



Johnson
Cornell
SC Johnson College of Business

NBA 6400 Doing Business in China (17540)

Class meetings: Mon & Wed 11:55am - 1:10pm (Jan 22 - Mar 12, 2019)

Location: [Breazzano Family Center 221](#)

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Sage Hall 363

Revised February 24, 2019 (subject to change)

CLASS OVERVIEW

In today's increasingly globalized economy, understanding the world's second largest economic superpower is essential for global success. This course is designed for students who are interested in working in and with businesses from China as well as future business leaders who wish to develop a general understanding of Chinese business practices.

The course examines the many different types of business—private and public, Chinese and foreign—and the institutions that have and will define China's economic trajectory and its role in the global economy. These include the state-owned firms that have been the foundation of modern China's economy that dominating infrastructure and finance industries; the large, new private businesses that have emerged in many industries and are challenging the state sector; and the foreigners, whose ideas about "the China market" have both focused and clouded their vision.

The course will also address key elements of the current political and economic situation in China. As China rebalances from an investment-driven and polluting-for-development to a consumption-, innovation-, and sustainability-driven economy, what are the opportunities for entrepreneurs? How do businesses manage the political challenges posed by the state system (the Communist Party, government and legal system)? What are key sectors and industries for business opportunities? How and why do foreign businesses succeed and fail? How do Chinese firms "go global," and what are the opportunities for their international partners? In short, where is China going—economically and politically—and how can you take part in its continued rise?

Course Grading, Assignments and Expectations

This course has three main requirements: class participation, team presentations and a final exam

- **Class Participation (35%).** Part of the class will be taught by the case study method and thus much of the action takes place during class discussions. It is expected that all participants should show up prepared to discuss the assigned case and associated readings for each class.
- **“Advice to President Trump” or “Advice to President Xi” short writing assignment (10%). March 6.**
- **Map of Chinese provinces quiz (5%). February 4.**
- **Book report (20%). February 27.**
- **Final Exam (40%). Date of final exam TBD.** It will be a case-based exam (you will be given a case study and required to analyze the situation using what you have learned from the class).

Required Books

- Rana Mitter, *Modern China: A Very Short Introduction* (Oxford University Press, 2008).

Discussion questions guide the assigned reading materials and cases that you will need to prepare in advance of class.

Summary of Sessions and Readings

Module 1: Overview of Doing Business in China

1. Course Introduction - January 23

China has enjoyed rapid economic development over the past four decades and is now the second largest economy in the world. In this session, you will gain an overview of China—especially recent developments—through different lens, such as economy, politics, society, culture, and geography. For today's business leaders, understanding the current state of business and economic developments in China is critical for survival and success.

Reading:

- Case study: Vietor, Richard H.K., and Haviland Sheldahl-Thomason. "**China: The New Normal.**" Harvard Business School Case 716-080, June 2016. (Revised January 2018.)

Reading/Discussion Questions:

- How has Chinese economy performed since 2001?
- Has entry into the WTO worked well for China? For the U.S.?
- What are the problems that began to worry the then Premier Wen Jiabao?
- What was "the New Normal" that Xi Jinping confirmed in 2013? What's your assessment of the New Normal? Is it right for China?
- What appears to be Xi's strategy? What are problems with China's debt? With liberalization of capital controls?
- What are the challenges for the next U.S. President and for American firms doing business in China?
- What conclusions do you draw? What are challenges for President Xi, and for Chinese firms? What are important principles of doing business in China?

2. Competition under State Capitalism – January 28

With a population of 1.4 billion people, China is home to over 800 million internet users, the biggest online community in the world. The "Great Firewall" has mainly kept out Western technology firms such as Facebook, Google, Twitter and YouTube. In this class, you will come to better understand the political constraints over the development of the Internet and related information industries. You will also consider implications for market entry, marketing, and other developmental strategies for firms in China. This situation has been exacerbated during the recent trade war between the U.S. and China

Readings:

- Case study: Quelch, John A., and Katherine Jocz. "**Google in China (A).**" Harvard Business School Case 510-071, January 2010. (Revised April 2010.)
- "How Microsoft Conquered China." By [David Kirkpatrick](#), Fortune senior editor. http://archive.fortune.com/magazines/fortune/fortune_archive/2007/07/23/100134488/index.htm.
- "Why is China Keeping the Heat on Microsoft? By Jade from trade insider. <https://tradinginsider.fr/2014/11/china-keeping-heat-microsoft/>.
- The current tension between China and the U.S.

