

CSIB 582, Secs. 001 and 451
Winter 2008
Thurs., 7:00-10:00 p.m.
Professor Lieberthal

DOING BUSINESS IN CHINA

China has become a factor in global competition for most major multinational corporations (MNC's) through its combination of providing increased access to a significant market and improved factors of production in country that can be used for global competition. But China presents important challenges for foreign firms. It is a continental-sized country with massive differences between localities economically, culturally, and even politically. It is a developing country where political and economic institutions are changing significantly. It is a transitional society, still developing its approaches to many issues. It is a country that is simultaneously undergoing five extremely socially disruptive processes: urbanization, marketization, privatization, globalization, and the spread of the information revolution. It is a country shifting from the near autarky of a quarter century ago to very high levels of economic interdependence. And it is the country with the world's largest population and the world's fastest growing economy over the past two decades.

This set of characteristics means that successful business approaches to China require careful consideration of how to apply best (and next) global business practices in the particular operating environments that China offers. The resulting issues have implications for every major facet of corporate practice, including government relations, HR, governance, marketing, ethics, and other areas.

Requirements:

The course grade will be based on a final examination (50%) and a team project (50%). I very strongly encourage active participation in class discussion. Those who actively and constructively participate will benefit from my rounding up their grade if they are close to the next higher grade.

Final Exam: The final exam will be an in-class, closed-book exam.

Team Project:

See explanation at end of syllabus.

Contact Information:

My office hours are on Wednesdays, 3:00-5:00 p.m., in Haven Hall #7343. I will also when necessary meet students in my office in the Executive Residence, rm. #5616, on

Thursdays, 2:30-3:30 pm. Please make appointments by emailing me: kliebert@umich.edu. My office phone number is: 764-6120.

Reading Assignments:

Readings are from the following two books and the readings posted on the Coursetools Website. Please purchase:

James Kyngé, *China Shakes the World* (Boston: Houghton Mifflin, 2006).

Ming Zeng and Peter Williamson, *Dragons at Your Door* (Cambridge: Harvard Business School Press, 2007).

There will be some additional readings not listed below. These will be made available via Coursetools during the semester.

In addition to the assigned readings, please read the China-related and Asia-related news in the *Financial Times* on a regular basis. I will feel free to raise news published in the *FT* during class.

Class Schedule and Reading Assignments

Jan. 10 and 17: China: Setting the Framework

Loren Brandt, Thomas Rawski, and Gang Lin (eds), *China's Economy: Retrospect and Prospect*, Asia Program Special Report #129 (Washington, D.C., Woodrow Wilson International Center for Scholars, July 2005), pp. 6-13, 20-67.

Friedrich Wu, "What Could Brake China's Rapid Ascent in the World Economy?" (*NBR Working Paper*, October 2006).

Nicholas Lardy, "China: Toward a Consumption-Driven Growth Path," (*IIE Policy Brief*, October 2006).

Kenneth Lieberthal, *Governing China*, chaps. 6 & 7

Jan. 24: No class meeting (I am at the World Economic Forum in Davos)

James Kyngé, *China Shakes the World* (entire book)

Jan. 31 – February 7: Operational Issues: Government Relations, HR, Product Development, Marketing, Distribution, and Organizing the MNC to Deal with China

Jimmy Hexter and Jonathan R. Woetzel, "Bringing Best Practice to China," *The McKinsey Quarterly*, no. 4 (2007).

Ming Zeng and Peter Williamson, *Dragons at Your Door* (entire book)

James Fallows, "China Makes, The World Takes," *The Atlantic Monthly* (July-August, 2007), pp. 1-18

Orit Gadiesh, Philip Leung, Till Vestring, "The Battle for China's Good-Enough Market," *Harvard Business Review* (Sept. 2007), pp. 80-89

Feb. 14: Major Risks: Political, Reputational, IPR, and Health

"HIV/AIDS in China: Opportunities for Business Action," (Booz Hamilton Global Business Coalition on HIV/Aids: May 2005), pp. 1-25
Margaret Hamburg, "Public Health and China: Emerging Disease and Challenges to Health"
Anne Stevenson-Yang and Ken DeWoskin, "China Destroys the IP Paradigm," *Far Eastern Economic Review* (March 2005).
William J. Holstein, "Protecting the Company Jewels in an Unprotected Economy," *Strategy and Business* (July 2007), pp. 14-16
Rowan Callick, "The China Model," *The American* (Nov-Dec 2007), pp. 36-44, 96-104

Feb. 21: Ethics: Pollution, Product Quality and Supply Chain Management, Corruption

Read "introduction" segment and at least one other segment from:
nytimes.com/china
Economy and Lieberthal, "Scorched Earth," *Harvard Business Review* (July 2007)
obtain a free download by going to the following URL:
<http://custom.hbsp.com/b01/en/implicit/p.jhtml?login=LIEB052507S&pid=R0706F>
A.V. Rishwakar and David Jewell, "Strategies for Managing Risks form Imported Products," *Professional Safety* (Nov. 2007), pp. 44-47
Evan Clark, "China Pressure Cooker: Ethical Questions Grow Over Low-cost Sourcing," *Women's Wear Daily* (October 2, 2007)

Feb. 28: Winter break – no class

March 6: Managing China's Global Impact: Climate Change, Socio-economic and Diplomatic Concerns

Gee, Zhu, and Li, "China's Power Sector – Global Economic and Environmental Implications," *Energy Law Journal* (2007), pp. 21-41.
Sample one or more installments of: nytimes.com/China
Planet Earth -- We Have a Problem: Feedback Dynamics and the Acceleration of Climate Change (All-Party Parliamentary Climate Change Group, November 2007), pp. 5-17.
Rosen and Houser, "What Drives China's Demand for Energy?"

