

Macroeconomic Policies of China (ECON6130C)

2025-2026 Term 2

Instructor: Dr. Paul YIP, Sau Leung

Time: Mon 9:15am-12:05pm

Venue: LH Classroom 1

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COURSE DESCRIPTION

This course is designed as an up-to-date course that will equip our students with the appropriate analytical framework and updated knowledge on the Chinese Economy and its relationship with the World Economy. The course will cover major macroeconomic issues and policies in China over the recent 25 years.

- China and the world economy before and after the economic reform in 1978;
- Import substitution strategy, export promotion strategy and the gain from trade;
- The Twin Deficit in the US and the Twin Surplus in China;
- The US pressure for major RMB revaluation before the reform in July 2005;
- China's exchange rate system reform since July 2005;
- The Doctrine of Impossible Trinity: its applications to the choice of exchange rate systems in the US, Singapore, Hong Kong and China;
- China's banking reform in 2005-06, and its lessons for other emerging economies;
- Implications of the reforms on the Strong China Route with high GDP growth, low unemployment rate, huge trade surplus, rising foreign reserves, ongoing accumulation of overseas assets and low risk of currency crisis;
- China's trade, outward foreign investments, balance of payment and foreign reserve management policies since 2006;
- The Stock Market in China: The stock market bubble and its bursting in 2006-08, another stock market bubble and its bursting in 2014-15, lessons for policy makers and stock investors;
- Some objective indicators for stock investment, and their applications;
- The characteristics of the seeding stage, the development stage and the final stage of an asset bubble, its implications for policy makers and asset investors;
- The Property Market in China: The Market Structure of the Housing Market in Hong Kong and China (i.e., informal cartel and why the simple supply and demand analysis is the wrong model), barrier of scale, cumulative dynamic efficiency, developers are price setters instead of price takers, the role of inequality and the Indicator Effect from the prices of new properties to the prices of resale property effects,
- The causes and consequences of high real property prices in China: microeconomic pains, macroeconomic risk in terms of property bubble and its bursting, and the recommended solution;

- China's fiscal and monetary policies I: The global financial crisis in 2008-09, and China's ultra-expansionary fiscal and monetary policies to offset the impacts of the global financial crisis on the Chinese economy; and
- The renminbi crisis in 2015-16 and another two renminbi crises during the two episodes of Sino-US Trade War in 2018 and 2019;
- China's fiscal and monetary policies II: China's property-firm crisis and the subsequent recession in 2021-25, the limitation of fiscal policies and the importance of monetary policies, the Doctrine of Impossible Trinity and the pre-condition for the use of monetary policy to stop the crisis from spreading, and lessons for the future;
- The Thucydides' Trap and the Sino-US Conflicts, the Tariff War in 2025; and
- The One Belt One Road Initiative and its economic and political impacts, why the Chinese Government forbids the CK Hutchison Holdings to sell its 43 ports to the BlackRock-led Group (newly added in April 2025).

If time allows, we will also discuss some of the following topics:

- The Covid-19 and the global stock market crash in March 2020, the Quantitative Easing thereafter, the triggering and underlying causes of the surge in global inflation, the US interest rate hikes in 2022-23 and the banking crisis in the US; and
- The Internationalization of RMB: The Triffin Dilemma and its implications, Lessons from the US mistakes: chronic trade deficit and the hollowing out of manufacturing industries, Lesson from Singapore's choice on the debate on the Internationalization of the Singapore dollar in the 1970s, Difference between RMB as a trade settlement currency and as a reserve currency.

