



The University of Hong Kong
School of Economics and Finance



FOREIGN TRADE AND INVESTMENT IN CHINA

Spring Semester 2017

[ECON0602/ECON2249]

General Information

Instructor: Prof. Larry D. QIU
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Office Hours: 10:00am-11:30am, Thursday
Class Time and Venue: 9:30am-12:20pm, Wednesday, LE4
Pre-requisite: ECON1001/ ECON1210 Introductory Microeconomics
 ECON1002/ ECON1220 Introductory Macroeconomics
Teaching Assistant: TBA

Course Objectives, Goals and Outcomes

Overall Goals:

1. Acquisition and internalization of knowledge of economics and finance
2. Application and integration of knowledge
3. Inculcating professionalism and leadership
4. Developing global outlook
5. Mastering communication skills

Course Learning Goals:

1. To learn fundamental concepts and theories of economics and finance
2. To develop analytical skills and economic / financial intuition
3. To identify major issues/ problems
4. To develop capacity to obtain and process information
5. To apply relevant concepts and analytical tools, identify viable alternatives and make informed choices
6. To keep abreast of global developments and adapt to changing environments
7. To develop cross cultural awareness and understand the importance of diversity

Alignment of CLOs with Faculty Goals

Course Learning Outcomes	Aligned Faculty Goals
CLO1 Should know the fundamental principles and theories of economics and finance	Goal# 1, 2
CLO2 Should be able to use analytical tools to formulate and solve economic and business problems	Goal# 1, 2
CLO3 Should be able to distinguish between minor and major issues	Goal# 1, 2, 3, 4, 5
CLO4 Should be able to identify and use relevant information	Goal# 2
CLO5 Should be able to make trade-offs and informed decisions	Goal# 2
CLO6 Should demonstrate knowledge and awareness of international issues	Goal# 4

CLO7 Should be able to function in multicultural settings	Goal #4
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Course Description

Built upon contemporary scholarly work on international economics, economics of multinational enterprises and international business, this course presents a set of tools, concepts, and perspectives to help you comprehend key issues in China's foreign trade and investment and make related business decisions.

This course contains several major themes, including

- (a) Exploring the opportunities that the emergence of the Chinese economy offers to foreign firms
- (b) Analysing whether and how a foreign firm should be involved in the Chinese economy
- (c) Understand China's trade and its impacts
- (d) Managing direct investment projects in China and competing successfully in the China market
- (e) Understand China's currency, RMB, development and future
- (f) Chinese firms going global

Teaching Approach, Class Conduct and Evaluation Scheme

This course relies on lectures, case discussions in class and readings after class. Students should form teams to work in this class. Each team consists of **5 to 6** people. Teams must be formed by **February 1** (the 3rd week). Class discussion and case analysis will be based on groups although individual participation is also welcome. There is a group project to be submitted by **April 26**. The topic of the project will be assigned three weeks prior to the submission date.

You are required to attend all classes on time. You will be expected to ask and answer questions, individually or by groups, and participate in discussions in the class. Information from individual performance in class will be used for appropriate adjustment of your final grade.

Four quizzes will be given (one question each time) in class without announcement in advance. **Three** highest scores will be counted.

There is a closed-book final exam. The examination date is determined by the University.

Final grades will be determined based on four components.

(1) Term project and case analysis:	30%
(2) Peer evaluation on team work:	5%
(3) Quiz:	12%
(4) Final examination:	53%

Grade Descriptors

Grade	Criteria and Standards
A+, A, A-	Demonstrate superior grasp of all aspects of the course Provide excellent analysis and ideas
B+, B, B-	Demonstrate very good grasp of all aspects of the course Provide very good analysis and ideas
C+, C, C-	Demonstrate basic grasp of all aspects of the course Provide acceptable good analysis and ideas
D+, D	Marginal satisfaction
F	Fail to meet the minimum standard

Teaching and Learning Activities (TLA)

Course Teaching and Learning Activities		Brief Description	Expected contact hour	Study Load (% of study)
TLA1	Lecture	Instructor will give lectures on major concepts and issues.	36	80%
TLA2	In-class and tutorial presentation and discussion	Students are expected to present their answers and engage in discussion during lecture and tutorial meetings. Most in-depth learning takes place when students actively engage themselves in discussions thought presenting and sharing their ideas	3	15%
TLA3	Consultation	Both instructor and teaching assistant hold weekly consultation hours to answer students' questions.	24	5%
Total			63	100%

Alignment Among Course Intended Learning Outcome, Teaching and Learning Activities and Assessment Tasks:

