

# Chapter 11

## The Chinese Menu: How to Discover the Key Ingredients of Market Systems Through a Study Abroad Program



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**Abstract** China’s politicians describe often their economy as ‘capitalism with Chinese characteristics’—yet there is debate about the underlying drivers of this state capitalism model. Is it government’s guiding hand or the invisible hand of the free market that allows it to flourish? This paper argues that a travel course to China allows students to discover first-hand both the strengths and weaknesses of this system, through exposure to Chinese academics, migrant worker camps, factories, museums, villages and cities. By the end of the course, students also gain a greater appreciation of the strengths and weaknesses of democratic based market systems.

### 11.1 Introduction

I have Nobel Laureate Professor Douglas North to thank as a reason why I took a group of students to China for the first time in 2006. We never met; it was because of an article he published in *The Wall Street Journal* called “The Chinese Menu (for Development)” (North 2005). North argued that different regions of the world have different institutional structures—and they may evolve with different modes of exchange. “The key is creating an institutional structure derived from your particular cultural institutions that provide the proper incentives- not slavishly imitating Western institutions,” North wrote. He argued there was no one set menu for growth—it was a ‘Chinese menu.’ Indeed, North pointed out that China grew strongly, yet it “still does not have well-specified property rights.”

This article irked me because it challenged my understanding of economic development—I believed that there *were* some non-negotiable menu items in every economy, just as every loaf of bread contains flour, yeast, salt and water. Property rights was one of my essential ingredients on a specified list of a well-functioning economy. Indeed, my decade-long research in Zimbabwe had made me even more

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convinced of this supposition. During the early 2000s, Zimbabwe was one of the fastest collapsing economies in the world due to its abandonment of property rights during its disastrous land reform program. It provided a powerful case in showing how important property rights are as a linchpin for an economy (Richardson 2005).

North's article threw down a gauntlet of sorts and sparked my interest in traveling to China to investigate this claim for myself. What better way to do this than to take students along and turn it into a course that investigated China's economy? The thread of the journey with my students would be to investigate the key ingredients that we economists typically hold dear: free markets, a stable money supply, low government intervention and secure property rights, and compare how they operate versus within China.

The crux of the travel course was to ask the following questions:

- Why was China growing much faster than the United States, and what role did property rights play in this development?
- Was China's system of "capitalism with Chinese characteristics" sustainable over the long term?
- Were there weak spots in the Chinese menu for development that we would discover through our travels?
- What would we discover about the strengths and weaknesses of the United States' version of free market capitalism with its reliance on democracy?

Prior to leaving, students read articles and books on China's history and economic development, studied notions of economic freedom and how to measure it, using freedom index indicators, and got a better understanding of China's current business environment.<sup>1</sup> Students were intrigued to learn about its culture that heralded inventions and creativity hundreds of years before Mao's Communist revolution, the hardships and millions of deaths caused by communal farming systems during the Communist era, the 1978 economic reforms through Deng Xiaoping, the entrance into the World Trade Organization in 2001, the subsequent explosion of economic activity since the 1990s, and GDP growing two to three times as fast as the United States.

Upon doing some initial research in preparing for the course, North's supposition that China doesn't have 'well-specified property rights' appears correct when looking at the hundreds of millions of Chinese living in poverty in rural areas. Since the mid-1980s, an estimated 40 million peasant farmers have had their land expropriated for commercial development, for a tiny fraction of the land's value. The Washington-based Property Rights Alliance constructed an International Property Rights Index, and between 2007 and 2019 never got above a ranking of 45 out of 121 countries (Levy-Carciente 2015).

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<sup>1</sup>Students read Chang (2009), Coase and Wang (2013), Fu and Balasubramanyam (2003), Gifford (2008), Levinson (2016), North (2005), Pan (2005), Richardson (2011), and Whalley and Xian (2010).

Yet China's economy has boomed, and foreign direct investment continues to pour into the country, rising from \$2 billion in 1990 to \$90 billion to \$139 billion by 2018 (Statista 2020). This raises a compelling question: Why, over such a long time frame, are foreign investors taking such risks without secure property rights? What makes China different?

