



## **SHAN MKCH390 China as a Global Market**

### **The Alliance for Global Education International Business Program**

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#### **Course objective**

To provide students with an understanding and appreciation of China as a growing global market, its processes and characteristics, institutional underpinnings and limitations, and opportunities and challenges that face foreign businesses either contemplating entering into China or being already in China, by reviewing the processes that led to China emerging as a global market, and the major sectors that make up China as a global market.

#### **Teaching format**

Lectures will combine general analyses and discussions with data and cases selected from available sources; class teachings will be combined with class discussions and group/individual presentations devoted to specific topics. At least one site visit to a major international company operating in China will be arranged. The visit(s) intends to give students some perceptual knowledge about opportunities and challenges in doing business in China.

#### **Readings**

A list of suggested readings for each lecture will be provided in the separate file.

#### **Course Assessment:**

- Class attendance 10%. An attendance sheet will be given in every class session for students to sign.
- Class participation 15%. Questions may from time to time be raised during the class and students are encouraged to actively participate in the class discussion.
- Response on readings 10%. Half to one page written response on readings are required to submit each Thursday.
- Group/individual presentation 25%. There will be a few group and individual

presentations, all relate to topics presented in the class. Each student will be given at least one chance to present the result of her/his own/group work. Topics for presentation will be given one week prior to the actual presentation. .

- An essay/report 40%. The essay/report can be on any chosen topic covered during the course. The length of the essay/report should be around 2,000 words. A one page preliminary outline should be due on fifth week of the class. Final essay/report should be due on the last day of class.

### **Lecture 1:**

#### **A brief review of the overall macroeconomic trends and developments in the last 28 years:**

As a result of the rapid economic expansion over the last 20 years or so, the Chinese people's income and purchasing power has increased sharply. As well as becoming an important exporter of many products to the world market, China has also become an important importer of a wide range of products and services from other countries, especially the United States, Japan, and Europe.

This lecture will provide a review of the Chinese economic reforms and developments in the last 20 odd years, including the main changes in the economic institutions and macroeconomic variables, the principal stages that the market-oriented reforms went through, and the main problems that the Chinese economy and society are currently facing, focusing in particular on:

- The rapidly growing income and purchasing power of the residents
- Important regional disparities in the growth
- The rural-urban divide in income and wealth
- The implications of all this in terms of geographically and institutionally segmented markets

### **Lecture 2**

#### **Income differentiated urban markets in China:**

This lecture is designed to introduce students to the wide differences in market features and conditions in China. We focus on the urban markets as these undoubtedly represent the most important market niche for foreign businesses contemplating entering into China. The number of products and services that one can think of, although limited, is nevertheless so large, and China is also so vast, that we clearly cannot cover all conceivably products and services and all of urban sector of China. In this lecture, we shall draw on a market survey of 21 cities in China. According to their per capita income and purchasing power, these 21 cities can be divided into 8 groups, and our analysis will be carried out in these terms. We will be comparing the market features and conditions in these 8 groups of cities focusing on the following markets:

- Food and beverage
- Tobacco and alcohol
- Domestic electric appliances
- Domestic chemical products
- Automobiles
- Tourism

These products and services represent a progression from basic necessities to luxury consumption items, and we expect to see patterns of variation in per capita expenditure on each, its share in a person's total annual consumption expenditure, trend changes in both of these, between the 8 different cities groups. Discussions of consumption trends in these 8 cities groups will be focused on the following categories:

- General consumption goods
- Household durables
- Service consumption of internet, telecommunications, overseas travelling
- Healthcare, education, housing, etc.

A note on the trend in luxury consumption will also be presented.

