

**NATION STATES, REGIONAL NETWORKS AND GLOBAL MARKETS:
The Challenge of Diversity and Integration**

Fall 2010

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IBUS 706
Mon & Weds
2:30 – 3:45pm
BA 791

The complexities of a world of nation-states and trade blocs produce both opportunities and challenges to firms operating across national boundaries. Yet the recently renewed interest in the trends of globalization has often led business leaders and analysts to view the world as a homogeneous market place. This course aims to assist the future international manager and public policy analyst in examining the different ways national and local institutions shape the risks and opportunities of increasingly integrated markets. It will provide the student with a broad view of the factors underlying cross-national and cross-cultural business and policy success by arming them with concepts, techniques, and factual knowledge useful for their careers in international and global business management. The course draws on the experiences of small as well as large firms from Asia, Europe, Latin America, Africa, and North America in adapting to different countries and operating in the global economy. Both manufacturing and service firms are covered.

The course is divided into three parts. Part I on *Firms, Countries, and the Global Economy* introduces the basic conceptual tools and illustrates their usefulness with unique company experiences: the interplay between comparative & competitive advantage, the globalization of markets, the sources of country- and community-based advantages, networks, and the dispersion & coordination of value-adding activities across borders. Part II on *Comparative Management Systems* documents and conceptualizes the existence of multiple cross-national patterns of organization of the business firm, focusing on how factory work organization, industrial relations systems, innovation practices, governance mechanisms, financial systems, government policies, and tax regimes affect the international competitiveness of firms. Lastly, Part III on *Managing Across Borders* provides concepts and illustrations relating to how small and large firms take into account, and profit from, cross-national differences when operating in the global economy. We plan to have three prominent Guest Lecturers participate in this course.

A distinctive aspect of this course is that we analyze North and South America, Europe, and Asia. Cases include:

Toyota	Bombardier	Liz Claiborne	Fiat vs. Alfa Romeo
The <i>Chaebol</i>	NAFTA	Microsoft	Embraer
Infosys	BMW	Russian Capital Markets	DeBeers in Botswana
Chinese Rural Industry	Silicon Valley	Global Financial Architecture	Irish High-tech
Lenzing in Indonesia	EU Agro	US vs German vs Japanese Banks	

Pre-Requisites

All students must have prior coursework or experience in international affairs or international business. They should have the equivalent of the coursework in e.g., international management and strategy, international relations or comparative political economy.

Course Materials

All of the readings and cases listed in this syllabus are required. They are available as a bulk pack from Universal Copies (631 Main Street, 254-8931). All students must also be able to access and use Blackboard, where I will regularly post the class slides and additional readings.

Grades

(1) Class attendance & participation (30%). This course will be run as close to a seminar as possible. Constructive criticism of lectures, assigned readings, or case materials is particularly encouraged. Another useful (and rewarded) form of participation refers to pointing out important issues or illustrations of issues that would otherwise be neglected by the class. People who feel unaccustomed to participating in class should contact the instructor early in the semester. The main point: I am the conductor, you are the orchestra – I am there to help you all play and groove better together.

(2) One short individual case write-up (20%) of up to 5 pages, with 12-point font and one-inch margins. **NUMBER ALL PAGES.** The paper should be based on the readings assigned for one of **sessions 2-8**. The format is free, but it should be analytical and you should address the questions assigned for the class in essay form. The paper will be due at the beginning of the class to which it refers. Avoid summarizing or repackaging information that is already available in the case materials. It is not necessary for you to compile and analyze additional information.

(3) Take-home Final (25%) – An essay of approximately 8 pages (same format rules as above). This essay will be based on one of 4 questions given out during the week of November 22. It is due no later than **December 6 by 5pm at my office**. The questions and answers will be based solely on course materials and class discussions.

(4) One group presentation (25%). Self-formed groups of 4-5 students will meet and produce a collective analysis of industry growth and firm strategy. Pick one country (not the US) and three sectors (service and non-service) in that country that have displayed above average growth in sales in the past 5-10 years. Groups can not choose a country from which more than two members are citizens. For instance, a group that includes three students with passports from Korea can not study Korea. The groups will need to analyze the key reasons behind the growth, any vital policies or support institutions, and the strategies of the leading firms. I will discuss the criteria of the project in greater detail as the semester progresses. Students must report the name and members of their respective groups as well as the country and sectors of analysis by **September 27 (Class 10)**. Presentations will be in class on **November 15 & 17 (Classes 22, 23)**.

