

Global Markets, National Politics and the Competitive Advantage of Firms

Section A: Mondays/Wednesdays, 10:00-11:30am, E51-372

Section B: Mondays/Wednesdays, 8:30-10:00am, E51-372

15.223, Fall 2008, H2 Sloan Fellows

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Course websites:

<http://stellar.mit.edu/S/course/15/fa08/15.223/index.html>

<http://baselinescenario.com/>

Our world is changing in fundamental ways. The institutions and regulations governing our global economy are clearly in flux. Recent events have shown that traditional national regulations (or lack thereof) are no longer adequate yet international accords over trade, intellectual property, labor standards and a host of other issues are fiercely and frequently contested by competing interests. The final results of these debates and the current global financial crisis will determine who wins and who loses in the new global economy. Understanding the interaction between this shifting political-economic-regulatory environment and individual firms, even entire industries, is key to determining both the possibilities for and constraints on global business in today's fast-changing economy.

This course provides students with the conceptual tools necessary to understand and work effectively in today's global world. We will do this in three closely related ways:

- Analyzing how the environment for business varies around the world, including what this means for business people and policy makers.
- Discussing efforts to construct "rules of the game" for the global economy. In particular we will examine contemporary debates and controversies surrounding financial markets, intellectual property rights, trade policies and labor and environmental standards.
- Developing conceptual tools and frameworks that help make sense of our increasingly global and complex world.

- Applying these ideas to understanding the current global crisis, where it is heading and what countries (and you) can do about it.

In addition to traditional case/class discussions, we will have discussions with managers and policy makers around the world. The hope is that greater exposure to/interaction with these real-world practitioners will “bring to life” some of the issues discussed in the readings/cases.

Readings:

Readings include a combination of analytic articles and company case studies drawn from a variety of different industries (manufacturing and services) in Europe, Latin America, Asia and Africa.

A reading package, available at the MIT Copy Technology Center (basement of E52), includes all HBS cases. Additional articles, class notes, slides, and other resources related to the course will be posted on the Stellar course web site (<http://stellar.mit.edu/S/course/15/fa08/15.223/index.html>). Readings related to Professor Johnson’s sessions will be posted on his website (<http://baselinescenario.com>). Please check both sites regularly.

Requirements:

The requirements for the course and the contribution of each towards the final grade are as follows:

1. 2 Case Write-ups (10% x 2)	20%
2. Group Research Paper	25%
3. Final Exam	20%
4. Class Participation	35%

These requirements are described in detail below:

1. Case Write-ups:

The case write-ups should be brief, no more than 3 double-spaced pages. You may choose any 2 cases to analyze. Cases include both the traditional cases and company/industry cases discussed in some of the readings. **Write-ups are due before class on the day the case is to be discussed.** They are intended to be analytic discussions of some issue central to the case. Please do not write a précis of the case or repeat case facts except to bolster your argument. Based on the information provided in the case materials, please be analytically judgmental and evaluative. You should propose alternate managerial views and action plans whenever appropriate and discuss the relevance and applicability of the frameworks proposed in the readings and lectures. In short, you should write what you think of the situation in the case and not merely what the author of the case says. **These case write-ups are INDIVIDUAL assignments.**

2. Country Report

This group project is due on **Monday, December 8**, and will count for 25 percent of the grade. You will need to write a **10-15 page** report on the business environment in one country (other than the U.S.) **This is a GROUP assignment. You can work in teams of 3-4 people on this project.**

3. Final Exam

A final exam will be given in class **on Wednesday, December 10**. The exam will be an essay exam based on questions discussed in class. Details will be explained in class.

4. Class Participation

Your active participation in the discussion in class is integral to the design of this course. **Class participation counts for 35% of your final grade.** Prior preparation of the cases and assigned readings are essential as this background is presumed in the lectures and case discussions. Those of you whose native language is not English and/or may have difficulty speaking up in class are encouraged to meet with us to discuss how your participation in class can be ensured. Additional discussion sections will be organized so that we can clarify/elaborate on any points raised in class. These discussion sections are optional, intended only for those of you who find these extra sessions helpful.

