

GIM China Syllabus

Winter 2015 - B – Spring 2015 - A

Tuesdays, 6:30 – 9:30 PM

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GIM Program Objectives

The GIM Program enables Kellogg students to:

- Gain an understanding of the economic, political, social, and cultural characteristics of a country or region outside the United States.
- Learn about key business trends, industries, and sectors in a country or region outside the United States.
- Conduct international business research on a topic of interest.
- Further develop teamwork and leadership skills.

Course Description and Objectives

The rise of China is potentially one of the most disruptive events—to borrow Silicon Valley’s lingo of the moment—in recent history. The last time the world saw the start of major disruptions to the global order was when the United States exceeded Great Britain as the world’s largest economy around the turn of the 20th century.

China, in turn, is expected to surpass the United States as the world’s largest economy some time over the next 10 years. But given its unique scale, China’s global footprint is already considerable, although it hasn’t even reached middle-income status. To become a business leader in today’s world requires a basic familiarity with this enormous market and the broader Asia-Pacific, arguably the world’s most economically dynamic and diverse region. It is also why this course is taking a “China-plus” approach by visiting South Korea. It is important for students to have a grasp of not just China but also of how Asia is increasingly integrated as a regional economy.

The purpose of GIM China-Korea is to provide students with an essential grounding in the business environment and market dynamics of China. The course is designed with several goals in mind: 1) To provide students with a basic understanding of the economic, social, and political context in which China’s business environment is forged; 2) To impart students with a sense of the diverse market opportunities in the country; 3) To enable students to experience first hand how the China market really ticks and speak to business practitioners through a valuable in-country trip; 4) To give students an opportunity to lead and complete a business project that will have intellectual and practical value for approaching the Chinese market.

The course is organized into three broad segments: 1) Where the Chinese economy has been; 2) Where the Chinese economy and business environment are now; 3) How the Chinese

market might transform over the next 5-10 years. This division aims to capture the key periods and turning points of modern China. Segment one will cover roughly 1949-1978, segment two will cover 1978 up to the financial crisis, and segment three will look ahead to China's potential future economic challenges and opportunities. The course's primary focus will be on the present and the near future, but a quick revisit of the pre-reform era of China is necessary to understanding how the country works today.

The overall course, including reading materials, lectures, and potential guest speakers, is primarily targeted at students who have minimal exposure to China and Asia. However, for individual students who might wish to delve deeper into a particular area or topic, see the instructor about additional materials and resources.

Course Expectations/Guidelines

Students must do all readings on the required reading list and are encouraged to explore supplementary material on the recommended reading list. Because this is an MBA elective with a unique focus, classroom discussion and engagement is necessary for the course to be personally and professionally enriching. Fostering an interactive and collaborative seminar environment is important, and the instructor should be viewed as a resource outside the classroom as well.

Attendance Policy

Due to the nature of the GIM program, attendance for all GIM classes is mandatory, as is participation in the two-week field trip. Attendance on the first day of class is also mandatory. If a student misses more than one class throughout the term, one letter grade will be deducted from his or her final grade. The faculty member may make exceptions in cases of extreme circumstances.

Role of the In-Country Advisor

Throughout your GIM trip, your in-country advisor, Sheila Duran, who is the Director of KPPI at Kellogg, will accompany you. The in-country advisor is responsible for the integrity and quality of the in-country experience. Among other logistical roles during the trip, she will be assessing each student's level of participation during the plenary meetings and will be assigning 15% of the students' overall grade.

Kellogg Honor Code

The students of the Kellogg School of Management regard honesty and integrity as qualities essential to the practice and profession of management. The purpose of the Kellogg Honor

Code is to promote these qualities so that each student can fully develop his or her individual potential. Upon admission, each student makes an agreement with his or her fellow students to abide by the Kellogg Honor Code. Students who violate the Kellogg Honor Code violate this agreement and must accept the sanction(s) imposed by the Kellogg community.

The Kellogg Honor Code is administered by students and is based on the concept of self-government. The efficacy of such a student-administered honor code is dependent upon a high degree of dedication to the ideals of honesty, integrity, and equal opportunity reflected by the code. The Kellogg Honor Code requires that each student act with integrity in all Kellogg activities and that each student hold his or her peers to the same standard. In agreeing to abide by the code, Kellogg students also agree to report suspected violations. By not tolerating lapses in honesty and integrity, the Kellogg community affirms the importance of these values.