The answer, as we would find during our travels to China, is that North's declaration of China's attenuated property rights *only applies to the regions where economic growth is the weakest*. In fact, as our students learned from economists while on the trip, economic growth has depended upon a property-rights system with varying degrees of security for different groups in society. The more the property rights system emulates the Western model, the faster the growth.

The engine of economic growth is not a Chinese menu, as students would discover, but much closer to a European/American recipe card. Along other lines, however, there are special nuances about the Chinese system of markets that bear closer study- some of which accelerate growth and others which slow it down. As we discovered, it was a combination of readings, seminars in China and real-world experiences that created the best dish for understanding China's unique system of economic development.

## 11.2 The Real Story About Property Rights in China

North's claim that China's property rights system was different than the United States was true up to a point. Further explanation was needed since the answer was a bit more complicated. A key aspect of the course was to introduce students to China's three-tier system of property rights, which depends on where the property is located and who owns it. Foreign investors have the most secure property rights, city residents have better protection, and peasant farmers have the least protection. During my three trips abroad in 2006, 2013 and 2015, students were able to meet at least two of the three groups and interact with them, along with getting information from Chinese economics professors about the nuances of property rights in China.

### 11.2.1 The Foreign Investors

In Shanghai in 2013, we met with the local district mayor, who introduced us to a research park built exclusively for foreign entrepreneurs wanting to start companies in China. They paid no rent and enjoyed high quality office space for the first 6 months. One entrepreneur from the Netherlands was making solar panels. Because of the welcoming attitudes and strong protection against expropriation built into Chinese law, foreigners have developed a high level of trust with the Chinese. China nurtures this relationship for other good reasons as well. They felt very strongly about building factories in China, through joint ventures which are strongly encouraged, or on their own.

Although laborers in China's foreign-owned companies make up only 3% of the workforce, they are nine times more productive, and contributed some 40% of overall GDP growth in 2004 (Whalley and Xian 2010). This was an indication of how Western practices have had a large impact on Chinese economic growth. On another trip, we visited a large Volkswagen production plant, with state-of-the-art robotic welders and painting machines. The point here to be made was that China was not all about cheap labor-foreign investment was coming here in capital intensive industries as well, with relatively few workers, because the cost of shipping was low and the Chinese government worked with foreign investors to assure them of a low regulatory environment relative to the West. China's issuing of long-term leases to multi-national companies helped assure them and led to enormous investments in capital for their factories.

### *11.2.2 City Dwellers*

The property-rights protections for city dwellers are significantly greater. City residents often receive a special designation, known as 'urban dweller' status. Upon getting this designation, a city resident may enter into the housing market and purchase a long-term lease from the Communist government (typically 70 years). Note that in China, the government owns all the land. It is the buildings upon the land which can be 'owned' by citizens though the ownership rights are not held with an infinite time frame as they are in Western style economies. Such leases are fully transferable and can be used as collateral for borrowing. Although city dwellers are still subject to eminent-domain types of land claims, they must be compensated for their dwelling with fair market value, or allowed to buy dwelling at another, similar location. Perhaps the government recognizes, from a pure profit-motive perspective, that there is far more to lose by expropriating, say, office buildings, rather than rice paddies. The potential for foreign-capital flight would be very high indeed. Most of the people we met during our trip fell into this category of city dweller.

Our tour guide illustrated this by giving us a tour of her condo she had purchased a few years earlier. She explained to us that with her lease, she could pass this condo onto her children. I asked her, "What will happen when the 70-year lease expires?" She smiled, raised up her hands and said, "I'll be dead by then, that's not my problem." One of the issues with long-term leases is that they raise a bit of uncertainty as to what the government will do as the expiration date nears. "What will be the new lease rate?" every new owner of a building must ask. This uncertainty will lower the market price of a dwelling or any building, which is the price of government control over property. Here was another way students were learning first hand how markets in the West functioned differently than markets in China.

### ***11.2.3 Rural Residents***

Rural residents have the fewest property rights of all. Since the Communist party owns the land, farmers have little ability to leverage any equity to borrow for say, a tractor. This is not uncommon in many countries around the world, where billions of dollars of ‘dead capital’ remain locked up through a lack of property rights (deSoto 2003).

