



MGT 526: Doing Business in the Developing World

Fall 2008 Syllabus

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Course Overview

This course examines the challenges faced by for profit firms and non-profits operating in the developing world. The course is divided into two parts. The first part, comprising roughly two-thirds of the course, focuses on conducting business in environments with weak or deficient institutions, including corruption, political risk, and poor investor protection. The second part explores the role of the private sector in development, including both the contributions to and the costs imposed by multi-nationals, non-profits, and NGOs in developing countries. Specific policy issues to be discussed include low wages, environmental protection, resource depletion, social marketing and microfinance.

This course is intended to provide economics tools and frameworks that are likely to be of use in international business strategy. The goal is not to become experts about any one particular country or region; rather, we seek broad principles that can be applied across many countries, markets, and firms. We will use insights from economics research to analyze cases and real world examples from newspaper and magazine articles. The final project is designed to get students to integrate and apply the concepts learned in the course.

Course Structure

The course is divided into two major parts.

Part I: The Business Environment in Developing Countries (about two-thirds of the course)

Here we consider specific non-market issues that managers are likely to confront within many national environments. While these issues can appear all over the world, they are often acute in emerging markets.

- Poor access to information
- Weak contract enforcement
- Weak investor protections
- Weak intellectual property protections
- Corruption
- Political instability

For each issue, we will begin by characterizing the risks it poses and then analyze where and when it is likely to be important. We then consider, for each type of issue, important strategic responses that managers can take to successfully mitigate risks and realize opportunities.

Part II: The Private Sector in Development (about a third of the course)

Multinationals, non-profit firms, NGOs operating in developing countries can have a multitude of effects on their hosts, both positive and negative. This part of the course will examine a few specific contributions of the private sector in development, and a few specific policy issues that raise concern about the conduct of firms in developing countries. Examples of such contributions and concerns:

- Low wages and child labor
- Natural Resource Exploitation
- Environmental Protection
- Addressing market failures in credit through micro-finance
- Social marketing of new technologies

For all topics in both parts of the course, we will attempt to frame the problem or issue using simple economics models that clarify the incentives faced by relevant parties. We will then think about appropriate firm responses and strategies within that framework before stepping outside the model to think about other issues not covered by the framework. This course will in general rely less on case teaching and more on simple examples to elucidate a series of specific concepts. The final project will allow students to integrate and apply the concepts learned in the course.

Class Preparation

Readings:

There is no textbook for this course. For each topic, there will be a set of assigned readings, including cases, which will sometimes help develop the underlying concepts, but most often, are designed to provide “illustrative examples.” The readings for each session from the popular press should be viewed as “supplements” and the framework presented in class (typically on the lecture slides) the “main point”. It is essential that you read these materials prior to class. The readings are loaded onto the course pages in the classesv2 server.

Assignments:

I will hand out two homework assignments both to help guide your reading and to practice analytic concepts. The homework assignments will be graded. There will be a mid-term and a final exam, and one group project.

Assessment and Grading

The grade is made up of five components:

1. Midterm Exam (20%): The midterm will be a closed book/closed notes in-class exam, given during regular class time. It will consist of multiple choice and short answer questions, and will cover all lectures, cases, and readings from the first five weeks of the course. The midterm will place extra emphasis on the ideas drawn out in the homework assignments.

2. Final Exam (25%): The final will be given in the exam period but will be of similar length (1.5 hours) and format as the midterm. It will stress material from the second half of the course (i.e. post midterm), but some of the second half topics will build on first-half concepts, so the exam questions might hold you responsible for the intellectual content of the entire course.

3. Homeworks (15%)

4. Group Project (30%): This project will give you and your group a chance to explore an area of special interest. Your group's product will be a written report that analyzes a specific strategic question from the point of view of a particular firm or possibly some other type of organization such as an NGO or government agency. I would like each group to identify a specific "business opportunity" that they might like to implement in a developing country. The term "business opportunity" should be interpreted broadly – it could be an entrepreneurial venture, expansion of an existing western business model, or even a development project with no profit and only social goals. You are free to choose any firm or other entity of particular interest to your group, but of course the thrust of your analysis must integrate significant elements of non-market issues and strategies that we have discussed in the course.

