

## **Trade, Investment and Development in East Asia**

**ECON6014**

**University of Hong Kong**

**Faculty of Business & Economics**

**Fall 2003**

**Professor K.C. Fung**

This seminar focuses on *current* economic issues facing selective East Asian economies. The economies we consider include China, Hong Kong, Taiwan, Japan, South Korea and Singapore. The economic issues include economic development and growth, international trade, free trade areas, foreign investment, industry structure, technology, exchange rates, etc.

There is no standard text. K.C. Fung has work-related experiences in the *White House* (Clinton and Bush Administrations), *The World Bank* (Washington, D.C.), *The WTO* (Geneva) and *The OECD* (Paris). He has taught at **Stanford University, University of Wisconsin-Madison, University of California, Santa Cruz, Mount Holyoke College, University of Hong Kong and Nankai University, PRC**. He was also a Visiting Scholar at the **University of Tokyo, Chung Hua Institution for Economic Research, Taipei and Tilburg University, Netherlands**. Relevant academic and policy-related materials for this seminar will be put on reserve in the library.

There will be one mid-term and one final exam. The final exam can be replaced by a research paper. The topic of the paper is to be chosen after consultation with the instructor. Midterm will count for 40% of the grade, while the final exam or the research paper will count for 60% of the grade.

Readings and Course Outline:

**Broad Economic Trends, International Trade and Free Trade Areas in East Asia**

Week 1, 2 and 3-----September 10, 17 and 24

\*Fung, K.C., Hitomi Iizaka and Sarah Tong, 2002, "Foreign Trade of China," Hong Kong Institute of Economics and Business Strategy (**HIEBS**) working paper #1048, University of Hong Kong.

\*Fung, K.C., 1997, "Accounting for Chinese Trade: Some National and Regional Considerations," **NBER** working paper # 5595.

\*Fung, K.C., 1997, Trade and Investment: Mainland China, Hong Kong and Taiwan, Hong Kong Center for Economic Research, City University of Hong Kong Press, Chapters 2, 3 and 4.

\*Fung, K.C. and Lawrence J. Lau, 2001, "New Estimates of the United States-China Bilateral Trade Balances," Journal of the Japanese and International Economies, 15, 102-130.

\*FEER, 1999, "Citation by Chinese Premier **Zhu Rongji** in Perception Gap: Economists Dispute Size of U.S. Trade Gap with China," April 29.

\*Fung, K.C., 1991, "Characteristics of Japanese Industrial Groups and Their Potential Impact on U.S.-Japanese Trade," in R. Baldwin ed. Empirical Studies of Commercial Policy, **NBER** Conference Volume, University of Chicago Press.

\*World Bank Report: "Can Competition Policy Control "301"?" by K.C. Fung and J. Michael Finger, 1994.

World Bank Report: "Can GATT Control Antidumping?" by K. C. Fung and J. Michael Finger, 1994.

Policy memo: "Reclassification of Japanese Multipurpose Vehicles," by K.C. Fung, 1993.

Feenstra, R., W. Hai, W.T. Woo and S. Yao, 1999, “Discrepancies in International Data: Application to China-Hong Kong Entrepot Trade,” American Economic Review Papers and Proceedings, May, 338-343.

Feenstra, R. and Gordon Hanson, 2001, “Intermediaries in Entrepot Trade” Hong Kong Re-exports of Chinese Goods,” NBER working paper #8088.

Fung, K.C., 2002, “China’s WTO Accession and the World Economy,” presented at the International Conference on WTO, China and the Asian Economies, November 9 and 10, 2002, University of Hong Kong and Asian Development Bank.

Sung, Yun-Wing, 1991, The China-Hong Kong Connection, Cambridge University Press.

Chen, Xikang, L. Cheng, K.C. Fung and Lawrence J. Lau, 1998, “The Estimation of Chinese Domestic Value Added Induced by Chinese Exports to the United States,” working paper, Stanford University.

K.C. Fung, Richard Wong and Kar-Yiu Wong, 1998, “Unilateral Trade Liberalization in Hong Kong: Theory, History and Political Economy,” mimeo, UC-Santa Cruz.