There is a twist with the Chinese system. The residents generally operate under the auspice of what is known as a town-village enterprise, or TVE. A TVE is a land collective that lets farmers receive the fruit of their labors but decides from year to year how land will be allocated. The mayors or managers of the TVEs are directed by China’s central government to be self-supporting; no one expects government bailouts from Beijing. The town-village enterprise (TVE) is a decided improvement over communal farming, which led to the loss of millions of lives in the 1960s, but it still keeps rural farmers from gaining much ground, economically speaking.

Interestingly, Town Village Enterprises act as if they were for-profit corporations, with peasants in the role of de facto employees, rather than property owners. TVEs compete with each other in wooing foreign investors, promising them tax breaks and land. A foreign company can generate far more tax revenue and many more jobs than a rice-paddy farmer, so the Chinese government gives them more attention. Fu and Balasubramanyam (2003) demonstrate that TVEs played a significant role in the Chinese economy since the 1978 economic reforms, and are much efficient than state owned enterprises.

Our students learned time and time again that the Chinese government tends to ‘follow the money’ rather than a set of prescribed guidelines around the sanctity of individual rights and private property, as is typical for democracies in the West. This is part of the reason for their more rapid economic growth, where environmental groups, tighter regulatory regimes and a court system that allows people to sue against unjust takings invariably stymie more rapid growth. We thus showed that democracy, for all its benefits, in some cases can lead to stagnating growth as the economy matures (Olson 1984).

The property-rights system is thus centered on the interlocking relationship between the TVE and the foreign investor, and it has worked with a brutish efficiency that has not been thwarted by special interests, such as environmental or health organizations, or by labor unions. Foreign investors rely on TVEs to enforce land rights, while TVEs depend on foreigners for tax revenue. This goes far to explain why foreign companies do not hesitate to invest in China and have few worries about losing their investment by government expropriation.

As we learned from Chinese economists during our visit, it is not uncommon for a farmer to discover bulldozers readying his land for a new factory. His compensation, perhaps \$5000, is a fraction of the hundreds of thousands of dollars that the Town Village Enterprise may receive from the foreign investor for rights to the property. The displaced farmer must then find a job in the city or at the factory. Across the countryside, peasant farmers are more openly rebelling against such actions, and anger is rising. During the 2000s farmers led tens of thousands of riots or protest (Pan 2005).

During our trip in January 2006, students travelled to a very poor rural farming village where villagers lived in one room houses and heated their homes with bundles of twigs. In one home we saw, their worldly possessions included a small transistor radio, a large bed for the family of four, two sets of clothing for each family member and a small number of dishes and pots. They could see first-hand the issues with insecure property rights, with little incentive to become more productive. In one of the most memorable and unscripted events of the trip, the farmer invited our students to play ping pong with him outside on a rectangular cement slab set up on bricks, bearing a ragged green net. With smiles all around, it was a true moment in ‘ping pong diplomacy.’ This interaction was listed for all students as one of the top three memories of the entire trip.

### 11.3 From Rural Life to Migration: The Migrant Worker

Millions of rural residents, many who were fed up with the TVE arrangement, decided to migrate to the cities to find better work. It is important to first understand a bit more about migrant workers here in China. Unlike the United States, where we can freely migrate to other cities to take jobs and eventually settle with our families, in China things operate quite differently. Every Chinese citizen is registered for a particular area of the country, in what is called a *hukou* system. They cannot legally become official residents in a new city unless given permission from the government. So when workers in China migrate, they must live in company provided temporary housing that gives them a lower social status. The workers can work and live there as long as a contract exists but must return home otherwise or somehow evade detection. They or their families cannot get access to government-provided health or education from areas outside their household registration zone.

For U.S. citizens, this lack of freedom may seem shocking, but from the Chinese government’s perspective, it is more like envisioning the country as a corporation. Labor flows between different areas of the country are managed to maximize economic growth and stability. To put this in our perspective, people who work for large corporations in the U.S. are not able to move on a whim to regional offices in other cities. Rather, the labor pool is managed to assure a steady output of labor personnel at each corporate location. By contrast, the Chinese might compare the alternative to Calcutta, India, where the chaotic and uncontrolled influx of desperate villagers from the countryside has led to shockingly poor living conditions in the cities. These are the scenes China’s ruling government wishes to avoid.

