

## E393 (#21473)/E505 (#32743): China's Political Economy

Fall 2010  
Tues & Thurs, 4:00-5:15 pm  
Classroom: Sycamore 001

Scott Kennedy  
Office: Goodbody 205  
Office Hours: Tues, 1:00-2:30 pm  
Email: kennedys@indiana.edu

### Overview

For over two centuries, Westerners have dreamed of becoming rich by doing business in China. Hence, the refrain, "If every Chinese wore just one sneaker...ate one hamburger... drank one soda..." You may make that "China Dream" come true for an American venture capitalist who has \$1 billion to invest and hears the call of the China Dream but has no idea which industries to invest in, what forms the investment should take, or what risks – economic, policy, and political – lay ahead. Through readings, videos, and discussion, you will be trained to analyze the opportunities and risks of investing in China, and based on that training develop an investment proposal which you will present at semester's end. This is not an introductory course; previous coursework on China, business, or economics is recommended.

### Requirements

**I. Readings and Participation.** I expect students to be active learners before, during, and after class. Please finish reading prior to class and bring the readings to our meetings. That will give you a basis for participating in discussion and completing the written assignments.

The following required books are available at the bookstore:

1. Barry Naughton, *The Chinese Economy: Transitions and Growth* (MIT Press, 2007).
2. Tim Clissold, *Mr. China: A Memoir* (HarperBusiness, 2006).
3. Scott Kennedy, *The Business of Lobbying in China* (Harvard University Press, 2008).
4. James Fallows, *Postcards from Tomorrow Square: Reports from China* (Vintage, 2009).

The following required report is available online:

1. American Chamber of Commerce in China, 2010 White Paper on the State of American Business in China (Beijing: May 10, 2010), at: <http://www.amchamchina.org/whitepaper>.

The following recommended books can be purchased through an online bookseller:

1. Edward Steinfeld, *Playing Our Game: Why China's Rise Doesn't Threaten the West* (Oxford University Press, 2010).

The additional required and recommended readings are all on Oncourse.

### **II. Tests**

**Map Quiz.** You need to have a basic understanding of China's geography. At the start of Class 3 (September 7), there will be a map quiz that tests you knowledge of China's provinces and provincial-level municipalities. A reference map will be provided.

**Reading Quizzes.** There will be three unannounced quizzes during the semester. Each will consist of 5 multiple choice questions about that day's readings. Your top two scores will be included in your final grade. No make-up quizzes will be allowed unless you have an excused absence for two of the three days quizzes were first given.

### III. Written Assignments\*

Paper #1. We will read some of Tim Clissold's *Mr. China: A Memoir* each class during the first six weeks of the semester. You will submit a 2-page analysis of one meeting's reading. After briefly summarizing the highlights of the chapter, your paper should primarily discuss your reactions to his experiences and their implications for someone considering investing in China. Address these questions: 1) What did Clissold do correctly? 2) What should he have done differently? 3) Is Clissold's story consistent with information provided in our other course readings? Classes will begin with you co-leading discussion of that day's chapter. Students will sign up in Class 2 (September 2) for the Class (3, 4, 5, 6, 7, 8, 9, or 10) they'll be responsible for.

Paper #2. Industry Analysis Paper. 5-page jointly written paper due at the beginning of Class 13 (October 12) and presented in Class 13 (October 12) or 14 (October 14). You can revise and resubmit a paper by Class 18 (October 28) and receive 0-10% points added to your paper's grade. Completed papers will be posted to Oncourse as reference material for classmates, so attention to accuracy and sources is critical. See Page 10 for details.

Paper #3. Risk Analysis Paper. In reaction to class readings, write a 3-page paper that answers all of these questions: 1) What are the risks described in the readings, and what are their main causes? 2) How damaging have they been to Chinese and foreign business? and 3) What can multinationals do to minimize the risks to themselves? Wherever possible make reference to readings assigned for other class meetings. Students will sign up in Class 12 (October 7) for the Class (16, 19, 20, 21, 22, 23, 24, 25, or 26) they'll be responsible for.

