monetary and Fiscal Policies During the Lost Decades," Chapter 2, Examining Japan’s Lost Decades, Yoichi Funabashi and Barak Kushner, Eds., Routledge, New York, 2015. (Canvas Reserve)
Optional Reading


“Why the Japanese Economy is not Growing: Micro Barriers to Productivity Growth,” McKinsey Global Institute, Executive Summary, pp. 1-11. (Canvas Reserve)

Discussion Questions
1. What should the Japanese government have done in the 1990s to restore growth?
2. What explains the low productivity level of much of Japan’s domestic economy?

Class 6 – Can government do better than the market? (1)
September 14

No Required Reading

Optional Reading on government intervention in international trade

Corden, W. Max, Trade Policy and Economic Welfare, Chapter 8 (Canvas Reserve)

Krugman, Paul and Maurice Obstfeld, International Economics: Theory and Policy, Chapters 6, 11 (Canvas Reserve)

Class 7 – Can government do better than the market? (2)
September 19

Continuation of Class 6; no additional reading

Class 8 – Virtual Guest Lecture: Professor Takatoshi Ito, Columbia University
September 21

No Required Reading

Class 9 – Japan in decline?
September 26

Required Reading


Optional Reading

Discussion Questions
1. How and why did Japanese management practices and Japanese business institutions seem to lose their effectiveness in the 1990s and 2000s?
2. Why is Japan's population shrinking so quickly?

Class 10 – Growth, crisis, and recovery in South Korea
September 28

Required Reading
The Economist – “Survey of South Korea”

Recommended Reading on South Korea
Troubled Tiger: Businessmen, Bureaucrats, and Generals in South Korea, Mark Clifford., Chapters 16, 17, 18, 22, 23, 24. (Canvas Reserve)

Discussion Questions
1. What are critical differences between the economic structure of South Korea and that of Japan?
2. What features of the “Korean model” helped bring on the crisis?
3. How has the Korean economy performed since the crisis?

Class 11 – The Outlook for Korea
October 3

Required Reading
2013 IMF Article IV Consultation with the Government of South Korea, Staff Report, p. 10-16 (Canvas Reserve)

Discussion Questions
1. Why has domestic demand been relatively weak in South Korea in recent years?
2. What factors are depressing South Korean growth potential?

Class 12 – The Economic Development of Taiwan (1)
October 5

Required Reading
The Economist – “Survey of Taiwan”
Recommended Reading on Taiwan

Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization, 1990, Robert Wade, Chapters 5, 6, 7 (Canvas Reserve)

Discussion Questions
1. What are the critical differences in economic structure and policy between Japan and Taiwan?
2. What are the critical differences in economic structure and policy between South Korea and Taiwan?

Class 13 – The Economic Development of Taiwan (2)
October 10

No Additional Reading; Please look over lecture notes prior to class

Class 14 – Midterm Examination
October 12

Class 15 – Vietnam: Asia’s New Star? (1)
October 17

Required Reading

“Vietnam: A Case Study on Trade Liberalization and Economic Development,” Lewis et al., 2016 (Canvas Reserve)

Discussion Questions
1. What economic problems were evident in Vietnam when reform started in the mid-1980s?
2. What basic advantages did Vietnam possess that allowed partial economic reform to drive rapid growth?
3. What political developments helped enable and reinforce economic reform?

Class 16 – Vietnam: Asia’s New Star? (2)
October 19

No Required Reading -- please examine the posted lecture notes prior to this class.

Discussion Questions
1. What economic challenges has Vietnam encountered in the 2000s?
2. What further reforms are needed to enable Vietnam to move to the next level of economic development?
3. What political barriers make these reforms difficult to achieve?
Class 17 -- Southeast Asia in Comparative Perspective  
October 24

No Required Reading -- please review lecture notes prior to class

Discussion Questions
1. How do the Southeast Asian nations differ from Taiwan, South Korea, and Japan?
2. How have these countries fared since the financial crisis?
3. What are Southeast Asia’s prospects in the short-run? The long-run?

Class 18 – Virtual Guest Lecture: Rory MacFarquhar, Former Special Assistant to the President on International Economics, National Security Staff  
October 26

Class 19 – Southeast Asia and the Asian Financial Crisis  
October 31

Required Reading


Recommended Reading


The World Bank, East Asia: The Road to Recovery, Chapter 1, “East Asian Crisis: An Overview.”

Discussion Questions
1. What weaknesses in East and Southeast Asia helped bring on the crisis of 1997-98?
2. To what extent can the IMF be blamed for the crisis?
3. To what extent can foreign investors be blamed?

Class 20 – Recovery in East and Southeast Asia/China in the 20th Century  
November 2

Required Reading


Discussion Questions
1. Why has China’s economy grown so rapidly since 1978?
Class 21 – China’s transition to a market economy
November 7

Required Reading

Recommended Reading


Discussion Questions
1. Why was agricultural reform at the start of the reform period so critical?
2. What accounts for the rapid growth of the TVEs?
3. What was the “great compromise” of economic reform in China in the 1980s?

Class 22 – Guest Lecture: Admiral Dennis Blair (Retired), Former Director of National Intelligence and Former Commander in Chief, U.S. Pacific Command
November 9

Class 23 – The role of foreign firms and international trade in China’s transformation
November 14

Required Reading
Lee Branstetter and Nicholas Lardy, “China’s Embrace of Globalization” (Canvas Reserve)

Recommended Reading


Discussion Questions
1. Why have foreign firms played such an important role in Chinese trade?
2. What barriers have foreign firms encountered in the Chinese market?

Class 24 – The U.S.-China Commercial Relationship: Challenges and Opportunities
November 16

Guest Speaker: Claire Reade, Former Director, China Office, Office of the United States Trade Representative, Executive Office of the President of the United States
Class 25 – State-owned enterprises, the financial sector in China, and China's growth after the global financial crisis
November 21

Required Reading


Recommended Reading


Discussion Questions
1. How has the role of state-owned enterprises evolved in China?
2. What imbalances in China's growth trajectory emerged in the 2000s?
3. How can these imbalances be corrected?

November 23 -- Thanksgiving Day -- No Class

Class 26 -- Is China's Miracle Ending?
November 28

Required Reading


Discussion Questions
1. How do China's service industries compare to its manufacturing industries in terms of efficiency and the role of state-owned enterprises?
2. What further reforms are necessary to keep China growing and rapid rates?

Class 27 -- The Indian Economy: An Overview
November 30

Required Reading


Discussion Questions
1. Why did the Indian economy grow so slowly in the first three decades after independence?
2. Why did growth accelerate in the 1980s and 1990s?
3. What key liberalizations were undertaken after India’s financial crisis in the early 1990s?

Class 28 – India vs. China: A Comparative Perspective
December 5

Required Reading


Recommended Reading

“Tax and Spend, Please” Amar Bhide, Columbia Business School

Discussion Questions
1. What are the similarities between the recent accelerations of economic growth in India and China?
2. What are the differences?

Class 29 - Wrap-Up Class
Dec. 7

No Additional Required Reading