Lecture Schedule

Lecture	Topics	Readings
1.1	<p>China and the World Economy before the Exchange Rate System Reform in 2005 China and the World Economy before and after the economic reform in 1978 The Chinese Economy before the Reform in 2005</p> <ul style="list-style-type: none"> • the major RMB devaluation in the 1991 reform: the beginning of China's trade surplus • the rapid growth of trade surplus thereafter • the Asian Financial Crisis: the beginning of the peg of RMB to the US\$ • the Twin Deficit in the US and the Twin Surplus in China • the US pressure for major revaluation of RMB • China's macroeconomic conditions before the reform 	Yip (2011), Ch 1
1.2	<p>Debates before the reform: China's economic characteristics and the risk of various reform proposals</p>	
2-4	<p>The Exchange Rate System Reform and the Banking Reform in 2005-06 Transitional and Medium-term Designs of the Reform</p> <ul style="list-style-type: none"> • The proposed transitional reform: <ul style="list-style-type: none"> - Gradual appreciation, no major or medium jump in exchange rate, and no widening of band; - A basket of currencies with special care to the renminbi-US dollar rate at the early stage; and - A narrow exchange rate band at the early stage • The Doctrine of Impossible Trinity and the medium-term recommendation • The transitional reform in 2005 and the market response 	Yip (2011), Ch 2-4
	<p>The Banking Reform and its lessons for other emerging economies Implications of the reforms on the Strong China Route with high GDP growth, low unemployment rate, huge trade surplus, rising foreign reserves, and low risk of currency crisis The difference in experience between China and Vietnam</p>	
5	<p>Hedge Fund's Speculative Attack and Currency Crisis Hedge Fund's speculative attack during the Asian Financial Crisis The renminbi futures market in Hong Kong and how it could be abused by hedge funds</p>	Yip (2011), Ch 5

6	<p>The Second Stage Transitional Reform and Potential Choices for the Long Term System</p> <p>Proposed design on the second stage transitional reform Actual implementation of the second stage transitional reform The medium-term exchange rate arrangement Potential choices on the long term exchange rate system</p>	Yip (2011), Ch 6
7	<p>China's Foreign Reserves, Trade Surplus, Outward Foreign Investments and Overseas Assets</p> <p>Foreign reserves and holdings of foreign assets: some misconceptions and its policy implications Increase domestic demand to attain trade balance: a misleading proposal at that time Trade balance not a good choice for China in the near future: dynamic optimum vs static optimum Reducing China's dependence on exports: another misleading proposal at that time</p>	Yip (2011), Ch 7
8	<p>China's Stock Market: The Stock Market Bubbles in 2006-08 and 2014-15, lessons for policy makers and stock investors</p> <p>The stock market bubble and its bursting in 2006-08 Another stock market bubble and bursting in 2014-15 Lessons for policy makers and stock investors; Some objective indicators for stock investment, and their applications; The characteristics of the seeding stage, the development stage and the final stage of an asset bubble, its implications for policy makers and asset investors.</p>	Yip (2011), Ch 8
9	<p>China's Property Market: The causes and consequences of high real property prices in China</p> <p>The high real property price in China The market structure of China's Housing market: barrier of scale, cumulative dynamic efficiency, the formation of informal cartel through developers' common adoption of the industrial practice of high gross profit margins Microeconomic pains: why it could be disastrous to let free market force to guide China's property market under the imperfect setting, the role of informal cartel, indicator effect and wealth inequality Macroeconomic costs and systemic risk: role of developers' hoarding and pricing power on the formation and bursting of property bubbles, The Recommended Solution</p>	Yip (2011), Ch 9-10

10-12	<p>Some of the following hot topics will be discussed:</p> <ul style="list-style-type: none"> • The Covid-19 and the global stock market crash in March 2020, the Quantitative Easing thereafter, the triggering and underlying causes of the surge in global inflation, the US interest rate hikes in 2022-23 and the banking crisis in the US; • The Thucydides' Trap and the Sino-US Conflicts • The One Belt One Road Initiative, and its economic and political impacts; • China's current macroeconomic problems: China's property-firm crisis and the subsequent recession in 2021-25, the Doctrine of Impossible Trinity and the pre-condition for the use of monetary policy to stop the crisis from spreading, and lessons for the future; • The formation and bursting of Hong Kong's property bubble and economic outlook after the bursting; • Important Characteristics of Financial Crises • The internationalization of RMB: the Triffin Dilemma and its implications, lessons from the US and Singapore 	Yip (2019), additional reading materials
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Textbook, reference book and supplementary reading materials

Yip P.S.L. (2011), *China's Exchange Rate System Reform and Macroeconomic Policies: Lessons for Macroeconomic Policy Management*, Scientific World: Singapore.

Yip Paul S.L. (2016), *China's Exchange Rate System Reform: Two Potential Mistakes and the Recommended Long-Term System*, *Singapore Economic Review*, Vol. 61, No. 2, 1640025, pp.1-40.

Yip P.S.L. (2019), *From the Global Financial Tsunami to the Property Bubbles in Asia: The Need for a New Discipline in Macroeconomic Management*, Scientific World: Singapore.

+ updated supplementary reading materials and list of policy recommendations published in the Hong Kong Economic Journal.

Course Website

Course materials, including syllabus, homework assignments, handouts, etc., will be uploaded onto the course website.