On the other hand, migrant workers are free to move from construction site to site, picking the company that pays the highest combination of wages and benefits. In that sense, the market should theoretically allow for workers’ living conditions to improve over time, especially in a rapidly growing economy. Jian Chang, a Hong-Kong based economist at Barclays, has noted that the millions of migrant workers have “increasingly high expectations and more life options” in a 2013 *Wall Street Journal* article on China’s labor shortages (Chu 2013).

Given all this, what are the conditions for migrant workers? I wanted our students to observe this firsthand. In the end, we finally gained permission from the company through a series of lucky connections with our travel provider, the Council for International Educational Exchange (CIEE). During the study abroad trip in 2015, we visited a building site known as Rongxin & Greenland International outside of Shanghai, which was a partnership between the privately owned Rongxin company and the state-owned Greenland International. Both companies have dozens of expensive building projects across the country. In the modern lobby, a detailed scale model glowed under soft lighting, and allowed visitors to view the project from every angle. We could see a planned series of apartment towers, a hospital complex and nicely trimmed green spaces.

Most visitors never go to where the workers live, but for me this was the most interesting part for our students and me to see. Turning down a gravel road, we headed towards what appeared a typical construction site. A 10-foot wall surrounded the dormitories, and we were warmly greeted by a manager. Walking on the concrete pavement inside the compound, we saw several dozen dorm style rooms on two levels, Motel 6 style, and doors were propped open in some. Peeking inside one of them, two to three bunk beds allowed a half dozen men a place to live and sleep. The rooms, while small and not air-conditioned, nonetheless were clean and well kept. A small company store stocked cold drinks, snacks and other sundries at prices not out of the ordinary. In all, the company employs 500 migrant workers for this project alone.

Workers on break came over to greet us with big smiles. They were dressed with relatively new clothes that one would find at Walmart or Target, and nice tennis shoes. But most surprisingly, many of them had smartphones. On our short tour, we saw the company provided cafeteria, which was clean and well lit. Twenty percent of the workers had wives living on site, according to the manager, and the cafeteria transformed into a school for the children between meal times.

In response to our questions, the workers told us they had come here because the pay was so much better than the villages they had left behind. In many cases there was ‘no work’ or just subsistence rice farming. Here they could make far more money and send some money home. Later, I found out from one of the company managers exactly how much money these workers made, how many hours they worked and compensation for overtime. The pay, it turns out, was surprisingly high, particularly for a developing country.

Laborers at this construction site work 25 days a month, on average, and earn roughly 45,000 yuan, or \$7260 a year if they are unskilled, according to the company. However, it is important to adjust for the cheaper cost of living in China. Using purchasing power parity (PPP) estimation can help give a better sense of these numbers. That same salary would be equivalent to earning about \$12,100 in the United States, using World Bank conversion factors. Highly skilled workers, such as construction crane operators, do far better, earning up to \$19,355 per year (or 120,000 yuan), while a PPP adjustment makes their annual salary in U.S. terms about \$32,300. This is indeed a far cry from working in a rice paddy field, where villagers might only earn \$500–\$1000 a year. Overtime is also generous: if workers

work more than 10 h, they get an extra half day's payment. And working more than 12 h earns them a whole extra day's payment.<sup>2</sup>

While these wages are higher than the country average for migrant construction workers, the wage growth rate for all migrant workers has been remarkably rapid in recent years. By 2018 wages were 3721 yuan per month, about \$530 monthly at current exchange rates. This compares to about 5000 yuan *a year* for a typical Chinese farmer, or about \$60 a month (Statista 2020).

## 11.4 Is China's Growth Sustainable?

This was another question our students explored and I asked them to keep this in mind as we stayed in China. China's model has worked remarkably well in bringing about the fastest economic transformation of any society in history. For the past 20 years, its GDP growth averaged 10%, while the United States averaged less than 3%. The Chinese economy is now 550% larger than it was in 1990. In contrast, the U.S. economy grew only 70% over the same time frame (but is still four times larger than China's). In 2010, the People's Republic surpassed Japan to become the second largest economy in the world (World Bank 2020).