Paper #4. Investment Proposal. This paper provides your recommendation for how a venture capitalist should invest their \$1 billion in China in light of the opportunities and risks raised in this class. The paper should be organized as follows: 1) A 1-paragraph Executive Summary that identifies the most important risks and your investment plan; 2) 4-page Economic Opportunities & Risks section, which summarizes China's overall economy and compares the relative health and investment opportunities of at least three industries you recommend and recommend against investing in, with reference to specific companies; 3) 3-page Policy Risks section, which analyzes individual policy risks and compares the relative significance of different policy risks; 4) 3-page Political Risks section, which identifies and prioritizes the main political risks in terms of their likelihood and level of harm they can cause investors; and 5) 5-page Action Plan, which explains your recommendations for how to invest in China, including in what industries, forms, and regions. It should also include advice for how to deal with your Chinese partners, Chinese officialdom, and how to manage the key risks identified in Sections 2, 3, and 4. Although you may use some non-assigned sources to write your proposal, you should mainly use and cite course readings from the syllabus, information from the industry analysis papers written by you and other students, and information from your own risk analysis paper. The paper is due at the beginning of the Final Exam Period (Thursday, December 16, 5:00-7:00 pm) in our usual classroom. Attendance and participation for the two-hour period is mandatory for all.

---

\* **Assignments:** All papers must be typed, double-spaced, printed out, and stapled in the upper left corner. Use endnotes (not footnotes or internal citations with a bibliography) to credit specific ideas and information obtained from written sources, videos, and lectures. Endnotes should follow the style in this syllabus, and need to provide: Author's name, "Article Title," *Periodical/Book Title* (Publisher, Date), page numbers, and the host Website name and root URL.

#### IV. (E505) Graduate Student Requirements

1) All “recommended readings” are required readings for graduate students.

2) Paper #3. Book Review. Instead of analyzing reading for a class on policy and political risks, you will write a 3-page book review of Steinfeld, *Playing Our Game*. The review should not summarize the book, but rather: 1) Analyze Steinfeld’s arguments and the evidence used to justify them; and 2) Discuss the implications of his findings for those considering investing in China. You should draw on and cite other course readings when writing your paper. The review is due at the beginning of Class 21 (November 9).

#### V. Grading

Participation (Reading before class, Discussion, Attendance \*\*): 10%

Map Quiz: 5%

Reading Quizzes: 10% (5% each)

Paper #1 (*Mr. China* Reaction): 10%

Paper #2 (Industry Analysis Paper): 20%

Paper #3 (Risk Analysis Paper/Book Review): 15%

Paper #4: Investment Proposal: 30%

---

\*\***Attendance** is mandatory. After one grace unexcused absence (notify Prof. Kennedy), each additional unexcused absence will result in a 3%-point reduction in your final grade. An “excused absence” is one that Professor Kennedy personally approves. Assignments, work, on-campus interviews, or extra-curricular activities are not legitimate reasons to miss class. Serious illness of yourself or a family member, religious holidays, and off-campus interviews are typically excused, but the last two only if Professor Kennedy is notified at least two weeks in advance.

## Class Schedule

### **I. Introduction: Setting the Scene**

#### Class 1 (August 31): The China Dream

#### Class 2 (September 2): China Basics

1. Clissold, *Mr. China*, pp. 1-33, 133-138.
2. Naughton, *The Chinese Economy*, pp. 3-14.
3. Fallows, *Postcards from Tomorrow Square*, pp. xi-xxi.

#### Recommended:

1. Joe Studwell, *The China Dream* (2002), pp. 3-25.

Select *Mr. China* dates

#### Class 3 (September 7): Politics and Society

1. Clissold, *Mr. China*, pp. 35-58.
2. Fallows, *Postcards from Tomorrow Square*, pp. 3-31.
3. Kennedy, *The Business of Lobbying*, pp. 1-4.