1. Introduction

[23 Aug]

PART I: FIRMS, COUNTRIES, AND THE GLOBAL ECONOMY (CONCEPTS AND CASES)

2. Globalization Unleashed – Furious Arguments & Overlooked Institutions

[25 Aug]

Readings: John Gray, *False Dawn*. New York: The New Press. Pp. 1-38, 44-55.

David Moss, *When All Else Fails*. Cambridge: Harvard University Press. Chapters 1 & 10.

Questions: (1) John Gray was one of the intellectual architects for the Thatcher revolution to de-regulate markets. How does he view laissez-faire economics now? How do institutions matter?

(2) According to Gray, how does politics drive markets? Is globalization a natural event or a political goal of the US and UK? Is it destabilizing or enriching?

(3) How does David Moss reveal that the free market is a myth in the United States financial system? How does government and institutions help spread risk and promote investment? What are the dangers of “government as ultimate risk manager”?

3. The Globalization Debate – Diverse Institutional Models and the Viability of Global Markets

[30 Aug]

Reading: Dani Rodrik, “Sense and Nonsense in the Globalization Debate,” *Foreign Policy*, pp. 19-37 (Summer 1997).

Dani Rodrik, “The Global Fix,” *The New Republic*, pp. 17-19, (Nov. 2, 1998).

Pankaj Ghemawat, “Why the World Isn’t Flat,” *Foreign Policy*, pp. 54-60 (March/April 2007).

See Dossier on Black Board with short articles on globalization and crisis.

Questions: (1) In what ways is the concept of globalization a misnomer? In what ways do political and social institutions underpin markets? How possible is it to have “global” institutions?

(2) What is the difference between integration and convergence? How resilient and important are national institutions, despite increasing openness of markets?

(3) Who writes the rules of the globalization? Can this ever change without crisis?

4. Global Manufacturing -- The Impact of Local Politics, Institutions and Trade Regimes

[1 Sept]

Reading: Bruce Kogut, “Designing global strategies: Comparative and competitive value-added chains,” *Sloan Management Review*, 26(4) (Summer 1985), pp. 15-28.

Case: James Lardner, “Annals of Business: The Sweater Trade,” Parts I and II, *The New Yorker* (January 11, 1988), pp. 39-73, and (January 18, 1988), pp. 57-73.

Excerpts from Liz Claiborne’s annual report.

Questions: (1) In Kogut’s framework, what economic, political and social factors affect the flow of trade and the location of investment? Consider the concepts of comparative advantage and breaking up the value chain for the knit-wear industry. What happens if countries can change their comparative advantage?

(2) How do factors at different levels of analysis affect competition in the clothing industry? Discuss the following levels of analysis: (a) international regimes such as the GATT or the MFA; (b) country; (c) industry; and (d) firm.

(3) What does Liz Claiborne actually own? What factors seem to influence the decision about whether to make a product “in house” or out source it?

(4) Who benefits and who is hurt as a result of protectionism in this industry?

6 Sept – NO CLASS – LABOR DAY

5. Varieties of Capitalism – Institutions and Growth in the Advanced World

[8 Sept]

- Reading: Peter Hall & Daniel Gingerich, "Varieties of Capitalism and Institutional Complementarities in the Macro-Economy," Discussion Paper 04/5, Cologne, Max Planck Institute for the Study of Societies (2004).
- Case: "Denmark: Globalization & the Welfare State," HBS Case 9-709-015, Rev: July 15, 2009.
- Additional: Russell Shorto, "Going Dutch," *New York Times Magazine*. (May 3, 2009). **On Blackboard.**
- Questions: (1) What are the fundamental institutions of capitalism and how do they systematically vary between countries?
 (2) What are the major characteristics of and differences between "Liberal Market Economies" and "Coordinated Market Economies"?
 (3) How does Denmark and its institutions support growth, open markets, a generous welfare state, and strong labor unions? What are its current weaknesses and can the model survive? Why or Why not?

6. The Macro and the Micro: Labor Institutions, Innovation and Work Practices

[13 Sept]

- Reading: Daniel Friel, "Transferring a lean production concept from Germany to the United States: The impact of labor laws and training systems," *Academy of Management Executive*, 19(2): 50-57. 2005.
 John Paul MacDuffie, "Leaning Toward Teams: Divergent and Convergent Trends in Diffusion of Lean Production Work Practices," in *Negotiations and Change: From the Workplace to Society*. Ithaca: Cornell University Press. 2003. Pp. 94-116.
- Questions: (1) What are the institutional roots of lean production in Germany?
 (2) How do labor market regulations and collective bargaining systems shape the implementation and diffusion of work practices?
 (3) What are MacDuffie's main findings regarding globalization and country-based differences? What underpins the differences in practices between firms in different regions of the world?
 (4) Based on these findings, how would you interpret the competitiveness of automakers from the US, Europe, and Japan?