China has succeeded by running its economy like a corporation, with government and business working in tandem to achieve economic growth and business profits. Unlike the U.S., group opposition to urban projects is forbidden by law, further speeding up the construction process. An important government role is to build a state-of-the-art infrastructure that serves its industrial base. Shanghai, for example, built twelve new subway lines in 15 years, a far cry from the cost overruns for railway projects in the United States as well as the inevitable lawsuits by NIMBY advocates.

Often unquestioned in projections about China is a key phrase: 'at the current rate of growth.' This assumption can create woefully bad predictions. If we used the growth rate of a 2-year-old child to predict her height at 16, we might conclude she would reach 10 feet. But growth rates for people and countries drop as they mature. As a result, two girls, aged 2 and 16, tend to converge in height—even if the younger one never catches up. The same holds for poor and rich countries' income levels.

This leads to a dilemma: How can a poor country acquire capital? China neatly solves this problem by saving an astonishing 53% of its GDP (World Bank 2020). This is the highest rate in the world, even though China's 2009 per capita income is only \$6,800, using purchasing power parity adjustments by the World Bank (2020). As China grows, its higher GDP results in even more savings and investment, leading to a so-called 'virtuous cycle' of upward spiraling income. But as China becomes richer, it also faces the inevitable diminishing returns to capital and worker productivity, as well as a shortage of skilled workers. These are significant (and oft-

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<sup>2</sup>This account of our migrant worker visit is heavily drawn from Richardson (2015b).



discussed) reasons why China's growth will slow in the future. But dig deeper and an array of other significant challenges weigh more heavily in the short term, which are a direct result of its focus on low-cost manufacturing. China has a culture that does not cultivate innovation or creativity, and there is a lack of understanding of how to build brand value.

Innovation is the work of outsiders with fresh, even daring perspectives. The ice industry did not invent the refrigerator. Shipping companies did not devise the universal container. And yearbook publishers did not create Facebook. New inventions upend old ways of doing things and cause disruptions throughout the system (Richardson 1999). Hundreds of years before its Communist-led government, China led the world with a flurry of inventions that include the compass, fireworks, papermaking, hydraulics, sophisticated drugs, multi-stage rockets, golf, and paper money.

In today's 'China, Inc.' it is not surprising that few innovative products emerge. The government prizes security, conformity, and control. The Internet is closely monitored, and networking sites such as Facebook and Twitter are banned. Individuals, working under this system of state-capitalism, are more likely to keep their heads down than to risk loss of their livelihoods by opposing the aims of the government. As in conservative corporate environments, ideas that may seem unorthodox are more difficult to share. In one sense, the 'China, Inc.' model of economic growth resembles Wal-Mart's business strategy. Both focus on cheap suppliers, inexpensive overhead, and low wages, but neither adds much value to the products they sell. Both seek growth through the rapid scaling up of sales volume to offset their typically low profit margins. Neither embraces innovation, which helps explain why a close-knit relationship has developed between the two as manufacturer and retailer. Market saturation slowed Wal-Mart's growth in store square footage from 8% annually during 2002–2006 to less than 4% annually in 2007 to 2009. Its stock price also has stagnated for 15 years after 20 years of brisk increases. Unlike innovative companies, Wal-Mart has not reinvented itself in any substantial way (Richardson 2011).

China as it too floods with world with low-end products not known for their quality. Other countries and companies understand that building product value through innovation is how long-term economic growth typically is sustained. Switzerland made almost 22 million watches in 2008, for example, roughly 4% of China's sales of 559 million watches. China's average price was a mere \$2 per watch, whereas Switzerland's price was \$528. As a result, Switzerland received over ten times as much revenue as China, \$11.5 billion versus \$1.1 billion. The Swiss understand how to create value out of more than the sum of parts. Along with a reputation for high quality, they have established a brand by law for the entire country. Swiss Made appears on the face of every Swiss watch. Chinese watches, or other products for that matter, have no such identity (Richardson 2011).

As students quickly saw, hordes of sellers were openly hawking \$2 counterfeit watches, \$5 fake designer clothes and shoes. Many of them were accosted with famous name watches, suitcases and clothes for a tiny fraction of the price and told stories to each other about the attention to detail, even in the tags and stickers on the

clothing. They saw firsthand that Chinese manufacturers lack vital marketing skills. Chinese companies instead blatantly steal existing brands: Pizza Hut becomes Pizza Huh, Starbucks becomes Buckstarr, and Nike becomes Nire, with nearly identical logos as well.