Schedule of Classes and Assignments

Readings for each session are available either on **Stellar** or in the **Course Packet**. HBS cases are only available in the Course Packet. All other readings are posted on Stellar or <http://BaselineScenario.com> as noted. You are responsible for all **cases** and **readings**. Check Stellar for updates – you are responsible for any reading posted by 6:00 pm on the evening preceding a class.

Part I - Introduction

October 27 Freer Markets, More Rules?: Rethinking Regulation in our Global Economy

Readings:

James Lardner, “Annals of Business, The Sweater Trade 1,” *The New Yorker*, (January 11, 1988), 39-73, James Lardner, “Annals of Business, The Sweater Trade 2,” *The New Yorker*, (January 18, 1988) 57-73. **(Stellar)**

Thomas L. Friedman, “It’s a Flat World, After All,” *New York Times Magazine*, April 3, 2005, 32-37. **(Stellar)**

David A. Moss, *When All Else Fails* (Cambridge: Harvard University Press, 2002): chs 1, 10. **(Stellar)**

Study Guide Questions:

1. Do you agree that national borders no longer matter?
2. Is globalization an economic or political phenomenon? Who are the winners and losers from globalization?
3. What role should/could government play in mitigating risk for business?

October 29 Stress Testing Institutions: Impact of Today’s Global Financial Crisis

Readings:

Peter Boone and Simon Johnson, “The Next World War? It Could Be Financial.” *Washington Post*, October 12, 2008, page B01. Available on-line through <http://BaselineScenario.com>, section on [For The Classroom](#).

Please also review the latest available edition of the Baseline Scenario on <http://baselinescenario.com>, for an overview of the crisis, and check for updates right before class. Depending on your familiarity with financial markets, you may find other materials there useful, including “[Financial Crisis for Beginners](#).”

Study Guide Questions:

1. Do think that the world is now facing a major economic and financial crisis?
2. What strategies will industrialized countries use to counteract the crisis?
3. How will this affect the prospects for various kinds of globalization?

Part II – Different Types of Market Economies

November 3 Liberal Market Economies: The United States

Readings:

Michael E. Porter, “Capital Choices: Changing The Way America Invests in Industry,” Executive Summary, Council on Competitiveness, 1992: 3-19. *(Stellar)*

Jeffrey Pfeffer, “Human Resources from an Organizational Perspective: Some Paradoxes Explained,” *Journal of Economic Perspectives*, Vol. 21, No. 4 (Fall 2007): 115-134. *(Stellar)*

Bernard Simon, “[Canadian mortgages stay ‘boring but beautiful’](#)”, *Financial Times*, July 30, 2008. *(Stellar)*

John D. Sterman, Nelson P. Repenning, and Fred Kofman, “Unanticipated Side Effects of Successful Quality Programs: Exploring a Paradox of Organizational Improvement,” *Management Science*, vol. 43, no. 4, (April 1997): 503-521. *(Stellar)*

Recommended (Not Required) Background Readings:

Michael Porter, “Determinants of National Competitive Advantage,” in *The Competitive Advantage of Nations*, NY: The Free Press, (May 1990), Ch. 3, 69-130. *(Stellar)*

David P. Baron, “Integrated Strategy: Market and Non-market Components,” *California Management Review*, vol 37, no. 2, (Winter 1995): 47-65. *(Stellar)*

Study Guide Questions:

1. What are the key features of the US political economy that shape business behavior in this country?
2. What is the “paradox” at Analog Devices? What role did macro-institutions play in bringing about these unanticipated side effects?

November 5 State-Driven Development: Singapore

Case:

Singapore Inc. (HBS Case 9-703-040 – August 11, 2003) *(Course Pack)*

Study Guide Questions:

1. How do you account for Singapore's success? In economics? In politics?
2. What were the sources of its growth?
3. Do you recommend Singapore Inc. as a model for other developing countries?

November 10 Veteran's Day Holiday. No Class.

November 12 How Can Emerging Markets Bounce Back from the Current Crisis?

Readings:

Peter Boone and Simon Johnson, "[In the Line of Fire: Emerging Markets.](#)" *Forbes.com*, October 12, 2008. Available on-line through <http://BaselineScenario.com>, section on [For The Classroom](#).

Please also review the latest available edition of the Baseline Scenario on <http://BaselineScenario.com>, which has changed since the last you looked at it, and check for updates right before class. In [For The Classroom](#) section of the website, look at the materials under financial globalization.