7. National Strategies for International Competition

[15 Sept]

- Readings: "Why Nations Triumph," *Fortune* (March 12, 1990), pp. 94-108.
- Case: Alice Amsden and Takashi Hikino, "Staying Behind, Stumbling Back, Soaring Ahead: Late Industrialization in Historical Perspective," in William J. Baumol, Richard R. Nelson, and Edward N. Wolff, eds., *Convergence of Productivity: Cross-National Studies and Historical Evidence*. New York: Oxford University Press. 1994.
- Questions: (1) What are the potential contradictions between the 4 corners of Porter's Diamond?
 (2) How does Amsden and Hikino's model of Korea resemble or differ from Porter's Diamond?
 (3) What is the relationship between government support and learning in Korea?

8. The Region and Local Network as Key Levels of Analysis

[20 Sept]

- Readings: Annalee Saxenian, "Lesson from Silicon Valley," *Technology Review*, July 1994, pp. 42-52.
 Richard Locke, "Chapter 4: Industrial Adjustment and Industrial Relations in the Automobile Industry," *Remaking the Italian Economy*. Ithaca: Cornell University Press. 1995.
- Questions: (1) Are all "clusters" the same? What is the difference between Saxenian's and Locke's understanding of local economies and Porter's cluster?
 (2) How do local social relationships and institutions shape the global competitiveness of a firm?
 (3) From the point of view of a foreign or outside investor, what does it mean to invest in a network and not just a firm?

II. COMPARATIVE MANAGEMENT SYSTEMS – Institutional Creation and Business Organization

9. Corporate Structures in Advanced Industrialized Countries

[22 Sept]

Reading: Mark J. Roe, “Some Differences in Corporate Structure in Germany, Japan, and the United States,” *Yale Law Journal* vol. 102 no. 8 (June 1993), pp. 1927-2003. **[NB. READ Introduction and pp. 1936-48, optional: 1948-58]**
Sanford Jacoby, “Corporate Governance in Comparative Perspective: Prospects for Convergence,” *Comparative Labor Law and Policy Journal*, 22(1): 5-32.

Questions: (1) Characterize the main differences in corporate structure among Germany, Japan, and the US.
(2) How do the financial regulatory institutions and politics shape the corporate structures in the respective countries? Why would one expect convergence or continued divergence? Why would this matter for you as a manager or investor?
(3) What are strengths and weaknesses of the different models?

10. Location Decisions, Institutions, and Experiments

[27 Sept]

Reading: “Germany: Is the Model Broken?” *The Economist* (May 4, 1996), pp. 17-19.
“Foreign Direct Investment,” HBS 9-703-018, Oct. 28, 2002. **[Scan]**

Case: “BMW: U.S. Manufacturing Investments.” ECCH 394-070-1.

Questions: (1) What are the kinds of factors involved in a major greenfield investment like BMW’s?
(2) What is BMW trying to achieve in locating production outside of Germany?
(3) What are the risks surrounding BMW’s location decisions?

11. Rebuilding Ireland: FDI Strategy and High Technology in Europe

[29 Sept]

Case: “Foreign Direct Investment and Ireland’s Tiger Economy,” HBS Case 9-706-007, Rev: March 7, 2008.

Additional: Dossier on Innovista Project in South Carolina. **On Blackboard.**

Questions: (1) What accounts for the Irish economic success? What role did FDI play?
(2) Should countries subsidize FDI? What are the pros and cons of FDI?
(3) What was the role of government policy and special agencies? How would you compare these actions to those of the government of South Carolina in the BMW case? Can/should we replicate the Irish model?

4-8 OCTOBER – NO CLASS

12. The Korean Model and The Asian Crisis

[11 Oct]

Reading: Stephan Haggard, “Introduction,” *The Political Economy of the Asian Crisis*. Washington DC: IIE. 2000.

Review Notes from Class 7 on Amsden’s article on Korea.