March 13: Guest Lecture: Tom Albanese. Mr. Albanese became Chief Executive of Rio Tinto May 2007; he had served as executive director since 2006 and as chief executive of the Copper group and head of Exploration since 2004. Rio Tinto is one of

the world's largest mining and minerals companies. It is currently fighting a takeover bid from BHP Billiton.

CHINA'S RESOURCES DEMAND AT THE TURNING POINT (Canberra: Rio-Tinto-ANU China Partnership, August 2007)

Outlook for Mineral and Metals 2008

Rio Tinto Preliminary Results 2007

Please read carefully the first item above and skim the other two.

March 20: Guest Lecture: Kevin Walsh. Mr. Walsh is Senior Vice President for Research and Development at Oracle Corporation's Asia Pacific Division.

James Wilsdon and James Keeley, "China: The Next Science Superpower?"

Demos

Sylvia Schwaag Serger & Magnus Breidne, "China's Fifteen-Year Plan for Science and Technology: An Assessment," *Asia Policy*, number 4 (July 2007), 135-164

Richard P. Suttmeier, Cong Cao, and Denis Fred Simon, "China's Innovation Challenge and the Remaking of the Chinese Academy of Sciences," *Innovations* (skim)

AnnaLee Saxenian, *The New Argonauts* (Harvard University Press), pp 225-273

James M. Popkin and Partha Iyengar, *IT And the East* (Harvard Business School Press), pp 11-69 (Ch 1, Ch 2, Ch 3)

March 27 and April 3: Team Oral Reports

[April 8: Due Date for Team Written Reports]

April 10: Conclusion

Team Projects

The grade for the team project will be based half on the quality of the class presentation person-by-person and half on the quality of the collectively-written team report. The team project counts for 50% of your course grade. It therefore warrants a major ongoing effort throughout the semester.

Due dates:

- *January 17*: Team membership list submissions
- *January 31*: Finalized team membership lists distributed
- *February 14*: Each team must submit a one-page description of the firm it will analyze.
- *March 27 and April 3*: Project oral presentations
- *April 8*: Written reports due

Firm Analysis:

The board of your firm, a large MNC that is not already seriously involved in China, made clear at its last semi-annual meeting that it wants to undertake a serious China play. You are now briefing the board on your recommendation for the course the firm should pursue in China from 2008 to 2013. This is a serious briefing. It covers goals (and the underlying analysis that led to positing these goals), analysis of the evolving competitive environment, and the resulting basic business strategy, risks and (if necessary) exit strategy. It also lays out how the recommended China strategy will serve (or at least fit in with) the larger regional and global strategies of the firm.

Your analysis should include at least the following sections:

- The competitive landscape
- Current characteristics and pertinent trends (market, regulatory environment, etc.) in the economic sector(s) in which you will compete.
- Strategy for your firm, including at least:
 - Targets for 2013 and 2018 (the latter to put the former in perspective)
 - Entry and expansion strategies (in terms of both form of investment and geography)
 - Targeted market and its expected evolution
- Likely key operational hurdles and resulting recommendations
- Success criteria and exit strategy
- How to nest the China project in the MNC
- Compatibility of the China project with the MNC's regional/global strategy

You should also provide basic pertinent information (in a background sheet) on your MNC. Your MNC can be either a real company that fits the above criteria or one that you make up.

Team Memberships:

Teams generally should consist of six members each, and I will if necessary assign students to particular teams to even out the team sizes. Only students taking the course for grade credit can participate in teams. You are free to form your own teams, with the sole exception that, if possible, all evening MBA students are on teams consisting only of evening MBAs. Membership lists must be submitted to me via email no later than January 17th. I will hand out final lists of team members no later than January 31. These will include assignments of students who are not on any self-formed team, as well as (if necessary) some limited reassignment of students to smooth out team sizes.

Grading:

One of the most important skills you can develop is that of presenting sophisticated materials clearly and succinctly. You will therefore be judged on the clarity and quality of the oral and written presentations as well as on their substance. Please feel free to come in to see me to discuss techniques for clear presentations.

The written and oral presentations will be graded separately, with each counting for half of your project grade. The oral presentations will be graded individually, and therefore every member of the team must be allotted roughly equal time to do her/his part of the in-class presentation. The written presentation is considered a group product, and therefore all members of the team will receive the same grade for the written presentation.

Team projects inevitably create the potential for free rider problems to arise. Every team member is obligated to contribute his/her full share. If one or two members very clearly fail to do their fair share, all other team members can report this in writing to me, and I will take it into consideration. This should be done only in the case of blatant failures to do the work required.

Academic Honesty

Academic honesty is an extremely important issue. Complete integrity both on the course exam and in terms of acknowledging all sources specifically used in your team report is a fundamental requisite for this course. I take this issue very seriously and insist that you do, too. Please do not hesitate to talk with me about any questions or concerns you have in this regard.