Study Guide Questions:

1. How did Emerging Markets get drawn into the crisis?
2. What can Emerging Market governments do to get growth back on track?
3. Should Emerging Markets continue to move towards more financial development and openness to capital flows?

November 17 Emerging Markets/Uncertain Rules: Africa

Cases:

Note on Conflict Diamonds: Why Are Civil Wars, like Diamonds, Forever? (HBS Case 9-702-027 - January 09, 2002) (*Course Pack*)

Botswana: A diamond in the rough (HBS Case 9-703-027 - March 31, 2003) (*Course Pack*)

Study Guide Questions:

1. Why did Botswana succeed? How does one define success?
2. Does the success of Botswana offer useful lessons for other developing countries?

Part III – Beyond the Nation State? Who is Making the New Rules?

November 19 The Politics of Trade

Guest Speaker: Mr. José Serrador, Director
Foreign Trade Policy & Planning
Embraer

Case:

Bombardier: Canada vs. Brazil at the WTO (HBS Case 9-703-022 - February 20, 2003)
(Course Pack)

Study Guide Questions:

1. Is Embraer engaging in “unfair” competition? If so, how? If not, why not?
2. Why are the governments of Brazil and Canada involved in this industry?

November 24 Intellectual Property Protection

Readings:

Daniel B. Sterenberg, “Intellectual property laws in Brazil: Is breaking patents to save lives right?” MIT Sloan School of Management Case under the supervision of Richard Locke, May 23, 2003: 1-24. *(Stellar)*

Case:

Life, Death, and Property Rights: The Pharmaceutical Industry Faces AIDS in Africa (HBS Case 9-702-049 - June 13, 2002) *(Course Pack)*

November 26 Global Business and Human Rights

Readings:

John Ruggie, “Human Rights Policies and Management Practices of Fortune Global 500 Firms: Results of a Survey” Harvard University John F. Kennedy School of Government. September 1, 2006: 1-30. *(Stellar)*

Richard Locke, John Van Maanen, Eleanor Westney, “Caspian Development Advisory Panel: Lesson Learned” MIT Sloan School of Management, April 29, 2007: 1-17. *(Stellar)*

Case:

The Burma Pipeline (HBS Case 9-798-078 - February 25, 1998) *(Course Pack)*

Study Guide Questions:

1. Has Unocal violated any laws or norms as a result of its participation in the Yadana project?
2. What responsibility, if any, do global corporations have for people in countries where human rights are not fully protected? What can companies do?

December 1 NGOs and Private Non-Market Action

Readings:

Richard M. Locke, "The Promise and Perils of Globalization: The Case of Nike" in Thomas A. Kochan and Richard L. Schmalensee, eds, Management: Inventing and Delivering Its Future, Cambridge, MA: The MIT Press (2003), 39-70. *(Stellar)*

Case:

Diermeier, Daniel, "Shell, Greenpeace and Brent Spar" in David P. Baron, Business and Its Environment, 4th ed, Upper Saddle River, NJ: Prentice Hall, (2003), 109-113. *(Stellar)*

Study Guide Questions:

1. Why did Shell get itself in such a mess over the Brent Spar situation?
2. How should private companies engage with non-governmental stakeholders?

December 3 Rebuilding the Global Economic System

Readings:

Specific articles will be announced. *(Stellar)*

Review the latest available edition of the Baseline Scenario on <http://BaselineScenario.com>, which has changed since the last you looked at it, and check for updates right before class. In For The Classroom section of the website, look at the materials under international financial architecture.

Study Guide Questions:

1. Can we continue to rely on same global framework for trade and finance?
2. What would a new or substantially reformed system look like?
3. What is actually more likely to happen, in terms of changing the global system? How is this affected or determined by national institutions?

December 8 Putting the Pieces Together?

Readings:

Samuel P. Huntington, "The West Unique, Not Universal," *Foreign Affairs*, vol. 75, no. 6, November/December 1996: 28-46. *(Stellar)*

Richard Locke, "Building Trust". Paper presented at the Annual Meeting of the American Political Science Association, September 1, 2001: 1-34. *(Stellar)*

December 10 In-Class Final Exam