### **Lecture 3**

#### **Cultural determinants of consumer behaviour in China**

This lecture will attempt to compare the patterns of variation between the 8 groups of cities in the spendings of a person that emerged in the last lecture, with known international cases. Conjectures will be made to explain such international differences, highlighting the importance of such non-income factors as:

- A Confucianism-dominated culture, including:
  - An emphasis on thrift (i.e. not spending beyond one's means and a reluctance to use consumer credit)
  - Reliance on the network of family and friends for important market information
  - A stress on relationship-building and the accompanied gift-exchanges
  - An emphasis on re-conciliation and a weak sense of consumer protection
- Sudden wealth and conspicuous consumption
- Ying and Yang and other cultural traditions

Discussions of the above issues will be based on a range of survey evidences on consumer behaviour and the underlying cultural/psychological factors.

*Class discussion:* Influences of cultural values on consumers' preferences and consumption decisions, China and US compared.

## **Lecture 4**

### **Chinese firms' buying from international markets**

The rapid expansion of the Chinese economy has in part been powered by sharp increases in exports, resulting in huge trade surpluses for China. The latter has in turn given rise to frequent trade disputes, with some countries such as US accusing China of following import restriction policies coupled with an exchange rate policy which substantially undervalued RMB and gave China an unfair advantage in international competition.

This lecture will provide a review of the changing volumes of imports and exports in China, the evolving trade structure and trade policies, and changing terms of trade. In doing so, it will also attempt to explain some of the fundamental causes of the rapid expansion of trade, and the reasons for relative lagging increases in imports. One of the reasons for such lagging increases in imports has to do with export restriction policies adopted by countries such as the US itself against China intended to deny China access to certain restricted technologies.

In this lecture, attention will be focused on changing pictures of international trade of some selected sectors including:

- Chemicals and Related Products;
- Machinery;
- Electric Equipment and Accessories;
- Vehicles and Related Parts and Accessories;
- Aircraft and Spacecraft and Parts Thereof;
- Measuring and Checking and Medical Instruments and Equipment;
- Precision Instruments and Equipment;
- Computer technologies

Chinese attempts of investing abroad by merging and acquisition in areas such as mineral exploration and computer chips will also be looked at.

## **Lecture 5**

### **Chinese government purchases**

In 2005, Chinese government purchases by all tiers of government (excluding defence related expenditures) totalled 292.7 billion RMB, an increase of 37% over the year before. Government purchases are expected to increase in the years to come, giving vast and expanding market opportunities to many firms. However, Chinese government purchases have been governed by an inadequate set of rules and in-transparent procedures. This has given rise to much favouritism and corruption, as obtaining government orders often brings with it great margins of profits.

This lecture intends to introduce to students the state of government purchases in China:

current volumes; expected trends; rules, regulation and procedures governing government purchases; and problems of wastes and transparency. In respect of the latter, we will single out two cases for close scrutiny: the implementation of the public bidding process, and wastes involved in the government use of cars. We will consider possible measures to improve on transparency and efficiency of government purchases.

International firms operating in China naturally would also have an interest in competing for government orders. We will discuss what steps they might take in this direction.

*Class discussion:* Government purchases in China and US

## **Lecture 6**

### **Chinese logistics**

By logistics is meant the whole system of transportation and distribution of marketed products after they leave the factory and before being purchased by a final buyer. Commercial logistics in China is an emerging sector and market. Such services of course always existed in China, whether before or after the reform. But before the reform, logistics was entirely subjected to central planning. Commercial logistics really emerged only after the economic reform.

In this lecture, we will first review the development of the physical infrastructure of logistics including expansions in the capacity of:

- Ports and storage facilities
- Rail transport
- Road transport
- River and sea transport
- Air transport

This will then be followed by a review of the institutional reforms that have taken place in the logistics sector, which has resulted in an erosion of the monopoly position of the state logistics operators and in the emergence of commercially oriented logistic companies and operations. This emergence has helped to vastly expand the logistic services in the economy, which are so critical to meeting the needs of a vibrant and dynamic economy. Current problems with the logistic sector in China will also be discussed and analysed.

*Company visit:* Philips (China) Investment Co. Ltd.