A successful project will include relevant background information about the firm, the project/investment of interest, and the country or countries in which the action would take place. Analysis of the firm's possible actions should follow, based on the strategic concepts we have developed in the course. The "theoretical concept" should be supplemented by descriptive evidence from the news media and hard data. A very successful project will manage to explain why there is an opportunity that hasn't been taken advantage of in the past, and will have anticipated the non-market challenges that the opportunity will face and state the possible strategic responses to those challenges. The report should be approximately 10 pages in length (1.5 spaced, 12 point font size, ordinary margins) not including appendices, which may include up to 8 tables, graphs, and exhibits. The project will be due on the final day of class.

Key Project Dates

<u>Session 5</u>	Provide list of group members
<u>Session 17</u>	One-page Description (10% of project grade) Description will define firm or other organization, country or countries, and strategic question of interest. Description will also define sources of facts, data, etc that will allow your group to produce a careful and textured analysis.
<u>Session 26</u>	Final Report and possible oral presentation (90% of project grade)

4. Class Participation (10%): Attendance, preparation, and participation are essential. Obviously, you cannot participate if you are not present, so absences without legitimate excuses will lead to a reduced participation grade. Learning opportunities are maximized when all

students are actively engaged in class discussion. The subject matter of this class should naturally stimulate a lot of discussion, and I am eager to have an active dialogue. Particularly valuable types of participation will be those that move the discussion forward, often by adding useful facts to the discussion or by providing a new insight on the issue at hand. Requests to clarify concepts being presented are also encouraged of course. If you are confused by something, then other people are probably confused as well, and participation that seeks to clarify an idea will likely be valuable for the whole class. Please note that like many other economics classes, this class will sometimes discuss very precise concepts, methodologies or frameworks, and the questions I pose to you will have precise correct answers and potentially a bunch of imprecise or incorrect answers. Years of teaching experience has taught me that it is useful for the group if I clearly label the incorrect or imprecise answers as such during class. This will in no way be an under-handed effort to pick on you, and I will give you my honest opinion of your answer only for our collective pedagogical benefit. At times it may not be immediately clear why my preferred answer was more precise or how it was even significantly different from yours, but please keep in mind that my responses are only in the interest of science.

I reserve the right to call on people on occasion, and respond to multiple hands raised in such a way so as to create a more equitable distribution of “podium time” across students.

There will be ample opportunity for each of you to participate. Do not be discouraged if, after the first few classes, you have yet to participate much. If you feel that you are preparing well but not being called on enough, please let me know so that I can address the problem. And please realize that as long as you have invested quality time in the readings and worked through the questions, you will almost certainly have valuable contributions to make during the discussion.

I realize that many of you like taking notes on your laptops. To minimize distractions, please do not use your laptop during the class for any purpose other than those directly relevant for this course. No emailing, web browsing, chatting, social networking. I would like to let you use your laptop for note-taking, and in return I just ask that you turn off instant messaging, chatting, email and browsing features during the class period.

Course Webpage

Electronic copies of course materials, including lecture slides and homework assignments will be placed on the classesv2 site. The slides on classesv2 will not be complete, and you are required to attend class and take notes in order to fill in the incomplete slides based on class discussion. Some slides may be missing altogether, so there is no good substitute for attending and taking good notes.

Course Outline

Session 1: Overview: Challenges and Opportunities at the “Bottom of the Pyramid”

Sept 3

Readings:

1. C. K. Prahalad and Stuart Hart, “The Fortune at the Bottom of the Pyramid,” *Strategy & Business Issue* 26, <http://www.digitaldividend.org/pdf/bottompyramid.pdf>
2. “Brazil Joins Front Ranks of New Economic Powers,” *The Wall Street Journal*, May 13, 2008

Part I: The Business Environment in Developing Countries (about two-thirds of the course)

Session 2: Institutions

Sept 8

Readings:

1. Dani Rodrik, “Second Best Institutions,” NBER Working Paper 14050
2. “In India, Poverty Inspires Technology Workers to Altruism,” *The New York Times*, October 30, 2007
3. “Intimate Shopping,” *The New York Times*, December 23, 2007

Session 3: Implications of Weak Institutions for Firms

Sept 10

Readings:

