

**B7502-01 The EMBA International Seminar – Asia
China in the Global Economy
Spring 2005**

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Office Hours: Tuesday 9-11
Friday by appointment

Required Materials: Course Reading Packet; Weblinks; *The China Dream* by Joe Studwell

Course WebPage: This course will use the BOLD system. All registered students should have access to the course page on BOLD.

Course Introduction:

Over the past two decades, perhaps no nation in the world has been more economically dynamic than China. China's economic growth has transformed the patterns of world trade, lifted millions out of absolute poverty, and captivated the attention of Western economists *and* Western business leaders. Even after the onset of the Asian financial crisis brought economic growth to a halt in its formerly fast-growing neighbors, the People's Republic of China has continued to sustain rapid economic growth. Over the past two years, China's booming economy has contributed significantly to the global economic recovery. Will that growth be sustained?

This course is designed to provide future business leaders with the essential knowledge necessary to evaluate opportunities and risks in the People's Republic of China. The course will use analytical tools drawn from several fields of economics as well as business cases to focus on the key strengths that have sustained economic growth for two decades as well as the weaknesses that could undermine that growth in the post-WTO era. The course will also draw upon the expertise of Columbia University experts on Chinese politics and Chinese law and other guest speakers.

Course Structure:

The course will be divided into seven sections. Required and recommended readings for each class meeting in New York are listed along with a brief description of the meeting's content and focus. Each of the New York meetings on January 21, February 4, February 11, and April 2, will begin with a brief quiz that focuses on the required reading and the material discussed in the previous class session. There will be no quiz on the first class meeting or the last class meeting.

Part 1 – The Miracles that Soured: Cautionary Lessons from Japan and East Asia
January 7

The People's Republic of China is not the first East Asian economy to capture the world's attention. This first segment of the course reviews the experience of Japan and the nations most affected by the Asian financial crisis of 1997-1998. In the 1960s and early 1970s, the Japanese economy grew more quickly than had any other industrial economy in human history. By the 1980s, Japanese firms were displacing their American and European counterparts in world markets and many respected observers expected Japan to overtake the United States as the world's leading economy. Yet, over the past 12 years the Japanese economy has performed more poorly than any of the "experts" predicted. What went wrong?

Even after the Japanese economy began to falter in the early 1990s, commentators continued to believe that the world's economic center of gravity was shifting to Asia, in part due to the continued rapid economic growth of East Asia's Newly Industrializing Economies (NIEs), such as South Korea, and several nations in Southeast Asia. Why were these nations gripped by a financial crisis in 1997? Why have so many nations in the region failed to return to pre-1997 growth rates in a sustained manner? What are the lessons, if any, for China?

Toward the close of this class session, we will have a brief discussion of Chinese political and economic history from the late 19th Century to the mid-1970s, to set the stage for the next class meeting on January 14.

Required Reading

Krugman, Paul, "The Myth of Asia's Miracle," *Foreign Affairs* 73(6), in Course Packet.

Joseph Studwell, *The China Dream*, Chapter 1, "The Dream Through History," pp. 3-25.

Recommended Reading

World Bank, *East Asia: The Road to Recovery*, Chapter 1, "East Asian Crisis: An Overview," in Course Packet.

Discussion Questions

1. Why did Paul Krugman claim in the mid-1990s that Asia's "miracle" was a myth? With what group of countries were the nations of East Asia compared? Is this an appropriate comparison?
2. How did Krugman account for Asia's rapid economic growth? Why did he believe this rapid growth was unlikely to be sustained?
3. Is China susceptible to the kind of slowdown Krugman predicted for the rest of Asia in the mid-1990s? Why or why not?
4. Joseph Studwell emphasizes that Western commercial interests were interested in China long before the boom of the 1990s. Why was China so attractive to Western traders?
5. Why was China's trading potential unrealized before the end of the 20th Century?

Part 2 – Growing Out of the Plan: China’s Transition to a Market Economy
January 21

The next segment of the course focuses on the major elements in China’s transition from a socialist economy in the late 1970s to an increasingly market-oriented economy that formally joined the WTO at the beginning of the 21st Century. These elements include the market reforms in Chinese agriculture, the rise of township and village enterprises, the establishment of Special Economic Zones for trade and foreign investment, and partial reforms of financial markets and state-owned enterprises.

A special focus will be placed on the role of foreign trade and investment in China’s economic transformation. We will also discuss the implications of WTO accession for China and for foreign multinational firms seeking to do business in this market.

Required Reading

The World Bank, *China 2020: Development Challenges in the New Century*, 1997, Chapters 1-2, in Course Packet.

Richard Behar, “Beijing’s Phony War on Fakes,” *Fortune*, October 30, 2000, in Course Packet.

CASE – the Sino-U.S. WTO Agreement, in Course Packet.