“Korea: On the Back of a Tiger,” HBS 9-700-097, Rev: May 13, 2002. **[Scan pages 1-12; Focus on pp 12-ff]**

Questions: (1) What appear to be the main external and domestic causes of the Asian Crisis, like in Korea?
(2) What were the strengths and weaknesses of the Korean model and the Chaebol? Was failure inevitable?
(3) How does government play a role in risk sharing and growth for a developing country? Was Korea all crony capitalism? How do issues of accountability and monitoring factor into analyses of industrial policy?

13. The Latin American Capitalisms and Risks: MNCs and National Variation

[13 Oct]

Reading: Victoria Murillo, "Political Bias in Policy Convergence: Privatization Choices in Latin America," *World Politics*, pp. 462-493. (July 2002).

Case: "Power Across Latin America: Endesa de Chile," HBS Case 9-799-015, rev: August 2008.

Questions: (1) Explain the types of risks that Endesa de Chile faces in investing in Peru? How might it mitigate them?
(2) Why would you think that Endesa de Chile might be more or less prepared to invest in Peru compared to the competition? What capabilities does it bring that others might not have?
(3) How would one's approach to a valuation differ between the contexts of Chile, Argentina, and Peru?

14. Misunderstood Miracle: Chile and its Export Growth Model

[18 Oct]

Reading: Paola Perez-Aleman, "Cluster Formation, Institutions, and Learning: The Emergence of Clusters and Development in Chile," *Industrial and Corporate Change*, pp. 651-677. (2005).

Case: "Capital Controls in Chile in the 1990s (A)," HBS Case 9-705-031.

Questions: (1) Chile's successful growth and development has often been portrayed as dependent on its dictatorship and neo-liberal reforms. How is this view correct or incorrect?
(2) Does Chile look more like the US model, the German model, or some sort of East Asian Model?
(3) How sustainable is Chile's export and financial model?

15. The Great Transformation in East-Central Europe?

[20 Oct]

Reading: Jeffrey Sachs, "What is to be Done?" *The Economist*, January 13 1990, pp. 19-24.

Case: Bruce Kogut and Andrew Spicer, "Capital Market Development and Mass Privatization are Logical Contradictions: Lessons from Russia and the Czech Republic," *Industrial and Corporate Change*, 11(1):1-37.

Questions: (1) According to Sachs, what is the root of the economic problems in transforming communist countries and how should they rectify it?
(2) Russia and the Czech Republic were the highly touted models of reform. How do their approaches to capital markets and privatization embrace Sach's views?
(3) What are some of the key causes of the collapse of the Russian and Czech models? Where do institutions come from? How should the international manager incorporate institutional, social, and political factors in assessing privatization policies and new capital markets?

16. Institution-Building, Network Restructuring and Innovation: A Post Communist Dilemma

[25 Oct]

Readings: Gerald A. McDermott, "Institutional Change and Firm Change in East-Central Europe: An Embedded Politics Approach," *Comparative Political Studies*, 37(2): 188-217.

Gerald A. McDermott, McDermott, Gerald, 2007, "Politics, Power, and Institution Building: Bank Crises and Supervision in East Central Europe," *Review of International Political Economy*, 14(2): 220-250.

Questions: (1) How do regulations and economic governance institutions shape innovation networks and bank strategies?
(2) What were the major differences between the Czech and Polish approaches to economic reform? Which country was slow? Which one had too much state?
(3) What can the Polish approach teach us about restructuring General Motors and managing the TARP in the US today?

17. Chinese Federalism and its Non-state Firms

[27 Oct]

Reading: Yingyi Qian and Chenggang Xu, 1993, "Why China's Economic Reforms Differ: The M-form Hierarchy and Entry/Expansion of the Non-State Sector," *Economics of Transition*, June.

Case: "Kelon (A): China's Corporate Dragon," HBS 9-701-053, Rev: July 9, 2002.

- Questions: (1) How did the system of economic and administrative organization differ between the USSR and China? How does this create unforeseen strengths in the Chinese model?
 (2) What is a non-state enterprise? Who are the owners? How are fiscal, banking, and firm monitoring interrelated?
 (3) What are the sources of Kelon's growth? How is it different from a state-owned firm?
 (4) Compare Kelon's strategies and relations to foreign firms with those of the SOEs.

18. Foreign Direct Investment and Institution Building in Africa

[1 Nov]

Case: "Botswana: A Diamond in the Rough," HBS 9-703-027, Rev: March 31, 2003.

- Questions: (1) Why would business opportunities tend to coincide with large social needs? What are the challenges to satisfying both?
 (2) What makes Botswana stand out from its neighbors in Africa, even other resource rich countries?
 (3) What did Botswana do to take advantage of the DeBeers investment? Is this just luck? What institutions became important?

