

Preface

I was born in 1944, near the end of the Sino-Japanese War (1937–1945), in Zunyi, Guizhou Province, China, while my parents, fleeing from the invading Japanese army, were en route from Guilin to Chongqing, the wartime capital of China. Guizhou was then, and still is now, one of the poorest provinces in China. Our family moved back to Hong Kong from Chongqing when I was two. I received my kindergarten, primary school, and secondary school education in Hong Kong, before enrolling at Stanford University as a freshman in 1961. It would be more than 40 years later before I would become a resident of Hong Kong again. Stanford was my home from 1966 to 2004, when I returned to Hong Kong to assume the position of Vice-Chancellor (President) of The Chinese University of Hong Kong.

In my freshman year at Stanford, I took an introductory course in economics from Prof. John G. Gurley (then the Managing Editor of *American Economic Review*), using Prof. Paul A. Samuelson's *Principles of Economics* as a textbook. Prof. Gurley was such a great teacher and Prof. Samuelson's textbook was so lucid and logical that I decided to switch from physics to economics for my graduate studies. I was recruited by Prof. Dale W. Jorgenson, who later became my Ph. D. dissertation adviser, and enrolled in the Department of Economics of the University of California at Berkeley as a graduate student in 1964.

Sometime in 1965, I received a telephone call from Prof. Edward S. Shaw, then the head of the Department of Economics at Stanford University. I had taken a course on money and banking from him when I was an undergraduate student. He offered me a position as Acting Assistant Professor in the Department of Economics, specialising in the Chinese economy, but without

any teaching responsibility in the first year. Not fully realising what I would be getting into, I accepted, and wound up spending the next almost forty years at Stanford. Because of the Stanford assignment, as well as my own background, I was particularly interested in the economic development of China and began to do research in the subject area. In 1966, I constructed what was probably the first econometric model of Mainland China, a purely supply-side model, using whatever fragmentary data that I could find at the time.

My first visit to China as an adult was in 1979, soon after China decided to undertake economic reform and open its economy to the world, as a member of the first U.S. delegation of economists to China, under the auspices of the American Economic Association. There were ten of us, led by the late Prof. Lawrence R. Klein, the 1980 Nobel Laureate in Economic Sciences. Also in our delegation was the late Prof. Kenneth J. Arrow, the 1972 Nobel Laureate in Economic Sciences, and Prof. Dwight H. Perkins, an expert on the Chinese economy at Harvard University. The Chinese Academy of Social Sciences was our host. We visited Beijing, Changsha, Nanjing, Shanghai, Wuhan, and Xi'an. We had an audience with Chinese Vice-Premier Gu Mu. We also met with quite a few Chinese economists such as Prof. Chen Daisun of Peking University, Prof. Chen Xikang of the Chinese Academy of Sciences, and Prof. Xu Dixin, Vice-President of the Chinese Academy of Social Sciences. At that time, the roads in the major cities had almost no cars, but many bicycles; the few shops had little to sell; and everyone wore more or less the same blue outer jacket. At the end of our visit, we were asked to forecast the future rate of growth of the Chinese economy. Using my simple supply-side econometric model, I forecast 8 percent, the highest in our delegation; the lowest forecast of my fellow delegation members was 1 percent. As it turned out, the average annual rate of growth of the Chinese economy over the past 45 years was over 9 percent!

In the summer of 1980, I visited China again, as one of the faculty members of a seven-week Econometrics Workshop in Beijing organised by Prof. Lawrence Klein in conjunction with the Chinese Academy of Social Sciences. The other faculty members of the workshop were Prof. T. W. Anderson of Stanford University, Prof. Albert Ando of the University of Pennsylvania, Prof. Gregory Chow of Princeton University, Prof. Cheng Hsiao, then of the University of Toronto, and Prof. Vincent Su of the City University of New York. The workshop was held in Longwangmiao (the Temple of the Dragon

King) on an island in the middle of Kunming Lake inside the Summer Palace. We had one hundred students drawn from all over China, many of whom (for example, Mr. Wang Chunzheng and Ms. Li Boxi) became important contributors to the success of the Chinese economic reform. We also had an audience with Chinese Vice-Premier Yao Yilin. One outcome of our visit was the decision of the Chinese Academy of Social Sciences to establish an Institute of Econometrics, which became the Institute of Technical and Quantitative Economics.