Course Materials

Required List*

Books to purchase:
Ma & Adams: <i>In Line Behind a Billion People</i> (purchase)
Richard McGregor: <i>The Party</i> (purchase)
James Fallows: <i>Postcards from Tomorrow Square</i> (purchase)
Course pack materials:
Nicholas Lardy: <i>Integrating China into the Global Economy</i> (course pack)
Yasheng Huang: <i>Capitalism with Chinese Characteristics</i> (course pack)
Barry Naughton: <i>Transitions and Growth</i> (course pack)
Ken Lieberthal: <i>Governing China: From Revolution Through Reform</i> (course pack)

*Additional articles and papers appear in the weekly course schedule below.

Recommended List*

Arvind Subramanian: <i>Eclipse: Living in the Shadow of China's Economic Dominance</i>
Susan Shirk: <i>Fragile Superpower</i>
Economy/Levi: <i>By All Means Necessary</i>
James Fallows: <i>China Airborne</i>
Paulson Institute Case Studies: <i>Nexteer Steering and Nanshan Aluminum</i>
National Bureau for Asian Research: <i>Asia's Uncertain LNG Future</i>
Erica Downs: <i>Inside China, Inc.: China Development Bank's Cross-Border Energy Deals</i>
Jim Yardley: <i>Brave Dragons</i>

*See instructor for additional recommended readings, particularly for those students interested in diving deeper into sectors and areas of specialization (e.g. energy).

Course Schedule and Assignments [subject to change]

[It is recommended that students do their best to keep up with daily economic and business news related to China, which can serve as departure points for class discussion. Some of the best English sources on China are: Wall Street Journal, Financial Times, The Economist, and Reuters.]

Week 1	[2/10/15]
Topics:	<ul style="list-style-type: none"> • Course overview, expectations, and final project • Student and instructor introductions • Team selection for research project and preliminary discussion of proposal ideas • Begin discussion of China's economic, social, and political development since 1949, particularly Mao's disastrous economic policies and political campaigns (e.g. the Great Famine, Cultural Revolution)
Assignments:	<p>Readings:</p> <ul style="list-style-type: none"> • Naughton (select chapters) • Lieberthal (select chapters) • CIA intelligence estimate on Cultural Revolution: http://www.foia.cia.gov/sites/default/files/document_conversions/89801/DOC_0001095914.pdf • Stanford introduction to Cultural Revolution: http://iis-db.stanford.edu/docs/115/CRintro.pdf

Week 2	[2/17/15]
Topics:	<p>China's reform and opening up (1978-present)</p> <ul style="list-style-type: none"> • The acceptance of market capitalism • How economic reforms began on Chinese farms • Foreign investment's role in Chinese reforms • China's development model: authoritarian capitalism
Speaker:	TBD
Assignments:	<p>--Project Proposals due and discussion in class</p> <p>--Readings:</p> <ul style="list-style-type: none"> • Yasheng Huang (select chapters) • Nicholas Lardy (select chapters) • Justin Lin speech: "Demystifying the Chinese Economy" • Mary Gallagher: Contagious Capitalism (select chapters) • Michael Pettis: "The Four Stages of Chinese Growth" http://blog.mpettis.com/2014/06/the-four-stages-of-chinese-growth/ • HSBC report "Inside the Growth Engine"
Additional:	All project teams meet with faculty to discuss project proposals

Week 3	[2/24/15]
Topics:	<p>Red Capitalists and Princelings: the nexus of politics and business</p> <ul style="list-style-type: none"> • How the Communist Party became the elite establishment • Profit and political networks in a partially reformed economy • Efficient corruption vs. endemic corruption
Speaker:	Richard McGregor (Financial Times)
Assignments:	<p>Readings:</p> <ul style="list-style-type: none"> • Richard McGregor: The Party • “Three Represents Theory” http://www.china.org.cn/english/zhuanti/3represents/68733.htm • Andrew Wedman: “Double Paradox: Rapid Growth and Rising Corruption in China” http://www.themontrealreview.com/2009/The-Double-Paradox-of-Rising-Corruption-and-Rapid-Growth-in-China.php • New York Times: “China Returns to the Waldorf” http://dealbook.nytimes.com/2014/10/08/chinese-return-to-the-waldorf-with-2-billion/ • Wall Street Journal: “Children of the Revolution” http://online.wsj.com/news/articles/SB10001424053111904491704576572552793150470

Week 4	[3/3/15]
Topics:	<p>Seeking Opportunities in Present and Future Challenges</p> <ul style="list-style-type: none"> • Labor market shifts and demographic transition • Resource and energy-intensive growth • Social goods scarcity (healthcare, pensions, education) • Rise of the middle class and changing expectations • State sector and vested interests • Innovation with Chinese characteristics
Speaker:	Speaker TBD
Assignments:	<p>--Background Research Review due</p> <p>--Readings:</p> <ul style="list-style-type: none"> • Ma and Adams (select chapters) • Eurasia Group: “China’s Great Rebalancing Act” • CSIS Report: “The Graying of the Middle Kingdom”