Recommended Reading

Reprinted (short) articles from the *Wall Street Journal* in Course Packet:

“As China Surges, It Also Proves a Buttress to American Strength”

“In China’s Countryside, Farmers are Cultivating an Agribusiness Explosion”

“China’s Telecom Forays Squeeze Struggling Rivals,” in Course Packet

Supplemental Reading

Lee Branstetter and Nicholas Lardy, “Openness, International Trade, and Foreign Direct Investment,” forthcoming in *China’s Economic Transition: Origins, Causes, Mechanisms, and Consequences*, edited by Loren Brandt and Thomas Rawski. **NOTE: An electronic version of this paper, currently under revision, will be posted on BOLD well in advance of this class meeting.**

Joseph Studwell, *The China Dream*, Chapter 4, “All Roads Lead to Beijing,” Chapter 5, “Demand and Supply,” pp. 97-136.

Nicholas Lardy, *Integrating China into the Global Economy*, 2002, Chapter 1, “China Enters the World Trade Organization,” Course Packet.

Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform 1978-1993*, Cambridge University Press, 1995. Chapters 2-4, pp. 57-168. (Business Library Reserve)

Discussion Questions

1. Why did agricultural productivity increase so rapidly in China in the early 1980s?
2. Why did the township and village enterprises (TVEs) grow so rapidly in the 1980s?
3. Why is counterfeiting such a problem in China?
4. What Chinese industries will gain from WTO accession? What industries will lose?
5. What foreign firms and industries will benefit the most from WTO accession? Why?

Part 3 – Law and Politics in the People’s Republic of China

February 4

This class session will feature a panel discussion with two of Columbia’s leading China experts. Political scientist and Director of Columbia’s Weatherhead East Asian Institute, Professor Xiaobo Lu, will present some remarks on recent political developments in China. Professor Benjamin Liebman of the Columbia School of Law will comment on recent developments concerning the “rule of law” in China. After brief presentations by these experts, there will be an extended Q&A period.

Required Reading

Joseph Studwell, *The China Dream*, Chapter 11, “Yesterday’s Politics,” pp. 245-270.

Dexter Roberts, Bruce Einhorn, and Frederik Balfour, “Days of Rage,” *Businessweek*, in Course Packet.

Reprinted (short) articles from the *Wall Street Journal* in Course Packet:

“China Weighs Easing Its Harsh ‘One Child’ Rule”

“Police Impose Martial Law on Chinese Town After Riot”

Discussion Questions

1. According to Studwell, why is there so much corruption in contemporary China?
2. According to Studwell, what are the economic costs incurred by China’s tight control of the media and the high level of secrecy it imposes?
3. How likely is it that “rule of law,” as understood in the West, will emerge in China in the near future?
4. How does the post-World War II political evolution of Taiwan compare to that of mainland China?
5. What political risks does the central government weigh in determining how quickly to proceed with economic reform?
6. What is China’s “one child” policy? Has it been a success? Why are changes being considered?

Part 4 – State-Owned Enterprises and Financial Markets

February 19

While the Chinese government has had great success in many aspects of the reform process, there has been much less progress in the SOE (state-owned enterprise) sector and in Chinese financial markets. These sectors are inextricably linked, as a majority of Chinese financial capital is still allocated to state-owned enterprises, many of which are grossly inefficient. This segment of the course will take a critical look at the troubling state of Chinese banks, the government's proposals for reform, and the likelihood of a financial crisis in China.

Required Reading

Langlois, John, "The WTO and China's Financial System," *The China Quarterly*, vol. 167, in Course Packet.

Reprinted (short) articles from the *Wall Street Journal* in Course Packet:

"Surge in Lending in China Stokes Economic Worries"

"In China, Foreign Firms Chip Away at Mountain of Bad, Overdue Debt"

Recommended Reading

Studwell, Joe, *The China Dream*. Chapter 9, "Other People's Money,"; Chapter 10, "Parallel Economies."

Steinfeld, Edward, *Forging Reform in China: The Fate of State-Owned Industry*, Chapter 5, "King of the Red Chips: Ma'an Shan Steel and the Debacle of the 'Public' SOE in China," in Course Packet.

Discussion Questions

1. How efficiently does China's financial system allocate capital?
2. How serious is China's NPL (non-performing loan) problem?
3. Is the system getting better?
4. What reforms of Chinese financial markets are mandated under China's WTO accession agreement?
5. What problems will remain in Chinese financial markets, even after the WTO-mandated liberalizations have been completed?
6. What should the government do to reform SOEs?
7. Is China susceptible to a banking crisis?

Part 5 Field Visits in China – Beijing and Shanghai

March 5-March 12

Susan Roth, a number of enrolled students, and I have been working to set up a series of on-site meetings with managers of multinational firms and Chinese enterprises based in Beijing and Shanghai. We expect this series of meetings to be finalized early next semester, and a detailed description of the meetings and other key events of our trip will be provided then.

Note that we will be joined in China by Columbia Business School Professor Ron Schramm, who spent the 2002-2003 academic year living in China with his family. Professor Schramm will join us on a number of our meetings and will also participate in the class discussions that we hold while in China.

Part 6 – Roundtable Discussion: Whither China?

April 2

This session of the class will focus on the future prospects for the Chinese economy in the short, medium, and long run. Again, a panel of experts will offer short presentations, which will be followed by open-ended Q&A.

