



LSE-PKU Summer School 2020

LPS-EC210 | China and Global Financial Markets: New Risks and Challenges

Course Leader

Professor Jeffrey Chwieroth is currently a Professor of International Political Economy in the Department of International Relations at the London School of Economics, where he is also co-investigator of the Systemic Risk Centre. He is the author of *The Wealth Effect: How the Great Expectations of the Middle Class Have Changed the Politics of Banking Crises* (Cambridge University Press, 2019, with Andrew Walter, University of Melbourne) and *Capital Ideas: The IMF and the Rise of Financial Liberalization* (Princeton University Press, 2010), as well as numerous articles on the political economy of global finance. His research has previously been supported by grants from the Australian Research Council, the AXA Research Fund, the British Academy for the Humanities and Social Sciences, and the Economic and Social Research Council.

Course Outline

This course provides a rigorous analysis of the most critical political, economic, and strategic risks and challenges facing China's financial system and global financial markets. It explores how and why these risks and challenges will reshape Chinese society and the global financial system, and how they will impact the climate for policymakers and the business community inside and outside China in the 21st century.

China's financial system has advanced in size and sophistication in recent decades. Yet now it faces new risks and challenges in an uncertain global economy. China seeks to manage its on-going credit boom, the growth of shadow banking, and potential financial fragility, while it aims to rebalance its economy, project its financial power abroad, promote internationalization of the Yuan in the context of rising tensions with the West over concerns about cybersecurity and Beijing's financial influence. China's engagement with the global financial system and institutions also continues to shape its domestic financial regulatory framework and its domestic financial reforms. Understanding how these risks and challenges shape China and impact the broader

world economy is crucial for understanding the future of global financial markets. This course enables students to develop a coherent approach for thinking about the many disparate manifestations of risks as well as new analytical and conceptual tools for navigating a rapidly changing and uncertain global financial environment.

Learning Outcomes

Key learning outcomes include achieving a deep understanding of the relevant debates and differing perspectives on the key issues below, as well as developing the analytical skills and building in-depth empirical knowledge to formulate independent and coherent views on these issues.

- Can China avoid a financial crisis following its ongoing credit boom?
- How does "shadow banking" operate in China? What opportunities does it create? What risks does it pose?
- Why does the world economy continue to rely on the U.S. dollar despite the risks associated with such a system?
- Will the Chinese Yuan (RMB) replace the U.S. dollar as the world's leading currency?
- Why has the practice of central banking changed in China and elsewhere since the crisis?
- How can China and other emerging and developing economies best respond to the perils and opportunities arising from international financial integration?
- What are the origins of banking crises and systemic risk?
- In what ways has financial regulation changed in China and globally since the financial crisis?
- How effective will these new regulatory measures be in containing systemic risk and preventing crises?

All of the scheduled teaching sessions will include a mixture of lectures and in-class group work, with substantial time devoted to discussion and other activities designed to enhance the learning process. The concluding session will involve student presentations of case studies analysing current and future risks and challenges facing policymakers and the business community in specific Asian economies of their choice.

Assessment

Essay: 50% (1,500 words) Final Exam: 50%

Topic Session Titles

- Session One: What are the Origins of Banking Crises and Systemic Risk?
- Session Two: The Global Financial Crisis: Why did it happen? Can it happen again?
- Session Three: The Crisis Aftermath in Advanced Countries: Uneven Progress, Greater Uncertainty
- Session Four: Credit Boom and Shadow Banking in China
- Session Five: International Financial Integration: Opportunities and Constraints for China and Emerging Markets
- Session Six: Globally Systemically Important Financial Institutions: How should they be Regulated?
- Session Seven: Central Banking in China, the West, and Emerging Markets
- Session Eight: Trade Wars and Global Imbalances between the United States and China
- Session Nine: The Chinese Yuan: Can it Replace the U.S. Dollar?
- Session Ten: Conclusion

Preparatory Reading List

Douglas J. Elliott and Kai Yan. (2013). The Chinese Financial System: An Introduction and Overview. John L. Thornton China Center Monograph Series Number 6. Washington, DC: Brookings Institute. Available at: <https://www.brookings.edu/wp-content/uploads/2016/06/chinese-financial-system-elliott-yan.pdf>

Song, Zheng and Wei Xiong. (2018). Risks in China's Financial System. NBER Working Paper No. 24230. Cambridge, MA: National Bureau of Economic Research. Available at: <https://www.nber.org/papers/w24230>

Huang, Yukon, and Canyon Bosler. (2014). China's Debt Dilemma: Deleveraging While Generating Growth. Carnegie Endowment for International Peace: http://carnegieendowment.org/files/china_debt_dilemma.pdf

Cerutti, Eugenio, Gita Gopinath, and Adil Mohammad. (2019). The Impact of US-China Trade Tensions. IMF Blog: <https://blogs.imf.org/2019/05/23/the-impact-of-us-china-trade-tensions/>

Rey, H el ene.. (2013). Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence, Available at <http://www.voxeu.org/article/dilemma-not-trilemma-global-financial-cycle-and-monetary-policy-independence>.

Blinder, Alan S., and Mark Zandi. (2015). The Financial Crisis: Lessons for the Next One: <http://www.cbpp.org/research/economy/the-financial-crisis-lessons-for-the-next-one>

Gita Gopinath (2017, Video): "What Have Economists Learned About the International Economy?": <https://piie.com/newsroom/short-videos/what-have-economists-learned-about-international-economy>

Wenjie Chen, Mico Mrkaic, and Malhar Nabar (2018): "Lasting Effects: The Global Economic Recovery 10 Years After the Crisis": <https://blogs.imf.org/2018/10/03/lasting-effects-the-global-economic-recovery-10-years-after-the-crisis/>