Week 5	[3/10/15]
Topics:	<p>China and Globalization</p> <ul style="list-style-type: none"> • China, the global supply chain, and multinationals • Chinese growth and impact on global prices and trade • China and global institutions

	<ul style="list-style-type: none"> • How South Korea became an “Asian Tiger”
Speaker:	Christopher Nicholson (South Korea)
Assignments:	--In-Country Plan due --Readings: <ul style="list-style-type: none"> • Ed Steinfeld: Playing Our Game (select chapters) • Apple supply chain case study: http://pcic.merage.uci.edu/papers/2011/Value iPad iPhone.pdf • Nomura report: “The Ascent of Asia” • USCBC Membership Survey: www.uschina.org/sites/default/files/USCBC%202014%20China%20Business%20Environment%20Survey%20Results.pdf • Korea Economic Institute research (TBD) • “Hallyu 2.0: The New Korean Wave in the Creative Industry” http://pages.cmns.sfu.ca/dal_yong_jin/files/2013/04/Fall-2012-IIJournal-Hallyu2.pdf • The New Republic: “Year of the Pigskin” http://www.newrepublic.com/article/117246/chinese-football-my-season-chongqing-dockers
Additional:	--Pre-trip check-in with student leaders and discussion --All project teams meet with faculty to discuss in-country plan

In-Country Field Research - March 15 th or 16 th – March 28 th or 29 th

In-Country Academics

Students are reminded that GIM is first and foremost an academic program. 15% of your overall grade will be based on your participation in the plenary meetings and engagement in other activities as assessed by the in-country advisor. In order to achieve a high grade, students are expected to not only attend all plenary meetings, but to be actively engaged during the meetings and other learning opportunities in country.

Week 6	[3/31/15]
Topics:	<ul style="list-style-type: none"> • Download on the trip and experiences • Progress check on final projects, and how the trip helped to support them. • Discussion of Fallows’ book and how the themes and issues examined in it affirm or contradict experiences and conversations while in China.
Speaker:	Speaker TBD
Assignments:	Readings: <ul style="list-style-type: none"> • James Fallows: Postcards from Tomorrow Square

Week 7	[4/7/15]
Topics:	<p>In Focus: Energy</p> <ul style="list-style-type: none"> • How the Chinese economic model was built on coal • Why environment and pollution have become priorities • What new sectors are being promoted and present opportunities • China and climate change
Assignments:	<ul style="list-style-type: none"> • Damien Ma: “China’s Energy Challenge: The Way Forward” • Mckinsey report: “China’s Green Revolution” • Paulson Institute Suntech case study • General Resource: EIA China (http://www.eia.gov/countries/cab.cfm?fips=ch)

Week 8	[4/14/15]
Topics:	<p>In Focus: Chinese Outbound Investment</p> <ul style="list-style-type: none"> • The rationale behind the push to invest outside of China • How Chinese investment targets have shifted from emerging markets to OECD markets • What does this new trend mean for US companies and US states and the political controversy surrounding Chinese investment
Speaker:	Speaker TBD
Assignments:	<p>Readings:</p> <ul style="list-style-type: none"> • Eswar Prasad: “The Coming Wave: Capital Outflows from Emerging Markets” http://prasad.aem.cornell.edu/doc/ComingWaveF&DKarolyiNgPrasad.Jun13.pdf • Rhodium Group: “An American Open Door?” http://rhg.com/wp-content/themes/rhodium/interactive/china-investment-monitor/RosenHanemann_AnAmericanOpenDoor_2011.pdf • Additional resource: Paulson Institute Case Studies
Additional:	All project teams meet with faculty to discuss final presentations and reports.

Week 9	[4/21/15]
Topics:	<p>China’s Global Ambitions</p> <ul style="list-style-type: none"> • How China might disrupt global financial institutions • Will the RMB become the new reserve currency? • The rise of Chinese brands and multinationals?
Speaker :	Potential Speaker
Assignments:	<p>Readings:</p> <ul style="list-style-type: none"> • Sanderson/Forsythe: China’s Superbank (select chapters) • supplemental: Erica Downs: “Inside China, Inc.: China Development Bank’s Cross-

	<p>Border Energy Deals”</p> <p>http://www.brookings.edu/~media/research/files/papers/2011/3/21%20china%20energy%20downs/0321_china_energy_downs.pdf</p> <ul style="list-style-type: none"> • Arthur Kroeber: “China’s Global Currency: Lever for Financial Reform” <p>http://www.brookings.edu/research/papers/2013/04/china-global-currency-financial-reform-kroeber</p>
Additional:	All project teams meet with faculty to discuss final presentation and reports