#### Recommended:

1. Margaret M. Pearson, "The Business of Governing Business in China: Institutions and Norms of the Emerging Regulatory State," *World Politics*, January 2005, pp. 296-322.

Map Quiz

### **II. Economic Risks**

#### Class 4 (September 9): China's Economy from Yao to Mao

1. Clissold, *Mr. China*, pp. 59-80.
2. Naughton, *The Chinese Economy*, pp. 33-84.

#### Class 5 (September 14): China's Economic Reforms

1. Clissold, *Mr. China*, pp. 81-103.
2. Naughton, *The Chinese Economy*, pp. 85-111.
3. "Consuming China: Pretty Fictions, Hard Facts," *China Insight*, December 14, 2006.

#### Recommended:

1. Joshua Ramo Cooper, *The Beijing Consensus* (London: Foreign Policy Centre, 2004)

#### Class 6 (September 16): Guest Lecture

Speaker: Hongying Wang, Syracuse University

Go directly to Maple Room, Indiana Memorial Union by 3:55 pm.

Class 7 (September 21): Domestic Firms

[Note: As you read, make a table that lists: firm name, industry, ownership form, level of success, reason for success or failure]

1. Clissold, *Mr. China*, pp. 105-121.
2. Fallows, *Postcards from Tomorrow Square*, pp. 32-51.
3. "Domestic Enterprises" collection of articles.
4. Thomas L. Friedman, "China's Sunshine Boys," *New York Times*, December 6, 2006.
5. "Diary of a Chinese Startup," Part 1 & Part 2, *Red Herring*, November 7 & 11, 2005.
6. James T. Areddy, "China Slowdown Stunts Entrepreneurs," *WSJ*, March 27, 2009.

Recommended:

1. Economist Intelligence Unit, *Domestic Companies in China* (2005).
2. "China's Power Brands," *Businessweek*, November 8, 2004.

"Industry Analysis Paper" Pair-Ups

Class 8 (September 23): Ownership and Governance

1. Clissold, *Mr. China*, pp. 123-146.
2. Naughton, *The Chinese Economy*, pp. 297-328.

Select "Industry Analysis Paper" Industry

Class 9 (September 28): The Rural Economy

1. Clissold, *Mr. China*, pp. 147-178.
2. Naughton, *The Chinese Economy*, pp. 229-294.
3. Matt Forney, "Learn from Dazhai," *Far Eastern Economic Review*, May 16, 1996, p. 26.
4. Andrew Browne, "In China's Countryside, Farmers are Cultivating Agribusiness Explosion," *Wall Street Journal*, October 15, 2004.
5. Tom Miller, "Why Foreigners are Beating China's Tea-Makers on Their Home Turf," *Financial Times*, September 15, 2009.

Class 10 (September 30): Foreign Economic Reforms

1. Clissold, *Mr. China*, pp. 179-206.
2. Naughton, *The Chinese Economy*, pp. 375-424.
3. Fallows, *Postcards from Tomorrow Square*, pp. 66-105.
4. Yong Wang, "China's Domestic WTO Debate," *China Business Review*, January-February 2000, pp. 54-62.

Recommended:

1. Wang Yong, "China in the WTO: A Chinese View," *China Business Review*, September-October 2006.
2. Sun Liang and Zhang Xiangchen, "Redefining Development, Reimagining Globalization: The WTO and China's New Economic Vision," *Journal of World Trade*, Dec. 2007, pp. 1275-1295.
3. "The WTO in Brief," WTO website.

Class 11 (October 5): Multinationals 1

[Note: As you read, make a table that lists: firm name, industry, investment form (joint venture, etc.), level of success, reason for success or failure]

1. Clissold, *Mr. China*, pp. 207-237.
2. "Foreign Enterprises" Article collection.
3. Janet Adamy, "Eyeing a Billion Tea Drinkers, Starbucks Pours It On in China," *Wall Street Journal*, November 29, 2006.