I noted that these unimaginative shortcuts create a fraction of the value of the true brand. Apple, in contrast, delivers huge value by its brand's cachet. For example, when it debuted, the iPhone4 retailed for \$600. China's sole contribution was the assembly of the individual components, which ties up only 7% of the phone's cost. Apple makes a 60% profit margin, which it partially reinvests by creating memorable ads, new software applications, and eye-catching store spaces (Richardson 2011).

## 11.5 Logistical Planning for the Course

Travel abroad courses take an enormous amount of effort to market and launch successfully. An on-campus International Studies program is a great asset as well to remind you of the nitty gritty details such as passports, travel visas, trip insurance and short-term medical insurance. On the academic side, a well-planned study abroad course must be like a ten-course meal- lots of different types of experiences without having an overburdened amount of any one element. Having also directed two study abroad programs with no overseas support, I can say it is much easier, particularly in a place so far away, to work with a reputable on-site provider who can handle transportation, scheduling of events, arranging of speakers, meals, medical emergencies and places to stay. The most work for the faculty member involves the time spent prior to leaving campus, where the list of key experiences is detailed and worked into a day by day schedule.

It is important to remember that the leader of a faculty member is going to bring along a set of different personalities—some will be extroverts, others shyer. Some will tire more easily than others. Some will seek excitement though interacting on the streets with locals whereas others will enjoy solace in a quiet museum. A successful travel abroad program should recognize the needs of different personalities and not just be a reflection of the faculty leader's personality. One needs to constantly listen and monitor the faces of students in the morning and throughout the day to sense the feel of the group, while at the same time recognizing that life begins 'outside the comfort zone.' By this I mean that at times students need some gentle nudging try strange new foods, or go in small groups to different areas of the city. If we are teaching the benefits of individual freedom as a takeaway, then it is important not to be a control freak during the trip.

To that end, each day I typically had an academic component such as a guest lecture, or a museum visit (typically in the morning), and a more experiential component in the afternoon such as a field trip to a factory. Building in some free time is essential as overscheduled trips leave students feeling exhausted and

irritable. In addition, creating ways to interact with ordinary people as much as possible creates lifelong memories.

For my last two trips to China in 2013 and 2015 with a group of MBA students, I worked with the Council on International Educational Exchange (CIEE). It is impossible to understate the amount of trust and goodwill that is essential when working with an overseas provider. If something goes wrong, a strong working relationship with people who are seasoned professionals is essential. Establishing a friendly rapport on the phone prior to leaving is far better than uncomfortable surprises once one reaches the shores of a foreign land.

In planning the trip, I wrote down a wish list of topics, the places I wanted to go, the themes of the course and potential to take side journeys off the typical beaten path (such as the migrant worker camp). The staff was unfailingly helpful in everything from getting tickets for performances, lining up dinner reservations, having rooms ready and getting top-notch lecturers from area universities. Our bus driver was at our command for 12 h a day. As a character in movie once said, ‘Spontaneity has its time and place.’ Sometimes the unexpected creates the best memories.

We stayed at the CIEE Global Institute—Shanghai, which is located on East China Normal University (ECNU)’s downtown Putuo campus. It is known as the ‘Garden University’ for its beautiful grounds by the Liwa River. Our dormitory building had modest but clean rooms. The university grounds felt like an oasis at night with its large playing fields, pedestrian walkways and mature, leafy trees. It was an excellent place to unwind after a busy day amid the hectic crowds of Shanghai. This notion of ‘quiet reflection time and space’ is important to consider for keeping students’ spirits high during the trip.

Another important thing: CIEE had a well-developed plan for all types of medical emergencies, from getting ill, to physical injury to flying out of the country for severe illness. Having that assurance in one’s back pocket in the event of an emergency is vitally important, particularly in a foreign country where one is unfamiliar with the best hospitals and unable to converse in the language. The mantra for a study abroad program logistics should be: keep the moving parts as few as possible so everyone can focus on the main objectives and bring everyone home safely. My outsourcing of nearly all the on-site logistics made this experience immensely less stressful and allowed me to focus my energy on learning outcomes of the course. The complete details are shared in the Appendix.