“China v America, The End of Engagement. How The World’s Two Superpowers Have Become Rivals”

<https://www.economist.com/leaders/2018/10/18/the-end-of-engagement>

Discussion Questions:

- What are commonalities between the Google case and Microsoft’s experience in China?
- What did Google do differently from Microsoft and what are the consequences?
- What specific lessons can a foreign firm operating in China learn from these cases? What about a foreign firm trying to (re)enter China like Facebook? Google?
- Can Google take comfort from the reactions of stakeholders so far?
- Has Google failed in China?
- What issues can the U.S.-China Trade war solve? What will it hurt?
- Can the U.S.-China Trade war be stopped?

3. Entrepreneurship, Innovation and the State – January 30

Important to doing business in China is examining key political, social, and economic drivers of China’s development, which are important context for private business success, market opportunities and constraints, and innovation. We will evaluate business cases of multinationals and private enterprises in key areas (tech, manufacturing, retail) to better understand the contemporary business environment in China, including China’s entrepreneurial ecosystem, risks of starting business in China, and market entry strategy.

Readings:

- Case study: Kirby, William C., Joycelyn W. Eby, Shuang L. Frost, and Adam K. Frost. "[Uber in China: Driving in the Gray Zone.](#)" Harvard Business School Case 316-135, January 2016. (Revised November 2016.)
- “Create. Make. Repeat. Can China Unleash Innovation?” by Kristie Lu Stout <https://www.cnn.com/2015/09/23/asia/china-innovators-stout/index.html>
- Distributed in Class: William C. Kirby, Yuanzhuo Wang, Shuang L. Frost, and Adam K. Frost. 11/30/2016. “[Uber in China: Driving in the Gray Zone \(B\).](#)” Harvard Business School Supplement, no. 317-064.

Reading/Discussion Questions:

- What challenges does Uber face globally?
- What challenges does Uber face in China, specifically?
- Do you agree with Travis Kalanick’s strategy for Uber, both globally and in China?
- Advantages of the sale of Uber’s China operations to Didi?
- Why do you think it is a good/bad strategy for Uber to merge with Didi?
- What were the reasons for Uber’s failure in China, given its spectacular performance in many other countries?

4. History and Culture, and Associated Communication and Negotiation – February 4 (Happy Chinese New Year’s Day!)

You will gain an overview of Chinese imperial and modern history and timeline, names of Chinese provinces, Chinese traditional culture and background (e.g., Confucius, Lao Tzu, Mencius and others) in

order to better understand Chinese business culture, meeting etiquette, dinner etiquette, and gift giving etiquette. We will also cover Guanxi, face and strategies for negotiation in the Chinese style and a few controversial issues you will need to notify.

Readings:

- Rana Mitter, *Modern China: A Very Short Introduction* (Oxford University Press, 2008)
- Graham, John L., and N. Mark Lam. "[The Chinese negotiation](#)." *Harvard Business Review* 81.10 (2003): 82-91.
- Neidel, Betsy. "[Negotiations, Chinese Style](#)." *China Business Review* 37.6 (2010): 32-35.

Map Quiz of Chinese Provinces

Reading/Discussion Questions:

- Pick FOUR moments/periods/events since 1700 that you think are crucial in the making of contemporary China and justify your choices;
- What historical agents/actors drove changes and determined the course of Chinese history?
- China is an ancient civilization but a new country. What legacies did the imperial period pass on to the 20th century?
- What role did the West and Japan play in the making of modern China/Chinese modernization?
- What are features of Chinese economy, historically and present?
- What has the state-and-society relationship been like?
- What's Chinese business culture? What are uniqueness in its meeting etiquette, dinner etiquette, and gift giving etiquette?