Class 12 (October 7): Multinationals 2

1. Clissold, *Mr. China*, pp. 239-249.
2. Fallows, *Postcards from Tomorrow Square*, pp. 106-127.
3. Andrew Yeh, "Investment Giant Thinks Small," *Financial Times*, December 5, 2006.

Select "Risk Analysis Paper" Dates

Class 13 (October 12): Industry Presentations

Class 14 (October 14): Industry Presentations

**III. Policy Risks**

Class 15 (October 19): Policy Risks: Challenges and Ways to Respond

1. Kennedy, *The Business of Lobbying in China*, pp. 5-56.

Class 16 (October 21): Stealing Intellectual Property

1. Kennedy, *The Business of Lobbying in China*, pp. 128-159.
2. AmCham China, *2010 White Paper*, pp. 108-118.

Recommended:

1. Anne Stevenson-Yang and Ken DeWoskin, "China Destroys the IP Paradigm," *Far Eastern Economic Review*, March 2005, pp. 9-18.
2. Economist Corporate Network, "China: Intellectual Property Rights: Protecting Assets in the Information, Communications and Entertainment Market," March 2005.
3. Douglas Clark, "Intellectual Property Litigation in China," *China Business Review*, November-December 2004, pp. 25-29.

Class 17 (October 26): Technology Policy: Indigenous Innovation

1. Naughton, *The Chinese Economy*, pp. 349-374.
2. Kennedy, *The Business of Lobbying in China*, pp. 96-127.
3. AmCham China, *2010 White Paper*, pp. 216-230.

Class 18 (October 28): Fair Trade and Competition Policy: A Brewing Trade War?

1. Kennedy, *The Business of Lobbying in China*, pp. 57-95.
2. AmCham China, *2010 White Paper*, pp. 50-60.
3. Matthew Bachrack et al, "Merger Control under China's Antimonopoly Law: The First Year," *China Business Review*, July-August 2009, pp. 18-22.

Recommended:

1. Scott Kennedy, "China's Porous Protectionism: The Changing Political Economy of Trade Policy," *Political Science Quarterly*, Fall 2005, pp. 407-432.

Class 19 (November 2): National Security

1. Fallows, *Postcards from Tomorrow Square*, pp. 169-184.
2. Richard McGregor, *The Party* (Harper, 2010), pp. 34-69.

Class 20 (November 4): Credit: Access and Price

1. Naughton, *The Chinese Economy*, pp. 449-483.
2. Andrew Yeh, "China Development Bank: Barometer of Communist Party Ambitions for the 21<sup>st</sup> Century," *Financial Times*, December 12, 2006.

Recommended:

1. Richard Podpiera, "Progress in China's Banking Sector Reform: Has Bank Behavior Changed?," *IMF Working Paper*, March 2006.
2. Scott Kennedy, "China's Emerging Credit Rating Industry: The Official Foundations of Private Authority," *The China Quarterly* (March 2008).

Class 21 (November 9): China's Foreign Exchange Regime

1. Fallows, *Postcards from Tomorrow Square*, pp. 144-168.
2. Frederick S. Weaver, *Economic Literacy: Basic Economics with an Attitude* (Rowman & Littlefield, 2002), pp. 180-193.

Recommended:

1. Arthur Kroeber, "RMB/USD Peg: Goodbye and Good Riddance," *China Notes*, July 21, 2005.
2. Zhou Xiaochuan, "Reform the International Monetary System," March 23, 2009.

Class 22 (November 11): Policy Risks: A Balance Sheet

1. Clyde Prestowitz, Testimony, "Hearing on The Extent of the Government's Control of China's Economy, and its Impact on the United States," May 24, 2007.
2. Edward S. Steinfeld, *Playing Our Game*, pp. 120-140.

Grad Students: Review of Steinfeld, *Playing Our Game*, due.