## 11.6 Cost

Affordability can be a key impediment to international travel. Travel to Asia is quite a bit cheaper than Europe and CIEE provided a very reasonable cost for the entire trip of \$1675 per student excluding airfare, as seen in Table 11.1 below. In addition, I received a \$10,000 grant to help offset the students’ travel costs from the Charles Koch Foundation, so the true cost to the students was only \$2525. I worked with a

**Table 11.1** Breakdown of travel abroad expenses, China 2015

Item	Per person	Overall total (10 students)
Flight	\$1850	\$18,163
Program cost	\$1675	\$16,750
Total	\$3525	\$34,913

local travel agency to book the flights, which I recommend if your students are not seasoned travelers. Some of our students had never been on an airplane before so preparing them for 20 plus hours in the air requires some advance discussion.

The CIEE flat fee covered all transfers, transportation (both rail and bus), events, performances, class sessions, boat trips, lodging and two meals a day. It was a true ‘soup to nuts’ program, and this included all my fees and a single room. (My flight was paid out of an additional school grant.) As a result, I was freed from the headaches and worries of the mundane, and could focus on the fun parts—interacting with my students, Chinese economists, government leaders, bus tour guides and leading discussions as we walked through the city or on long bus rides.

## 11.7 Academic Structure of the Course

Prior to leaving for China, over 3 weeks our class met twice a week. For two and a half hours we discussed two assigned articles on China and/or the growth of globalization, as well as an assigned book, and a data source such as the Heritage’s Foundation Freedom Index.<sup>3</sup> In addition, about 30–40 min of each session was used to talk about preparing for the trip, including everything from cultural norms, medical situations, packing tips and strategies for making one’s way across the city on one’s own. The itinerary once we arrived in China was structured around three things each day: gaining an appreciation of the cultural aspect of China (e.g. an hour spent on calligraphy/language), an academic lecture from a top academic, and an out of classroom experience.

With regard to the latter, here’s an example of how I tried to leverage every experience into a larger lesson. One evening, I took the students to the famous YuYuan outdoor marketplace consisting of hundreds of small shops selling nearly identical trinkets in downtown Shanghai. I didn’t just say, “Have fun shopping!” among the throngs of shoppers. Instead, I used the fast-paced business environment to create a friendly contest among the students. Under a time constraint –dinner in 2 h– I formed two-person teams to search for and then purchase a model of a famous terra cotta warrior statue, standing just six inches high. They each had a photo of the statue, and little did they know that dozens of shops were selling the exact same statue. The team with the lowest price after bargaining with a street seller won a prize at dinner. This taught the teams that although the statue was widely available at

<sup>3</sup><https://www.heritage.org/index/>.

different markets, transactions costs and willingness to wait lead to sharply different prices. This is a very different situation than in the United States, where we rarely negotiate for items except for cars and homes. The youngest of the MBA students negotiated down nearly 99% of the list price, due to her willingness to spend an hour hopping from shop to shop, pitting the store owners against each other with only a calculator to communicate the price. I later wrote about the experience in a *Wall Street Journal* op-ed, titled, “An Econ Lesson in a Shanghai Market” (Richardson 2015a).

In another unforgettable experience, we entered a large city park on a Sunday to visit the famous marriage market, whereby parents of children eligible for marriage place large white placards along the walking paths for all to see. Each of the hundreds of cards detail the specifications of a potential wife or husband, with details including height, weight, income, education and family background. Instead of romance, it is more like trading used cars. Students witnessed parents doing all the negotiation for their son or daughter, trying to get the best deal for marriage of their child. This became a great discussion for the students, especially when they convinced me to stand up on the wall with my ‘specifications’ written in Chinese, whereupon I was immediately surrounded by several dozen interested parties, with one calling his niece in Hong Kong about the ‘professor with a ticket to the U.S.’. Needless to say, that slightly embarrassing experience for me led to many stories and laughter by the students later on in the trip.

Thus, the key to a successful teaching lesson is to hitch an insight to an emotional experience, using a foreign culture as the backdrop for questioning one’s own assumptions about how the world works. This can leave a lifelong imprint, which is the overall point of a study abroad class. The more one leverages the high emotional pitch of a study abroad program to specific lessons and insights, the more likely that student will remember with great clarity what you teach them.