Required Reading

Joseph Studwell, *The China Dream*, Chapter 12, “The Longest Dream,” pp. 271-284.

Reprinted (short) articles from the *Wall Street Journal* in Course Packet:

“The New Stresses of Chinese Society Shape a Girl’s Life”

“The Chinese Dream: At 18, Min Finds a Path to Success in Migration Wave”

Supplemental Reading

Morris Goldstein and Nicholas Lardy, “What Kind of Landing for the Chinese Economy?” Institute for International Economics, Policy Briefs in International Economics, PB04-7. NOTE: This reading will be made available well in advance of this class meeting.

Discussion Questions

1. What were Joseph Studwell’s predictions for the growth of China’s export industries? Have they been fulfilled?
2. What were Joseph Studwell’s predictions for the growth of China’s domestically oriented industries? Have they been fulfilled?
3. What was the basis of Studwell’s criticism of GM’s ambitious targeting of the Chinese market? Have these concerns been born out?
4. Compare and contrast the lives and prospects of the two young Chinese women at the focus of the two *WSJ* articles in the required reading. How are they similar? How are they different?

Because our panelists are practicing market professionals with busy schedules, their participation is subject to change. At this point, the panelists include:

Joseph Studwell, author of *The China Dream*, Founding Editor of the *China Economic Quarterly*. Mr. Studwell will focus his remarks on China’s growth prospects in the short, medium, and long run. Mr. Studwell will join our class via internet videoconference from his residence in Italy.

Graeme Maxton, Director, autoPOLIS Strategy Consultants and author of *Time for a Model Change: Re-engineering the Global Automotive Industry*. As a consultant to the global

automobile industry, Mr. Maxton has closely followed recent developments in the Chinese market. The Chinese government has singled out the automobile industry as a priority for development. However, the Chinese auto market has sharply slowed from growth rates of near 70% in 2003 to an actual decline in growth rates at the end of 2004. Why has growth evaporated, and what will happen next? Mr. Maxton will join our class via internet videoconference from his office in Austria.

Justin Leverenz, Managing Director, Oppenheimer Global Funds. Mr. Leverenz has had a distinguished career as an investment strategist, with a strong focus on “Greater China.” A fluent Mandarin speaker, Mr. Leverenz has spent much of his professional life based in Asia. His remarks will focus on the challenges foreign investors face in trying to profit from China’s dynamic, if uneven, growth and development.

Part 7 – Student Presentations of Group Projects

April 15

The final meeting of the course will be held from 12:35 PM through 5 PM. This meeting will be entirely devoted to brief presentations of student group projects, allowing the students an opportunity to share what they have learned with the class. The general requirements for the group projects are described in greater detail below. In order to allow each student group an opportunity to present, presentations will be limited to no more than 15 minutes. Students will also be required to submit the final paper on this day, in class.

Requirements and Grading:

Class participation: Class discussions are an integral part of the course. Therefore, attendance is mandatory. Students should read the “required reading” for each class in advance, and come to class prepared to address the “discussion questions” for each session. I may “cold call” students to promote class discussion. Class participation will count for 10% of your total grade. To give students the appropriate incentives to prepare in advance, each class meeting except the first meeting on January 7 and the final meeting on April 15 will begin with a short quiz.

Short Quizzes: There will be a written, closed-book, in-class quiz given at the beginning of each New York class period **except** for the first class meeting on January 7 and the final class meeting on April 15. Each quiz will be based on the required reading for that class period and the material discussed in class during the previous class meeting. This quiz will take up approximately the first 10 minutes of class – therefore please make every effort to come to class on time. Students will be allowed to drop the lowest grade of the four quizzes and base this component of the final grade on the best three results. Each of the best three quizzes will count for 10% of your total grade. All quizzes collectively will account for 30% of your total grade. Any health-related absences from class should be noted in advance if possible. Absences from class for any other reason are strongly discouraged.

Final project: Students will be required to form study groups and submit a final paper. The text of the final paper should be limited to 10 pages. This provides the opportunity for student teams to apply the concepts learned in this course to a topic of their choice. Topics and teams must be approved in advance by the instructor. Each team will make a brief (no more than 15 minutes) presentation of their paper on the final meeting of the class on April 15. The final written version of the paper will be due on the same day, at the beginning of class. Note that the final

meeting runs from 12:35 PM through 5 PM. This extended meeting time allows each student group to make a presentation. A more detailed summary of the guidelines for the final paper will be made available by January 21.

Grading and General Remarks:

The following weights will be used in determining the final grade:

Class Participation	10%
Quizzes	30%
Final Project	60%

In recognition of the reality that EMBA students are also working managers, students will only be expected to read those articles and chapters that are designated “required.” I have included recommended readings (that develop in further detail a significant theme of the course) and supplemental readings (that provide background for students to use in their research projects) on the syllabus and, in some cases, in the Course Packet. These additional readings are incorporated for the convenience of the students. You are strongly encouraged to read them, as time allows, but you are not required to do so.