Assessment Methods	Brief Description (Optional)	Weight	Aligned Course Learning Outcomes
A1. Group performance in class discussion		10%	CLO1, CLO2, CLO3, CLO4
A2. Team project and case analysis		30%	CLO1, CLO2, CLO3, CLO4
A3. Peer evaluation on team work		5%	CLO1, CLO2, CLO3, CLO4
A4. Quiz		12%	CLO1
A5. Final examination		43%	CLO1, CLO2, CLO5, CLO6
	Total	100%	

Learning Outcome	Teaching and learning activity (TLA)	Assessment Tasks
CILO01	TLA1, TLA2, TLA3	Attendance, Quiz, Term project, Final Exam
CILO02	TLA1, TLA2, TLA3	Attendance, Quiz, Term project, Final Exam
CILO03	TLA1, TLA2, TLA3	Attendance, Quiz, Term project, Final Exam

Academic Conduct

The University Regulations on academic dishonesty will be strictly enforced! Please check the University Statement on plagiarism on the web: <http://www.hku.hk/plagiarism/>

Academic dishonesty is behavior in which a deliberately fraudulent misrepresentation is employed in an attempt to gain undeserved intellectual credit, either for oneself or for another. It includes, but is not necessarily limited to, the following types of cases:

a. Plagiarism - The representation of someone else's ideas as if they are one's own. Where the arguments, data, designs, etc., of someone else are being used in a paper, report, oral presentation, or similar academic project, this fact must be made explicitly clear by citing the appropriate references. The references must fully indicate the extent to which any parts of the project are not one's own work. Paraphrasing of someone else's ideas is still using someone else's ideas, and must be acknowledged.

b. Unauthorized Collaboration on Out-of-Class Projects - The representation of work as solely one's own when in fact it is the result of a joint effort. Where a candidate for a degree or other award uses the work of another person or persons without due acknowledgement:

1. The relevant Board of Examiners may impose a penalty in relation to the seriousness of the offence;

2. The relevant Board of Examiners may report the candidate to the Senate, where there is *prima facie* evidence of an intention to deceive and where sanctions beyond those in (1) might be invoked.

Course Materials

There is no text book. Basic course materials are from a reading list, which includes required readings, optional readings and background readings. You are encouraged and expected to read international and local newspapers, business periodicals and useful websites to keep yourself informed of current business and other events in China.

Lecture notes will be uploaded to the course website and Moodle (before or after the lecture, depending on the situations).

Cases will be distributed in the class prior to the discussion.

Topics and Schedule

1. Course Introduction (January 22)

Readings: Lipman and Qiu (2012, Part IV)

2. A General Framework of Globalization

Issues: Should our company go to China? How to enter the market? What are the main theories and recent observations of international trade, FDI and technology licensing?

Readings: Any undergraduate textbook on international trade (e.g., Krugman and Obsfeld, 2008), OLI

3. China's Foreign Trade

Issues: How did China reform its foreign trade system and policy? What's the role of China in the world trading system? What comparative advantages does China have? What will be the future for China's exporters? What are the global impacts of China's participation in world trade?

Readings: HKTDC (2007), Horn, et al. (2010), Naughton (2007, Ch 16), Pei (2005), Rauch (2001), Tong (2006), WTO (2008), Qiu (2014a, and 2014b)

4. FDI in China

Issues: A brief review of China's FDI history; What are the incentives and constraints? How does it affect China's economy? Who invest in China and in which industry. Where, how and why do they invest? Are FDI in China different from other countries? How do you choose your investment modes? How do you choose your JV partners? How do you work with your JV partners? China's FDI outflows.

Readings: OECD (2003, Ch 1, 2, 3 6), UNCTAD (2006, 2010), Naughton (2007, Ch 17), Cheng and Kwan (2000), Huang (2003, pp. 1-98), Lipman and Qiu (2012, Part II), WTO (2008), Jiang (2006), ACRC-1, CCPIT (2012)

Cases: P&G in China; Visa's Challenges in China; Tencent Going Global

5. Special Issues

Issues: WTO history, principles and roles; China's obligation in the WTO; China's free trade areas (CEPA); Sino-US trade imbalance; Antidumping and China; Product quality; China's exchange rate system; RMB internationalization; How are Chinese exporters and importers different?

Readings: Bao and Qiu (2008), Fung (2005), Feenstra and Hong (2010), Hsu and Arner (2007), Lardy (2002), Rodrik (2006), Whalley (2006), World Bank (2004), WTO (2008)

Time Table

Reading List

Suggested Readings [You must read these articles (at least part of each), especially those with asterisk, which deal with issues directly covered in the lectures.]