III. MANAGING ACROSS BOUNDARIES: REVISITING GLOBALIZATION

19. The European Union – New Institutions and New Business Challenges

[3 Nov]

Reading: Handout on EU History, Actors, and Laws. **[Black Board]**

Case: "Common Agricultural Policy and the Future of French Farming," HBS Case 9-707-027.

- Questions: (1) What institutional actors have responsibility and authority for economic policy with the European Union? Whose rules matter?
 (2) Is the Common Agricultural Policy of the EU simply a subsidy to buy off French support? Is it unfair?
 (3) If you were a US trade representative or a UK politician, how would you feel about the CAP and France, and what actions would you take to make things different?

20. EU Accession – Linking Integration and Local Institutional Development

[8 Nov]

Case: "A Wider Europe: The Challenge of EU Enlargement," HBS 9-703-021, Rev: Jan 2, 2003.

- Questions: (1) Why should the EU expand membership? What are the benefits and costs for either side?
 (2) How would you view this as a French or Polish politician, business person, or worker.
 (3) Should one link market access to domestic institutional changes? Why or why not? And who should change?

21. NAFTA: Sovereignty, Regulation and Non-Market Strategy

[10 Nov]

Readings: Handout on NAFTA. **[Black Board]**

Allen Tackett, "NAFTA Chapter Eleven and Dispute Resolution: Is U.S. State Sovereign Immunity at Risk?" *Johns Hopkins Journal of American Politics*. 2001.

Gary Gereffi & Joonkoo Lee, "A Global Value Chain Approach to Food Safety and Quality Standards," Paper prepared for the Global Health Diplomacy for Chronic Disease Prevention. Feb 4, 2009.

Case: "FIRA: Confronting the Mexican Agricultural Crisis," HBS Case 9-304-032, rev: March 10, 2004.

- (1) How does NAFTA help and hurt Mexican agriculture?
 (2) Are food safety standards important in international trade? Who is responsible for their definition, implementation, and enforcement?
 (3) What do you think of the policy toward the Mexican farmers?

22. GROUP PRESENTATIONS

[15 Nov]

23. GROUP PRESENTATIONS

[17 Nov]

24. Can Supra-National Institutions Regulate Nations? Bombardier vs. Embraer

[22 Nov]

Reading: “Bombardier: Canada versus Brazil at the WTO,” HBS Case N9-703-022. Rev: Feb 20, 2003.

Questions: (1) Are industrial policy and free trade compatible strategies? What is the role of multilateral bodies, such as the UN, WTO or IMF in such issues? Should they have a role?
(2) Make the legal case for the positions of the Brazilian and Canadian governments at the WTO.
(3) Beyond the legal basis for the dispute, make the argument from the perspectives of Embraer and Bombardier to their respective governments that your firm should receive subsidies.
(4) Why do managers at firms like Bombardier and Embraer support a strong WTO (i.e., one that restricts their government’s ability to subsidize them)?

25. China vs. India: The New MNCs, Growth and Democracy

[24 Nov]

Readings: Yasheng Huang & Tarun Khanna, “Can India Overtake China?” Foreign Policy, pp. 74-81 (July-August 2003).

Yasheng Huang, “The Next Asian Miracle,” Foreign Policy, pp. 32-40 (July-August 2008).

Case: “Infosys technologies,” HBS Case 9-800-1003.

Questions: (1) Which is a better strategy: to attract FDI or build your own innovative capacities? What are the benefits and costs of each?
(2) Compare China and India: is one stronger or just different? Who has better technologies, institutions, and governance?
(3) How did the changes in the business and regulatory environments in India affect Infosys?
(4) How does Infosys differ from other companies in India? Did these differences help or hinder Infosys?

26. Back where we Started: Global Trade, Nation States, Worker Rights, and Textiles

[29 Nov]

Case: “Worker Rights and Global Trade: The US-Cambodia Bilateral Textile Trade Agreement,” HBS Case 9-703-034, Rev: Nov 4, 2004).

Questions: (1) Did Cambodia do the right thing signing the bilateral trade agreement with the United States?
(2) How should we portray the agreement? Is it a case of progress or protectionism? On what basis is it one or the other? Who matters more: US workers or Cambodians?
(3) Looking ahead, what should Cambodia do? What advice would you give to Minister Prasidh?
(4) Recall the first classes of this course and the case on Liz Claiborne and the MFA rules. Do we know how to manage open trade better than we did 20 years ago?

27. Review Session

[1 Dec]