



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?

Assessment

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

Topic Session Titles

Session One: Why is the International Financial System so Crisis-Prone?

Session Two: The Global Financial Crisis: Why did it happen? Where do we stand now?

Session Three: The Aftermath of the Crisis in Advanced Economies – United States, Europe, and Japan

Session Four: Credit Booms and Financial Fragility in China

Session Five: Global Shocks and Domestic Vulnerabilities in Emerging Asia and Beyond

Session Six: International Financial Regulatory Conflict and Cooperation: Globally Systemically Important Financial Institutions

Session Seven: Central Banking after the Crisis

Session Eight: A New Bretton Woods System?: The China-USA Relationship and Global Imbalances

Session Nine: Key Currencies: The Dollar, the Euro, and the Yuan

Session Ten: Conclusion

Main texts/ essential reading

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>

Borst, Nicholas. (2013), [China's Credit Boom: New Risks Require New Reforms](#), Peterson Institute for International Economics Policy Brief 13-24.

Buiter, Willem. (2015). Is China Leading the World into Recession? Citi Research Economics: <http://willembuiter.com/China2015.pdf>

Brender, Anton and Florence Pisani. 2009. [Globalized finance and its collapse](#)

Davies, Howard and David Green. 2008. *Global Financial Regulation: The Essential Guide* (Cambridge: Polity Press).

McKinsey Global Institute. (2015). Debt and (Not Much) Deleveraging: http://www.mckinsey.com/insights/economic_studies/debt_and_not_much_deleveraging

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>.