Module 2: Elements of Doing Business in China

5. State Structure and Control, State-Owned Enterprises – February 6

You will gain a clear picture of the party-government structure and how it functions in Mainland and Greater China. Understand how state-owned enterprises, collectively owned enterprises and privately owned enterprises work in China.

Readings:

- Case Study: Li, Jin, Aldo Masacchio, and Hania Dawood. "[The IPO of Agricultural Bank of China \(ABC\)\(A\)](#)" Harvard Business School Case 712-006, Feb 2012.
- Bremmer, I. [State Capitalism Comes of Age-The End of the Free Market](#). *Foreign Affairs*, 88(2009): 40-55.

Reading/Discussion Questions:

- Would you buy shares in the IPO of ABC? Why? Why not?
- China has a strong tradition of State Capitalism. Is that an advantage or a disadvantage for investors interested in the shares of ABC?
- Why did the Chinese government list ABC and other banks?
- Even after selling shares to private investors, the bank will be state-controlled. Can we trust Chinese bank officers to do a good job? Are there good incentives for them to perform?

6. Legal System: Intellectual Property and Corporate Governance– February 11

We will discuss the legal system in China, with a particular focus on intellectual property right protection and corporate governance. By connecting what we covered in the previous classes on the party-state system, you can better understand how the legal system works out and what important characteristics of the rule of law are. The corporate governance system and the capitalism are still emerging, and founders or key CEOs are especially influential.

Readings:

- Case Study: Abrami, Regina M., William C. Kirby, F. Warren McFarlan, Gao Wang, Fei Li, Tracy Manty, and Waishun Lo. "[Gome Electronics: Evolving the Business Model.](#)" Harvard Business School Case 308-026, August 2007. (Revised February 2008.) BACKGROUND – JUST SKIM).
- Kirby, William C., and Tracy Yuen Manty. "[Boardroom Battle Behind Bars: Gome Electrical Appliances Holdings—A Corporate Governance Drama.](#)" Harvard Business School Case 312-025, August 2011. (Revised October 2015.)

Reading/Discussion Questions:

- If you were Bain, would you have invested in Gome, given the circumstances in late 2008- early 2009? Why?
- How was Huang able to leverage control over his company from prison?
- Could you imagine an American entrepreneur or businessperson being able to do the same in similar circumstances?
- Why do you think Huang did so well for so long? Why didn't he fall further?
- What does this say about the rule of law in China?
- What are the implications of corruption crackdowns for domestic businesses in China?
- If you were Bain in 2010 or in the present, how would you conduct due diligence on potential investments in Chinese companies?

Module 3: Key Sectors of Doing Business in China

7. Manufacturing and Environmental Battles – February 13

China accounts for about 25 percent of the world's manufacturing activity. The advantages achieved through lower costs of labor and capital and efficiency-driven innovation, are slowly depleting. Firms and politicians aim to upgrade China's manufacturing capabilities. You will understand through a Hong Kong-based family business in the textile industry about how to survive and innovate through political changes and upheaval. From this case you can get a grip of the manufacturing industry in China.

Readings:

- Case Study: McFarlan, F. Warren, William C. Kirby, and Tracy Manty. "[Esquel Group: Integrating Business Strategy and Corporate Social Responsibility.](#)" Harvard Business School Case 307-076, February 2007. (Revised November 2011.)

Reading/Discussion Questions:

- What special risks are there for a foreign company—including Hong Kong, Macao, Taiwan, and those from other countries—in establishing a factory in China? How can they be mitigated?
- How should Esquel think about its factory investments in China vs. other countries in the region?

- What are the key elements of Esquel’s community outreach strategy? Are there elements that surprised you? What, if anything, is different about thinking about factory locations in the U.S. vs. China?
- How do you think about all the social infrastructure investments made by Esquel?
- What advice would you give to Margie?
- Should it continue to be an unbranded product line or should it try to build up for differentiation?
- Should it continue to maintain control over all parts of its supply chain or should it begin to focus more sharply, and outsource a set of activities?
- As a Hong Kong company how should it think about the balance of its activities between China and the other parts of Southeast Asia? In the textile industry, is yesterday’s story in China and tomorrow’s story in Vietnam?
- What risks does she have in having a large Chinese operation? For political reasons, should she begin to push more of her supply chain and factories outside of China?