Lardy, N., 1994, China in the World Economy, Institute for International Economics, Washington, D.C.

K.C. Fung, “Trade and Investment: Taiwan, China and Hong Kong,” lecture delivered to Northwestern University, March 2003.

Notes from a World Bank mission to the WTO: Notes on Negotiations in the Doha Round, by K.C. Fung

## **Foreign Direct Investment and Outsourcing**

Week 4, 5 and 6----- October 1, 8 and 15

\***George Shultz** (Former U.S. Secretary of State), Foreword, U.S. Direct Investment in China, K.C. Fung, Lawrence J. Lau and Joseph Lee, 2003, American Enterprise Institute (AEI) Press, Washington, D.C., forthcoming.

\*K.C. Fung, Lawrence J. Lau and Joseph Lee, 2003, U.S. Direct Investment in China, AEI Press, Washington, D.C., forthcoming, Chapters 1, 2, 3, 4, 8 and 9.

K.C. Fung, Hitomi Iizaka and Alan Siu, 2003, "Japanese Direct Investment in China," China Economic Review, forthcoming.

\*K.C. Fung, Hitomi Iizaka and Alan Siu, 2003, "U.S. and Japanese Direct Investment in China: An Econometric Examination," **HIEBS** working paper #1062.

\*K.C. Fung, Hitomi Iizaka, Chelsea Lin and Alan Siu, 2002, "An Econometric Estimation of Locational Choices of Foreign Direct Investment: The Case of Hong Kong and U.S. Firms in China," **HIEBS** working paper #1051.

Chang-Tai Hsieh and Keong T. Woo, 1999, "The Impact of Outsourcing to China on Hong Kong's Labor Market," mimeo, Princeton University.

Cheng, L.K. and Y.K. Kwan, 2000, "What are the Determinants of the Location of Foreign Direct Investment? The Chinese Experience," Journal of International Economics, 51, 379-400.

Global Production and Trade in East Asia, 2001, ed. L. Cheng and Henryk Kierzkowski, Kluwer Academic Publishers, chapters 11 and 19.

The Role of Foreign Direct Investment in East Asian Economic Development, 2000, ed. T. Ito and Anne Krueger, NBER Conference Volume, University of Chicago Press.

Sung, Yun-Wing, 2002, "The Role of Hong Kong and Taiwan in the Economic Development of the Chinese Mainland," mimeo, Chinese University of Hong Kong.

Policy memo: "Report on OECD Meeting," by K.C. Fung, 1993.

Nicholas Lardy, 2002, Integrating China in the Global Economy, Brookings Institution.

K.C. Fung, 1997, Trade and Investment: Mainland China, Hong Kong and Taiwan, Hong Kong Center for Economic Research, City University of Hong Kong Press, chapters 5, 6, and 7.

### **East Asian Economic Growth**

Week 8, 9 and 10—October 29, November 5 and 12 (October 22 is Reading Week)

\*Krugman, P., 1994, “The Myth of Asia’s Miracle,” Foreign Affairs, November/December, 73 (6), pp. 62-78.

\*Lawrence J. Lau and Jong-Il Kim, 1994, “The Sources of Economic Growth of the East Asian Newly Industrialized Countries,” Journal of Japanese and International Economies, v.8, No.3, September, pp. 235-271.

Models of Development: A Comparative Study of Economic Growth in South Korea and Taiwan, 1990, ed. By Lawrence J. Lau, revised and expanded edition, ICS Press, chapters 5 and 6.

World Bank, 1993, East Asian Miracle: Economic Growth and Public Policy, Oxford University Press.

Dwight H. Perkins, Steven Radelet, Donald R. Snodgrass, Malcom Gillis and Michael Roemer, Economics of Development, 5<sup>th</sup> edition, New York: W.W. Norton, 2001, chapter 2: Economic Growth: Theory and Empirical Patterns”

Alwyn Young, 1995, “The Tyranny of Numbers: Confronting the Statistical Realities of the East Asian Growth Experience,” Quarterly Journal of Economics 110: 641-680.

Lawrence, J. Lau, 1997, “The Role of Government in Economic Development: Some Observations from the Experience of China, Hong Kong and Taiwan,” in M. Aoki, H-K. Kim and M. Okuno-Fujiwara, eds.