- Bao, Xiaohua and Larry Qiu, 2011, "Is China's antidumping more retaliatory than that of the US?", *Review of International Economics*, 19(2), 374-389.
- *CCPIT (China Council for the Promotion of International Trade), 2012, *Survey on Chinese Enterprises' Outbound Investment and Operation*
- Fung, Hung-gay, 2005, China's Foreign Trade and Investment: An Overview and Analysis, *China & World Economy*, May/June 2005
- HKTDC, 2007, "Implications of Mainland processing trade policy on Hong Kong", Research Report, The Greater Pearl River Delta Business Council, HKTDC Research Department
- *Horn, John, Vivien Singer, and Jonathan Woetzel, 2010, "A truer picture of China's export machine" *McKinsey Quarterly*, September 2010
- Hsu, Berry F.C. and Douglas W. Arner, 2007, "WTO Accession, Financial Reform and the Rule of Law in China", *The China Review*, Vol.7, No.1, 53-79
- *Hufbauer, Garry, Yee Wong and Ketki Sheth, 2006, *US-China Trade Disputes: Rising Tide, Rising Stakes*, Institute for International Economics, Washington DC
- *Jiang, Fuming, 2006, "The Determinants of the Effectiveness of Foreign Direct Investment in China: An Empirical Study of Joint and Sole Ventures", *International Journal of Management*, Vol.23, No.4, 891-908
- Lardy, Nicholas, R., 2002, *Integration China into the Global Economy*, Washington D.C.: Brookings Institution Press
- *Lipman, Frederick D. and Larry D. Qiu, 2012, *International Strategic Alliances: Joint Ventures between Asian and U.S. Companies*, manuscript.
- OECD, 2003, *OECD Investment Policy Reviews: China, Progress and Reform Challenges*
- Pei, Changhong, 2005, Analysis of China's Foreign Trade Growth and Discussion of Related Policies, *China & World Economy*, Mar/Apr 2005
- *Qiu, Larry D., 2014(a), "Understanding China's Foreign Trade: Literature Review (I)", *China Economic Journal*,
- Qiu, Larry D., 2014(b), "China's Global Influence as a Major Trading Nation", HKIMR Working Paper.
- *Rodrik, Dani, 2006, "What's so special about China's exports?" *China & World Economy*, vol 14, no 5, 1-19
- Tong, Zhiguang, 2006, "The Development of China and World Trade", *Journal of World Trade*, 40 (1) 129-136
- UNCTAD, 2010, *World Investment Report 2010*, pp 1-42.
- Whalley, John, 2006, China in the World Trading System, *CES ifo Economic Studies*, Vol. 52, 2, 215-245
- World Bank, 2004, *China and the WTO: Accession, Policy Reform, and Poverty Reduction Strategies*, World Bank Trade and Development Series, Washington DC: A World Bank Publication
- *World Trade Organization, 2008, "Trade Policy Review: China", WTO website:
http://www.wto.org/english/tratop_e/tpr_e/tp299_e.htm

Optional Readings [Some lectures touch on these articles directly and indirectly. They help you understand those issues in greater details.]

- Branstetter, Lee and Nicholas Lardy, 2006, "China's embrace of globalization", NBER Working Paper 12373
- Feenstra, R. and C. Hong, 2010, "China's exports and employment", in R. Feenstra and S. Wei (eds) *China's Growing Role in World Trade*, Chapter 5, The University of Chicago Press. (also as NBER Working Paper 13552, 2007)
- Huang, Yasheng, 2003, *Selling China, Foreign Direct Investment during the Reform Era*, Cambridge: Cambridge University Press
- Fung, KC, Lawrence Lau and Joseph Lee, 2004, *U.S. Direct Investment in China*, The AEI Press, Washington DC

Background Readings [These books provide general frameworks and pictures for understanding China's global integration]

- Caves, Richard, 1996, *Multinational Enterprise and Economic Analysis*, pp.1-36, 2nd edition, Cambridge, Cambridge University Press

Krugman, Paul and Maurice Obstfeld, 2008, *International Economics: Theory and Policy*, 8th edition, Chapters 3 and 4, Addison Wesley
Naughton, Barry, 2007, *The Chinese Economy: Transitions and Growth*, Cambridge: The MIT Press.
Riedel, James, Jing Jin and Jiao Gao, 2007, *How China Grows: Investment, Finance and Reform*, Princeton: Princeton University Press.
UNCTAD, 2006, *World Investment Report*

Useful References

China Statistical Yearbook	Far Eastern Economic Review
China Economic Review	China Business Review
Business China	Harvard Business Review
Economists	
Almanac of China's Foreign Economic Relations and Trade	

Useful Websites for Trade/FDI Information and Policies

World Trade Organization: <http://www.wto.org/>
Hong Kong Trade Development Council: <http://www.tdctrade.com/>
Ministry of Commerce (China): <http://english.mofcom.gov.cn/>
Trade Flows: <http://www1.worldbank.org/wbiiep/trade/data/tradedata.htm>
Tariffs and FDI: http://www1.worldbank.org/wbiiep/trade/data/TR_Data.html
General Information by CIA: <http://www.odci.gov/cia/publications/factbook/geos/ch.html#top>