8. Finance – February 18

China’s unique economic and financial system serves as a key tool of the government to fund its economic policies. We will discuss China’s financial system, the risks and instability with China’s economic growth. Particularly, through the case study we will learn how the largest consumer platforms in China by loans facilitated and how they bring finance to China’s emerging middle class.

Readings:

- Case Study: Zhu, Feng, Ying Zhang, Krishna G. Palepu, Anthony K. Woo, and Nancy Hua Dai. "[Ant Financial \(A\)](#)." Harvard Business School Case 617-060, March 2017. (Revised January 2018.)
- Article: "[Credit in China: Just Spend](#)", from the Economist
- Article: "[China Rapid Finance casts eye towards untapped consumer base via partnerships with tech giants](#)", by Bien Perez at South China Morning Post.
- Article: "[Sino Guarantee, Bank of Shanghai inject fresh capital into online lender China Rapid Finance](#)", by Bien Perez at South China Morning Post.

Reading/Discussion Questions:

- What are Ant Financial key products and services?
- Will financial regulation curbs hinder its success journey?
- What the influence has Ant Financial made in fintech market in China?
- How does Ant Financial implement the risk management?
- Why does the Chinese rural environment need Ant Financial service?
- What are the advantages and challenges Ant Financial confront in Chinese market?
- What are the strategies of Ant Financial for its globalization?
- How do you analyze main competitors in China’s Fintech market and who would possibly win the majority of the market share?
- China, the second-biggest economy in the world has embraced the shift towards a cashless society. Ant Financial and Tencent make up more than 90 per cent of the country’s \$16 trillion annual mobile payments market, what opportunities would other innovative firms have in the contemporary Chinese market?
- What are institutional voids that Ant Financial can make up?

9. Real Estate – February 20

You will understand the global real estate and particularly the Chinese real estate market. The bursting of China's real estate bubble may threaten the global economy. How did real estate develop in the first-tier cities in China and how is the real estate bubble growing. SOHO China is a uniquely successful business case for real estate industry and what are their strategies for business development?

Readings:

- Case Study: Wu, Charles F., and Alexander W. Schultz. "[SOHO China: Transformation in Progress.](#)" Harvard Business School Teaching Note 217-034, January 2017.
- Wu, Charles F. "[Real Estate in China: A Technical Note for SOHO China.](#)" Harvard Business School Technical Note 217-029, September 2016. (Revised February 2017.)

Reading/Discussion Questions:

- Given SOHO's success with its "build-to-sell" approach, why did it transition its strategy to "build-to-hold"?
- How can Zhang Xin and SOHO get "the street" to appreciate and value their new business strategy, including 3Q?
- Is the 3Q business line a panacea for SOHO's woes? If so, should it continue pursuing this strategy on its own or form joint ventures?
- How do you compare 3Q and a traditional lease?
- Should SOHO expand into secondary markets?

February Break – February 23-26

10. Information Technology and Media – March 4

Information technology is one of the most dynamic market sector in China's economic boom. China has made efforts to develop a stronger internet industry sector. Chinese government legislation has established protection of intellectual property law in areas of trademark, copy right and patent. We will discuss information, technology and media. What is the current situation of the industry? How has technology been developing in China? What media would provide business opportunities?

Readings:

- Case Study: Wells, John R., and Gabriel Ellsworth. "[Tencent.](#)" Harvard Business School Case 718-426, September 2017.
- <https://youtu.be/SGJ5cZnoodY> - a discussion about China's model of innovation (open source) vs. America's model (patent based)
- IP protection—[Beg, Borrow or Steal: How Trump Says China Takes Technology.](#) Carlos Tejada at New York Times.
- Others at <https://www.bloomberg.com/news/articles/2018-03-22/what-s-intellectual-property-and-does-china-steal-it-quicktake>,
<https://www.dallasnews.com/opinion/commentary/2018/09/19/china-stealing-american-intellectual-property-trumps-tariffs-chance-stop>.