#### **IV. Political Risks**

Class 23 (November 16): Rule of Law and Corruption

1. Scott Seligman, "*Guanxi*: Grease for the Wheels of China," *China Business Review*, Sept-Oct 1999," pp. 34-38.
2. Yang Haipeng et al, "Gripping Conclusion Nears for Pension Fund Scandal," *Caijing*, August 13, 2007.
3. Laetitia Tjoa et al, "Complying with PRC Antibribery Laws," *China Business Review*, March-April 2005.
4. Jerome A. Cohen, "China's Reform Era Legal Odyssey," *Far Eastern Economic Review*, December 2008, pp. 34-38.

Recommended:

1. Jerome A. Cohen, "Time to Fix China's Arbitration," *Far Eastern Economic Review*, Jan/Feb 2005.
2. Andrew Wedeman, "Anticorruption Campaigns and the Intensification of Corruption in China," *Journal of Contemporary China*, February 2005, pp. 93-116.

Class 24 (November 18): Local Governance: Local Protectionism and Disunity

1. Fallows, *Postcards from Tomorrow Square*, pp. 231-249.
2. Tony Saich, *Governance and Politics of China* (2004), pp. 155-179.
3. Sheryl WuDunn, "Daqiuzhuang Journal: A Chinese Village Discovers the Road to Riches," *New York Times*, January 10, 1992; and "Uproar Over Killing in China's 'Model' Village," *New York Times*, March 30, 1993.
4. Stanley Lubman, "Law of the Jungle," *China Economic Review*, September 2004.

Recommended:

1. Alan Liu, "The 'Wenzhou Model' of Development and China's Modernization," *Asian Survey*, August 1992, pp. 696-711.
2. Jean Oi, "The Role of the Local State in China's Transitional Economy," *China Quarterly*, No. 144 (December 1995), pp. 1132-1149.

Class 25 (November 23): Labor Rights and Protest

1. Naughton, *The Chinese Economy*, pp. 177-208.
2. AmCham China, *2010 White Paper*, pp. 100-107.
3. Lu Zhang, "From Detroit to Shanghai? Globalization, Market Reform, and Dynamics of Labor Unrest in the Chinese Automobile Industry," Indiana University Research Center for Chinese Politics & Business, Working Paper #3, August 2010.

Recommended:

1. Anita Chan, *China's Workers Under Assault* (2001), pp. 206-222.
2. Dexter Roberts and Pete Engardio, "Secrets, Lies, and Sweatshops," *Businessweek*, November 27, 2006.

Class 26 (November 30): Mass Movements

1. Ian Johnson, "Brother Li Love," *Wall Street Journal*, August 25, 2000.
2. Peter S. Goodman, "Natives Feel Left Out of China's New West," *Washington Post*, June 5, 2006, p. A1.
3. Wenfang Tang, "Rule of Law and Dispute Resolution in China: Evidence from Survey Data," *China Review*, vol. 9, no. 1 (Spring 2009), pp. 73-96.

Recommended:

1. Naughton, *The Chinese Economy*, pp. 209-228.
2. An Chen, "The New Inequality," *Journal of Democracy*, January 2003, pp. 51-59.

Class 27 (December 2): Civil Society: Harnessing Social Activism

1. Guosheng Deng, "The Hidden Rules Governing China's Unregistered NGOs: Management and Consequences," *China Review*, vol. 10, no. 1 (Spring 2010), pp. 183-206.



Recommended:

1. Zhang Ye, "China's Emerging Civil Society," *CNAPS Working Paper*, Brookings Institution, August 2003.
2. Howard French, "In Chinese Boomtown, Middle Class Pushes Back," *New York Times*, December 18, 2006.

Class 28 (December 7): Will China Democratize?

1. Henry Rowen, "When Will the Chinese People Be Free?" *Journal of Democracy*, vo. 18, no. 3 (July 2007), pp. 38-52.
2. Minxin Pei, "How Will China Democratize?" *Journal of Democracy*, vo. 18, no. 3 (July 2007), pp. 53-57.
3. Dali L. Yang, "China's Long March to Freedom," *Journal of Democracy*, vo. 18, no. 3 (July 2007), pp. 58-64.