Week 10	[4/28/15]
Topics:	Course wrap-up and final discussion
Assignments:	Final project presentations; written report and peer evaluations due to faculty at 6 PM

Assessment

	Option B
Research Project	70%
Background Research	10%
In-Country Research Plan	10%
In-Class Presentation	10%
Written Report	25%
Peer Evaluation	15%
Other Assignments (Optional)	
Participation	30%
In-Class Participation (attendance, discussion, engagement)	15%
In-Country Participation (plenary meetings; determined by GIM advisor)	15%

GIM Research Project

The core of the GIM class is an independent research project. Groups of 4 to 6 students will select an international business, economic or management issue to study in depth. The students begin secondary research on their topic during the winter term, incorporating perspectives from the class readings and speakers, and spend considerable time in-country speaking with resident experts, gathering local data, and testing their hypotheses and recommendations in the field. In general, the project should aim to meet the letter and spirit of both “think and do.” That is, it should be based on original research that contribute to an intellectual body of work but also strive to have certain practical applications pertaining to the China market.

Students must conduct interviews for their projects in every city that they visit throughout the trip.

Research Topics

Student teams typically develop their own research project, though they refine their topics with the help and advice of their faculty member. Good GIM projects are generally built around interesting, clear, and relatively narrow research questions. Weak GIM projects have often been lengthy and unfocused industry descriptions, e.g., “An Overview of the Brazilian Beverage Industry,” or “Challenges and Opportunities in Japanese Real Estate.”

Project Report Structure

Results of the research must be presented in a report of approximately 20-25 pages in length before exhibits. Students, in consultation with their instructor, may choose from the following report formats:

- Traditional analytical research paper – A research question is described; competing answers to the question are discussed; evidence collected on the trip is used to argue for or against the alternative answers.
- Industry analysis – A particular industry is surveyed in order to examine a narrowly focused, well-defined topic pertaining to the competitive dynamics of the industry. An example is to pick a sector with potential growth and market opportunities in China (preferably a relatively untapped emerging segment), come up with different models for US investment into, or market entry strategies for, that sector.
- Business recommendation report – A consulting report recommending specific strategic, operational and organizational actions to solving a clearly defined business issue (e.g. strategies for overcoming cold-chain logistics and distribution challenges in China.). Another variation is to potentially take a thematic approach:
 - Theme: Reverse capital flows from China to the United States
 - Context: Chinese direct investment in the United States is expected to increase dramatically over next decade, as Chinese companies seek new markets and establish global brands.
 - Project idea: Design marketing strategies to elevate Chinese brands that most US consumers have never heard of.
- Business or industry case study – A case for eventual classroom use developed with a clear underlying business question in mind. It will be a deep-dive into a sector or a specific Chinese company to identify market opportunities, industry trends, and lessons

for investors and practitioners on how to succeed and/or fail in the China market (lessons from failure is just as important as success). Teams pursuing this option are encouraged to work with Case Publishing before and after the trip to ensure a high quality product that may eventually be used in the classroom.

Far from exhaustive, these are merely meant to generate ideas. Unconventional and out-of-the-box ideas need to be cleared by the instructor. But all project proposals need to adhere to a simple principle: they must be realistically executable, given the time and capacity constraints of the course and limited resources.

Project Deliverables

- Research Project Proposal – Each project group will submit a 2-page description of their proposed research topic, including:
 - A description of the specific and narrowly-focused research question(s) to be addressed
 - Description of the topic's importance, timeliness, economic, or social significance
 - Identification of possible in-country visits with companies, governmental agencies, NGOs, etc.
- Background Research Review – Before departing for the in-country portion of the class, each project team must submit a review examining secondary information relevant to its research topic. This review may serve as a first draft of the background section of the final project report.
- In-Country Plan – This is a detailed matrix of five or more investigative research meetings arranged in country. The best plans will include day/time/location of meeting; name/description of organization; name/title/bio of interviewee; agenda and interview guide for each meeting.
- In-Class Presentation – During the final class, each project group will make a presentation in class summarizing their research findings. The purpose of this deliverable is to allow faculty members and students to learn about and provide feedback on the project groups' final findings. It is suggested that each team be given 15 minutes to present and 5 minutes for audience questions and suggestions.
- Written Report – The final report, generally 20-25 pages long before exhibits and appendices prepared according to one of the formats discussed above. In addition to turning in their papers to their instructors, students should submit an electronic copy

to the Global Programs Office on the agreed upon date.

- Peer Evaluation – Each member within the project group will assess every other member's contributions to the project, including their own, with a confidential peer review form that takes into account each member's intellectual contribution, initiative and organization, workload contribution and overall contribution.