1. Marleen Dieleman, “Transforming Indonesia’s Business Groups,” *The Jakarta Post*, January 18, 2008
2. Sargent, “Getting to Know the Neighbors: Grupos in Mexico”, *Business Horizons*, 2001.
3. Khanna and Yafeh (2007), “Business Groups in Emerging Markets: Paragons or Parasites?” *Journal of Economic Literature* XLV: 331-372 (June)

Session 4: Characteristics of the Business Environment: Networks, Market Failures

Sept 15

Readings:

1. Anand, Khanna, and Rivkin, “Market Failures”, Harvard Business School: Note, April 2000
2. “China, Filling a Void, Drills for Riches in Chad,” *The New York Times*, Aug 13, 2007.
3. “Iraqi Family Ties Complicate American Efforts for Change,” *The New York Times*, Sept 28, 2003.

Extra Readings:

4. World Bank, “Overview of World Development Report 2005: A Better Investment Climate for Everyone,” http://siteresources.worldbank.org/INTWDR2005/Resources/FNL_WDR_SA_Overview_6.pdf

Session 5: Contracts

Sept 17

Readings:

1. “Thais make a mess of their muddling,” *Financial Times*, June 22, 1993
2. “The Brave New World of General Motors,” *The New York Times*, Oct 26, 1997
3. Case: “Intergen and the Quezon Power Project,” HBS 9-799-057

Due: List of group members for group project.

Session 6: Expropriation Risk

Sept 22

Readings:

1. Wells, Louis and Eric Gleason, “Is Foreign Infrastructure Investment Still Risky?” *Harvard Business Review* Sept-Oct 1995, Reprint 95511
2. Bertrand, Mehta, and Mullainathan, “Ferretting Out Tunneling: An Application to Indian Business Groups”, *Quarterly Journal of Economics*, February 2002

Session 7: Intellectual Property Rights and the Knowledge Economy

Sept 24

Readings:

1. “India Stands Firm Against Coca-Cola,” *The New York Times*, September 5, 1977
2. “Chinese Exporters Stumble over IP,” *Financial Times*, July 25, 2003
3. “Rich Vein of Talent Makes China Potential R&D Hothouse,” *Financial Times*, April 19, 2002
4. “Universities Branch Out,” *Newsweek* Aug 21-28, 2006 (by Richard Levin)

Extra Reading:

1. Zhao, “Doing R&D in Countries with Weak IPR Protection: Can Corporate Management Substitute for Legal Institutions?”, NYU, unpublished manuscript, July 2004

Sessions 8 & 9: Corruption: Costs and Patterns

Sept 29, Oct 1

Readings:

1. Rose-Ackerman, *Corruption and Government: Causes, Consequences, and Reform*, 1999, Chapter 2
2. “The Road to Hell is Unpaved,” *The Economist*, December 19, 2002

Extra Reading:

3. Gray and Kaufmann, “Corruption and Development” *Finance and Development*, March 1998

Sessions 10 & 11: Firm Strategy in Corrupt Environments

Oct 6, 8

Readings:

1. Fisman, "Estimating the Value of Political Connections," *American Economic Review*, Sept 2001
2. Siegel, "Contingent Political Capital and International Alliances: Evidence from South Korea," *Administrative Science Quarterly*, forthcoming
3. Desbordes and Vauday, "The Political Influence of Foreign Firms in Developing Countries," mimeo, University of Paris I Pantheon -Sorbonne

Extra Reading:

- a. Mobarak and Purbasari, "Corrupt Protection for Sale to Firms," manuscript, University of Colorado at Boulder

Session 12: Synthesis and Review

Oct 13

Readings:

1. "Power Trip" <http://www.powertriptomovie.com/trailer.html>
2. Khanna, Palepu and Sinha, "Strategies that Fit Emerging Markets," *Harvard Business Review* 2005

Session 13: MIDTERM EXAM

Oct 15

Session 14: Political Risk

Oct 27

Readings:

1. "Ex-Leader Stole \$100 Million From Liberia," *The New York Times*, September 18, 2003
2. "A High-Tech Fix for One Corner of India," *The New York Times*, December 27, 2002
3. "Smelling of Moses," *The Economist* January 13, 1996

Extra Readings:

1. Mobarak, "Democracy, Volatility and Development," *The Review of Economics and Statistics*, May 2005

Session 15: Government Structure and Macroeconomic Credibility

Oct 29

Readings:

1. Case: "Power to the States: "Fiscal Wars" for FDI in Brazil," HBS 9-701-079
2. "On the Rocks," *The Economist*, March 7, 1998

Extra Readings:

1. Lipscomb and Mobarak, "Decentralization and Water Quality Spillovers" manuscript, Yale University

Part II: The Private Sector in Development

A. Multinational Conduct in Developing Countries

Session 16: Exploiting Natural Resources

Nov 3

Readings:

1. "Tackling the Oil Curse," *The Economist*, September 25, 2004
2. Note on Conflict Diamonds: Why Are Civil Wars, Like Diamonds, Forever?" HBS 9-702-027
3. Fischer, Carolyn (2004). "The Complex Interactions of Markets for Endangered Species Products," *Journal of Environmental Economics and Management* 48: 926-53

Session 17: Exploiting the Environment

Nov 5

Readings:

1. December 12, 1991 Memo to World Bank Staff from Larry Summers, <http://www.whirledbank.org/ourwords/summers.html>
2. "Irate and Afraid, Poor Nations Fight Efforts to Use Them as Toxic Dumps," *New York Times*, July 5, 1988

Due: One-page overview of your group project

Session 18: Low Wages & Labor Issues

Nov 10

Readings:

1. "Chinese Girls' Toil Brings Pain, Not Riches," *The New York Times*, October 2, 2003
2. "Grinding the Poor," *The Economist*, September 27, 2001
3. Brown, Deardorff, and Stern, "The Effects of Multinational Production on Wages and Working Conditions in Developing Countries," NBER Working Paper #9669, 2003

Session 19: Tension between Intellectual Property Rights and Human Rights: HIV and Pharmaceutical Companies

Nov 12

Readings:

1. Case: "Cipla" HBS 9-503-085
2. "U.S. Steps up Effort Against Drug Imports," *The New York Times*, January 24, 2004
3. Maskus (2003), "Ensuring Access to Essential Medicines: Some Economic Considerations", *Special Law Digest: Health Care Law* 291: 9-25, July
4. Barder, Kremer and Williams, "Advance Market Commitments: A Policy to Stimulate Investment in Vaccines for Neglected Diseases," *Economists' Voice February 2006*
<http://www.bepress.com/cgi/viewcontent.cgi?article=1144&context=ev>

B. Private Sector Contributions to Developing Countries

Session 20: Poverty Reduction and Human Development

Nov 17

Readings:

1. “Bipartisan Calls for New Federal Poverty Measure,” *The New York Times*, September 2, 2008
2. “Putting a Plague in Perspective,” *The New York Times*, January 1, 2008.
3. “Ending Famine, Simply by Ignoring the Experts,” *The New York Times*, December 2, 2007

Session 21: Social Marketing: How do you get People in Developing Countries to adopt your Product?

Nov 19

Readings:

1. “Warning: Habits May be Good for You,” *The New York Times* July 13, 2008.
2. *The Handwashing Handbook*, Sections 2-4 (pp: 21-48),
http://www.globalhandwashing.org/Publications/Handwashing_Handbook.pdf

Sessions 22: Credit Market Failures and Micro-credit

Nov 24

Readings:

1. Abhijit Banerjee, “A Prize for a Brave Man,” *The Executive Times* November 2006
2. Aleem, “Imperfect Information, Screening, and the Costs of Informal Lending: A Study of a Rural Credit Market in Pakistan,” *World Bank Economic Review* 4(3): 329-349
3. Chapter 1 (“Rethinking Banking”) of Armendariz de Aghion and Morduch (2005), *The Economics of Microfinance*
4. Morduch (1999), “The Microfinance Promise,” *Journal of Economic Literature* 4: 1569-1614.

Session 23: Evaluating the Impacts of Microfinance

Dec 1

Readings:

1. Chapter 8 (“Measuring Impacts”) of Armendariz de Aghion and Morduch (2005), *The Economics of Microfinance*
2. “Power to the People,” *The Economist*, March 9, 2006
3. Cohen, “What Works: Grameen Telecom’s Village Phones,” *World Resources Institute Digital Dividend Study* June 2001

Session 24 and 25: Student Presentations of Group Projects

Dec 3 and 8

Session 26: Summary and Review

Dec 10

Readings: Review course materials.

Due: Group project.

Final Exam