**V. Conclusion**

Class 29 (December 9): China in Comparison: The Best BRIC in the Wall?

1. Fallows, *Postcards from Tomorrow Square*, pp. 250-262.
2. Tarun Khanna and Yasheng Huang, "Can India Overtake China?" *Foreign Policy*, July/August 2003.
3. John Lloyd and Alex Turkeltaub, "India and China are the Only Real Brics in the Wall," *Financial Times*, December 4, 2006.
4. Rob Gifford, "The Silicon Valley of China," *Prospect*, December 2007.

Investment Proposal due at beginning of Final Exam Session, Tuesday, December 15, 7:15-9:15 pm. Attendance and participation for 2-hour period is mandatory.

## Industry Analysis Paper

### Goal

The purpose of this paper is to familiarize you with one sector of China's economy and thereby provide you with a more concrete basis on which to judge the potential benefits and risks of investing in China. You need to understand its broad outlines in economic terms, know some of the key companies, and be familiar with the Chinese government's policies related to the sector.

### Getting Started

In Class 7 (September 21), you will be paired with another student. In Class 8 (September 23), the two of you will pick your sector (only one group per sector) from the following list:

Airlines	Auto parts	Banking	Batteries	Beer	Cell phones
Chemicals	Chinese med.	Color TVs	Computers	Construction	Direct sales
Express mail delivery	Farm equipment	Garments	Honey	Hotels	Insurance
Internet content providers	Milk/dairy	Natural gas	Oil	Passenger cars	Pharmaceuticals
Plane manufacturing	Restaurants	Rice	Semiconductors	Soft drinks	Software
Solar energy	Steel	Tea	Telecom equip.	Travel agencies	Video players

### The Paper

Your jointly written 5-page paper should address: 1) Economic trends in the industry. Describe the industry's overall growth, regional and ownership distribution, profitability, and foreign participation in the past 10 years. In the process, you must introduce at least one domestic and one foreign company in the discussion; 2) Primary policy issues. What are the government's main policies toward the industry? How has China's WTO entry affected the industry? 3) The comparative context. Based on course readings, which industries is this most/least similar to economically? and 4) Is this industry a very good/good/poor/very poor target for foreign investment? The paper is due at the beginning of Class 13 (October 12), and students will make brief (5-minute) presentations of their papers in Class 13 and Class 14 (October 14).

### Suggested Sources Beyond Assigned Readings:

#### From IU Library Digital Resources:

1) Factiva database; 2) LexisNexis Academic database; 3) *China Business Review*; 4) *Far Eastern Economic Review*; 5) *The Economist*; 6) Economist Intelligence Unit, multiple resources, including *Business China*; 7) Inside U.S.-China Trade; 8) Emerging Markets.

#### Dedicated Media Websites:

1) *China Daily*: [www.chinadaily.com.cn](http://www.chinadaily.com.cn)    2) *New York Times*: [www.nytimes.com](http://www.nytimes.com)  
 3) *Business Week*: [www.businessweek.com](http://www.businessweek.com)    4) *Electronic Engineering Times*: [www.eetimes.com](http://www.eetimes.com)  
 5) *Red Herring*: [www.redherring.com](http://www.redherring.com)    6) *Industry Standard*: [www.theindustrystandard.com](http://www.theindustrystandard.com)

#### Government and Industry Websites

1) American Chamber of Commerce in Beijing: [www.amcham-china.org.cn](http://www.amcham-china.org.cn)  
 2) U.S. Trade Representative: [www.ustr.gov](http://www.ustr.gov)  
 3) U.S. Embassy, Beijing: [beijing.usembassy-china.org.cn](http://beijing.usembassy-china.org.cn)  
 4) Chinese Ministry of Commerce: [english.mofcom.gov.cn](http://english.mofcom.gov.cn)

Companies: Multinationals in China often have China-specific websites, and the largest Chinese companies often have English-language websites.

**\*\* If you have any difficulty finding sources or conducting the analysis, please ask me for guidance. I am happy to help.**