Then in 1986, Prof. Gregory Chow arranged for four U.S. economists of Chinese descent, all members of the Academia Sinica in Taipei—Prof. John C. H. Fei, Prof. Anthony Y. C. Koo, Prof. Chow himself and me—to visit Beijing and advise the Commission for Restructuring the Economic System, which was chaired concurrently by the then Chinese Premier Zhao Ziyang. We introduced to the Commission and its Vice-Chairman, Mr. An Zhiwen, the development experience of the Taiwan economy, including, in particular, the foreign exchange certificate trading system adopted in the process of liberalisation of its current account. We were also assigned the task of developing a plan for the adjustment mechanism of the renminbi (the Chinese currency) exchange rate. Thus began my many subsequent visits to China, advising various organs of the Chinese government on the economy.

In 1988, I was introduced by Prof. Lü Yingzhong, a Visiting Scholar at Stanford from Tsinghua University, to Prof. Zhu Rongji, then the Dean of the School of Economics and Management of Tsinghua University. Prof. Zhu invited me to become an honorary professor of his school and I readily accepted. Prof. Zhu would later become first the Executive Vice-Premier and then the Premier of the People's Republic of China.

In 1992, macroeconomic stabilisation became a pressing issue. The Commission for the Restructuring of the Economic System, with the support of the then Executive Vice-Premier Zhu Rongji, convened an international conference on the subject in Dalian in 1993. I participated in the planning of the conference and, with the cooperation of the World Bank, Mr. Lou Jiwei, Prof. Qian Yingyi and Ms. Alice Yu, succeeded in inviting Dr. Li Kwoh-Ting, widely acknowledged as the “Father of the Taiwan Economic Miracle,” to attend the conference and to visit Beijing. At the time, Dr. Li was the highest-ranked official from Taiwan to visit the Mainland since 1949. While in the Mainland, he was received by both President Jiang Zemin and Executive

Vice-Premier Zhu Rongji, who consulted with him on economic, financial and exchange rate matters. Much of Dr. Li's advice was incorporated in subsequent Chinese economic policies and measures. With the macroeconomy stabilised, in 1994, China undertook three important reforms: the unification of the multiple exchange rates and the adoption of current-account convertibility of the renminbi, reform of the financial sector, and the introduction of the value-added taxation system.

In the aftermath of the Mexican currency crisis in 1994, I began to think about the detection of early warning signals of currency crises to come. In September 1995, in a paper jointly authored with Prof. Jungsoo Park of Sogang University, Seoul, presented at the Project LINK world meeting in Pretoria, South Africa, I identified Thailand, South Korea and the Philippines as the economies most vulnerable to a currency crisis, and that the Chinese economy would be relatively safe. The East Asian currency crisis actually erupted in Thailand on 1 July 1997 and soon spread to other East Asian economies. I then made a series of specific recommendations to the Chinese government as to the appropriate response, including the maintenance of the renminbi exchange rate vis-a-vis the U.S. dollar, the expansion of public infrastructural investment, the full rebate of the domestic value-added tax paid for exports, etc. These recommendations were adopted by the Chinese government, enabling the Chinese economy to maintain its steady growth and survive the crisis relatively unscathed. By not devaluing the renminbi, the Chinese government also facilitated the recovery of the other East Asian economies from the East Asian currency crisis, earning their praise and gratitude.

Chinese accession to the World Trade Organization in 2001 was pivotal to its economic growth in the new millennium. It enabled the massive movement of the surplus labour from the primary (agricultural) sector to the secondary (manufacturing, construction and mining) sector, in response to the rising demand for Chinese manufactured exports from the rest of the world. In 2018, a trade, investment and eventually technology war broke out between the U.S. and China. However, by this time, China is no longer dependent on rising net exports for its growth and instead relies on its own internal demands for consumption and investment. The priority of the Chinese Government has also shifted to enhancing the quality of growth rather than the quantity of growth. The prospects for continued Chinese economic growth at an average annual rate of around 6 percent for the coming decade look quite promising.

The focus of this collection of my published papers on the Chinese economy is economic growth and macroeconomic strategies, policies, and measures. I have therefore not included other papers either authored or co-authored by me that deal with Chinese economic phenomena at the microeconomic or sectoral levels, such as agriculture and international trade (except for one article on the China-U.S. trade war [Chapter 13 of this volume]). For example, I have not included the value-added-based estimations of the China-U.S. bilateral trade balances. Hopefully, these articles will be included in future collected volumes.

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