The Role of Government in East Asian Economic Development: Comparative Institutional Analysis, Oxford, Clarendon Press, 41-73.

Policy memo: "Revenue Effects of Trade Agreements" by K.C. Fung, 1993.

Hsieh, Chang-Tai, 2002, "What Explains the Industrial Revolution in East Asia? Evidence from the Factor Markets," American Economic Review, June.

World Bank Report: "Multilateral Trade Negotiations in the GATT and the WTO: Lessons for Asia," by K.C. Fung, Hitomi Iizaka, Chelsea Lin and Francis Ng, 2003.

K.C. Fung, 2000, "China's Entry to the WTO and Its Implications for Silicon Valley," lecture delivered to Center for Integrated System (CIS), Stanford University, November.

## **Business Groups and Industry Structure in East Asia**

Week 11 and 12----- November 19, 26

\*James Rauch, 2001, "Business and Social Networks in International Trade," Journal of Economic Literature, 39, December, 1177-1203.

\*Feenstra, R. and James Rauch, 1999, "Introduction to Symposium on Business and Social Network in International Trade," Journal of International Economics, June.

Feenstra, R. Tzu-Han Yang and Gary Hamilton, 1999, "Business Groups and Product Variety in Trade: Evidence from South Korea, Taiwan and Japan," Journal of International Economics, 48, June, 71-100.

Aoki, Masahiko, 1988, Information, Incentives and Bargaining in the Japanese Economy, Cambridge University Press.

Fung, K.C., 2002, "International Trade and Bank Groups: Welfare-Enhancing or Welfare Reducing?" Journal of Japanese and International Economies, March.

Fung, K.C., 1992, "Some International Properties of Japanese Firms," Journal of Japanese and International Economies, 6.

Friedman, D. and K.C. Fung, 1996, "International Trade and the Internal Organization of Firms: An Evolutionary Approach," Journal of International Economics, August.

Deregulation and Interdependence in the Asia/Pacific Region, 1999, ed. T. Ito and Anne Krueger, NBER Conference Volume, University of Chicago Press.

K.C. Fung, "Price Differences in the U.S. and Japan," in Japanese Deregulation: What You Should Know, U.S.-Japan Friendship Commission.

## **Banking and Exchange Rates in East Asia**

Week 13 and 14---December 3 and 10

Ronald I. McKinnon, 1973, Money and Capital in Economic Development, Brookings Institution Press, Washington, D.C.

Maxwell J. Fry, 1995, Money, Interest and Banking in Economic Development, Johns Hopkins University Press.

Ronald I. McKinnon, "After the Crisis, The East Asian Dollar Resurrected: An Interpretation of High Frequency Exchange Rate pegging," in J. Stiglitz and S. Yusuf, eds. Rethinking the East Asian Miracle, 2001, World Bank and Oxford University Press.

K.C. Fung, Hitomi Iizaka, Paul Lau and Chelsea Lin, 2002, "The Political Economy of the Japanese Yen and the U.S.-Japan Trade Conflict," paper presented at an International Conference in Honor of Ronald McKinnon, Stanford University.

Ronald I. McKinnon and K.C. Fung, 1994, "Floating Exchange Rates and New Interbloc Protectionism: Tariffs vs. Quotas," in Protectionism and World Welfare, ed. Dominick Salvatore, ed. Cambridge University Press.

Aoki, M., Patrick H. and P. Sheard, 1994, The Japanese Main Bank System: Its Relevance for Developing and Transforming Economies, Oxford University Press.

K.C. Fung, Chelsea Lin and Andrea Maechler, 2003, "The Political Economy of Exchange rates: The Case of the Chinese Yuan," UC, Santa Cruz and the IMF.

Fischer, Stanley, "Distinguished Lecture on Economics in Government--- "Exchange Rate Regimes: is the Bipolar View Correct?" The Journal of Economic Perspectives, v. 15 (2), Spring 2001, pp. 3-24.

"Whither International Trade and Finance?" Chapter 7, Economic Report of the President, 1993.

FINAL EXAM WEEK—December 15- 20.