When the students returned, they had 2 weeks to work on their deliverables: a 12–15 page research question that addressed the main objective questions of the course, complete with references from our readings and academic content gained while in China; a book review from a book about China of their choice and their journal. Although re-entry can be exhausting time to write, I encouraged the students to shape their papers on the long bus rides while in China, and met with them individually as we travelled in the bus from one venue to another. It was a good time to get one on one time with each of them, sitting beside them on the bus. In this way, they could produce far better written products when they arrived back in the United States.

## 11.8 Conclusion

At the end of the course, the students had a newfound appreciation for the tremendous gains the Chinese have made in getting 400 million people out of poverty with their system of state capitalism, yet also a keen sense of the tremendous

disparities that exist between the well-off and the poor rural residents. The ever-present thick smog, dirty working conditions and lack of interest in preservation made us better appreciate how we lived in the United States. At the same time, the Chinese know how to build large and impressive train and subway systems, airports, and highways at much faster speed than in the United States, leading to an infrastructure that supports quick economic growth. We learned how democracy can help as well as hinder economies, when special interest groups play a role in hindering economic growth.

The big unknown question is if China's modus operandi of poaching and outsourcing ideas will work in the long run. Trust is essential in business relationships, and these relationships can quickly sour when knowledge is taken without adequate compensation. Indeed, various economic studies have shown that a country's GDP growth is positively influenced by the degree to which its citizens can be trusted (Fukuyama 1996). If China's focus on increasing profits comes at the cost of losing trust with its foreign partners, then future cooperative arrangements seem less likely, and China's options for outsourcing innovation will diminish. In any case, China's prospects for high future growth are questionable. Its lack of innovation and impending market saturation, as well as its lack of branding spell an inevitable slowdown, unless its business strategies markedly change, as we are seeing already in the past 5 years.

The study abroad programs gave both the students and me a much better insight into China's treatment of property rights, economic investment, key drivers of GDP and the sustainability of that course. After the experience, we also better understood the strengths and weaknesses of our own system in the United States. There is no good substitute for this type of experiential learning experience, that will stick with the students for years to come.

## Appendix

- Day 1
  - Arrive in Shanghai late afternoon
  - Check into hotel near East China Normal University
  - Optional: Explore campus, neighborhood surroundings
  - Group Dinner near campus
- Day 2
  - Orientation, East China Normal University campus
  - Communicative Chinese Class
  - City Tour (Including Pearl Tower/History of Shanghai museum and Museum of City Planning)
  - Official Welcome Dinner and Chinese Acrobatic Show

- Day 3
  - Lecture: China’s Model of Communism Today
  - China Museum—gain appreciating of 5000 year old history of China
  - Tea Ceremony—understanding historical context of tea markets and connection with global economy
  - Dinner at Traditional Sichuan Restaurant with Face-Changing Folklore Show
- Day 4
  - Lecture: Growth of Chinese Economy
  - Steel plant Factory Tour
  - Yu Yuan Garden—small scale business environment, close to perfect competition
  - Group Dinner at restaurant overlooking Yuyuan Garden
- Day 5
  - Trip to Suzhou—origin of Silk Road—on 180 mph bullet train (50 miles in 20 min!)
  - Visit to Humble Ambassador Gardens via pedicab
  - Small silk manufacturing plant, silk museum, walk along canals
- Day 6
  - Migrant Worker Village Tour
  - Return to Shanghai
- Day 7
  - Shanghai Chamber of Commerce—what it means to operate a business in a Chinese economy
  - Visit to Volkswagen manufacturing plant
  - Visit to the Bund and Nanjing Road—largest retail shopping district in Shanghai
  - Group Dinner at 6th on the Bund
- Day 8
  - Lecture: Demographic Shifts—how women entering the labor market has changed the economy
  - Lecture: Americans in China—the experience of being African American
- Day 9
  - Visit to park to observe marriage market: the selection of mates through an auction process
  - Shanghai Port visit and lecture—the explosion of globalization through the invention of the container
  - Farewell Dinner and Night Cruise on the Huang Pu River
- Day 10
  - Depart for USA that afternoon and arrive late evening

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