## **Lecture 7**

### **E-business in China**

As part of the revolution of information technology, and starting from humble beginnings, e-business has taken root in many developed countries and has rapidly grown into a

significant sector, revolutionizing traditional modes of transaction in many aspects of people's lives. In China, there is now also a significant and growing e-business sector. This lecture will review of the development of the sector, its current scale, the prospects of its future expansion. Among the issues that we will examine are:

- What are current characteristics of e-business in China, and in what sectors do we see the highest concentrations thereof?
- What are the constraints to its development, both general and sector-specific?
- In particular, to what extent does its expansion critically depend on accompanying developments in banks' payment and clearing system and effective consumer protection?

## **Lecture 8**

### **The insurance market, an as yet underdeveloped market in China**

The insurance market represents perhaps the most underdeveloped market in China, and yet it has the potential of vast expansion. Modern insurance markets were first developed in western countries. Although China has had a long history, no proper insurance markets ever emerged. Some have argued that this has to do with Chinese cultural traits (a in-built psychological resistance to rationally planning for possible eventualities, however inauspicious they may be). Others have sought the reasons in the lack of proper institutional underpinnings that simply have failed to evolve in the historical context of China (it requires, for example, a durable set of legal institutions to guarantee that claims are indeed paid and in adequate amounts, should a covered eventually indeed occur). We will explore and discuss both these hypotheses.

While the development of various insurance markets has been lacking in China historically, since the economic reform modest beginnings have been made. We will review the current state of some insurance markets in China, including:

- Home insurance
- Car insurance
- Private healthcare insurance
- Life insurance

As well as looking at the volumes of business in these markets and growth trends, we will also examine the development of some of the principal providers in these markets. Important constraints (primarily institutional) to a rapid development of this sector will also be discussed and examined. The prospect of foreign insurance companies entering into China will be considered.

*Class discussion:* trends in the China's insurance market, what opportunities it brings to major international insurance players?

## **Lecture 9**

### **Retailing and Chinese government's industrial policies**

Retailing represents perhaps the largest business opportunity in China, and it directly relates to the livelihood the people. Being the final outlets for goods and services, retailers' decisions also directly bear on the upper stream businesses and producers. Given its vital importance in both the economy and society, the Chinese government has been cautious in allowing foreign capital to enter into this sector.

The government of China has also for long operated a set of industrial policies whereby foreign capitals were encouraged to enter into certain industrial sectors, while such entries were moderately or severely restricted into others. Retailing is one area where foreign capital was restricted to enter. A close look at this sector can also underline the role of the Chinese governments' industrial policies in shaping the development of a given sector.

In this lecture, we shall review the current state of the Chinese retailing industry, the current level and geographical distribution of foreign capital entry into this sector, specific restrictions placed on such entry, the strategy and mode of foreign capital entry, and likely future prospect of such entry.

Current foreign capital entry into the retailing industry has been mainly restricted to certain urban metropolises. We shall enrich our discussion by considering foreign capital retaining in 5 major cities in China:

- Beijing
- Shanghai
- Guangzhou
- Dalian
- Qingdao

We shall also discuss some of the challenges that foreign retailers face as they enter and develop their business in China.

*Class discussion:* Potentials of foreign retailing in China

## **Lecture 10**

### **China export tax rebates and import duties**

Like many other countries, China levies duties on imports. It also levies taxes on exports as a part of general taxation (as it taxes domestically sold goods and services). However, China has for years instituted a tax rebate policy in the case of exports. To what extent has this policy contributed to the rapid expansion of exports in the past years? How does China's export tax rebate system compare with that of other countries? What are the likely directions

of adjustments and changes of the system, especially in view of WTO rules and regulations? China WTO membership also obliges it to align its system of import duties? To what extent will this alignment influence China's imports? How will China's trade balance evolve in the future? These questions will be the topics of this final lecture in the course.