Reading/Discussion Questions:

- How attractive is Tencent's business? What does it take to win?
- How well positioned was Tencent in 2017?

- What was its strategy for getting there? What resources did Tencent employ to enter the business?
- What synergies are there among Tencent's businesses?
- How effective has Tencent been in adapting its strategy to change?
- Who do you think would likely win in a fight between Tencent and Facebook?
- What is a portal?
- How do you make money with a portal?
- How attractive is the portal business?
- What does it take to win?
- How well was Tencent's portal positioned in 2017?
- How does China acquire intellectual property?
- How strong is intellectual property law in China?
- How can China and other countries be made to adhere to IP agreements?

11. The Non-Profit Sector in China and Civil Society: Advances and Challenges – Mar 6

We will discuss the development of civil society in China and the regulatory/political environment in which it has functioned. What are current challenges? Is civil society coming into being in China? What role do the government and corporations play? And how will the interaction among the government, corporate world and the civil society interact? How does recent legislation affect the nonprofit sector in China? How China charity law developed to support the NGO with resources and improve the efficiency of non-profit organizations' operation?

Readings:

- Case Study: Chris Marquis and Zhishuang Guan. "[A Better Community \(ABC\): Developing the NGO Infrastructure in China](#)" Harvard Kennedy School Case 2119.0. May 2018
- Article: "[Civic Freedom Monitor: China](#)", from the International Center for Not-for-Profit Law.
- Article: "[It Just Got Harder to Make a Difference in China](#)", Mark Sidel, Foreign Policy
- Article: "[The Good-And Bad-About China's New Charity Law](#)", Wall Street Journal blog.

Reading/Discussion Questions:

- How do you assess ABCs organization and evolution? How did they build a domestic network to achieve its vision?
- What do you think of Yonge Qian's idea of shifting ABC's mission to focus primarily on volunteers as opposed to NGO clients? (Be prepared to debate this question).
- Why do you think ABC can attract qualified volunteers to participate? Do you think training and motivating by values is enough to work in the long run? If not, what else?
- What advantages and challenges does ABC have in offering its consulting service to NGOs?
- Is it a good idea to work with companies CSR departments? How is this different than working with NGOs?
- What's the influence of the new Charity Law on nonprofit organizations?

Module 4: China's Globalization Push

12. To Developed Countries – March 11

Understand China's rising global impact and Chinese firms' globalization strategies. China is actively supporting globalization with great effort. Globalization is the trend of the times, and undoubtedly benefited China a lot. China is not only a big trading power but also a strong investor. What role can China play in globalization?

Readings:

- Case Study: Kirby, William C., Nancy Hua Dai, and Erica M. Zendell. "[Wanxiang Group: A Chinese Company's Global Strategy \(B\)](#)." Harvard Business School Supplement 313-096, January 2013.
- Kirby, William C., and Yuanzhuo Wang. "Wanxiang Group: A Chinese Company's Global Strategy (C)." Harvard Business School Supplement 318-091, January 2018. (Revised May 2018.)
- Video: Tour of Wanxiang Factory
- Video: Interview with Chairman Lu Guanqiu

Reading/Discussion Questions:

- What are the key elements of Wanxiang's strategy and are they easily replicable by other Chinese companies?
- What are the limits to Wanxiang's future growth and what risks do they face? How can they mitigate these risks?
- What specific recommendations do you have for Wanxiang's management?
- What's the key successful factors driving its growth?
- What are the key aspects in industry?
- What are issues defining Wanxiang U.S.?
- What are the risks and challenges for the future?
- Whether there is any hope of a domestic U.S. auto industry or does it just die?
- Wanxiang doesn't seem to have disruptive technology skills. What will the U.S. do to balance trade as these industries disappear?

13. Conclusion – March 11

Learning Goals and Key Student Takeaways

Identify problems in complex, ambiguous business situations and provide solutions.

- The course will be taught in a case study method, and students will be encouraged to analyze and make decisions based on complex and ambiguous situations. Grading will reflect this aspect.

Make a positive impact in the business world through leadership.

- A key element of the course will be on social and environmental responsibilities and how business can contribute to public problems.