



MGT 526/GLBL 526:

Economic Strategy for Doing Business in Developing Countries

Spring 2014 Syllabus
MW 1-2:20pm, Evans 2200

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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
- Social marketing of new technologies
- Addressing market failures in credit through micro-finance

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 also be a **mid-term exam** and a **final group project**.

Assessments and Grading

The grade is made up of four components:

1. Midterm Exam (25%): 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 half of the course.

2. Homeworks (20%): Two assignments.

3. 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 or entity, 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 Deadlines

<u>Session 6</u>	Provide list of group members
<u>Session 10</u>	One-page Description (15% 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. Professor Mobarak will meet one-on-group to provide feedback (Feb 20)
<u>Session 20</u>	Five-page report draft (35% of project grade) Professor Mobarak will meet one-on-group to provide feedback (April 22)
<u>Session 25, 26</u>	Final Report and Oral Presentation (50% of project grade)

4. Class Participation (25%): 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. The TA will help me keep track of class participation in a structured manner.

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 non-class-related browsing features during the class period. Please remember that your browsing and chatting can be distracting for others around you, even if you feel that you can multi-task.

Course Webpage and Posted Materials

Electronic copies of course materials, including reading assignments, lecture slides and homework assignments will be placed on the classesv2 site.

Please note that the slides posted 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 the classes and taking good notes.

Course Outline

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

Session 1: Introduction to Class. Challenges and Opportunities in Developing Countries

Jan 13

Readings:

1. "Brazil Joins Front Ranks of New Economic Powers," *The Wall Street Journal*, May 13, 2008
2. "Power Problems Threaten Growth in India," *The Wall Street Journal*, January 3, 2012
3. "West African Skies Beckon More Carriers," *The Wall Street Journal*, December 29, 2011
4. "How the U.S. Lost out on iPhone Work," *The New York Times*, January 21, 2012

Session 2 and 3: Introduction to Institutions

Jan 15 and 17

Readings:

1. "The Secret Document that Transformed China," NPR Planet Money Blog, January 20, 2012
2. Dani Rodrik, "Second Best Institutions," NBER Working Paper 14050
3. "In India, Poverty Inspires Technology Workers to Altruism," *The New York Times*, October 30, 2007
4. "Intimate Shopping," *The New York Times*, December 23, 2007

Session 4: Microfinance (guest lecture by Prof. Tony Sheldon)

Jan 22

Readings:

1. "Millions for millions: This year's nobel peace prize winner and some high-tech entrepreneurs are competing to provide credit to the world's poor," *The New Yorker* October 30, 2006
2. Chapter 1 ("Rethinking Banking") of Armendariz de Aghion and Morduch (2005), *The Economics of Microfinance*
3. "Small Loan, Big Snag," *The Financial Times*, December 2, 2010
4. Key, Lahaye and Koning "Responsible Finance: Putting Principles to Work," CGAP Focus Note No. 73, September 2011

Sessions 5 and 6: Market Failures and Implications of Weak Institutions for Firms

Jan 27 and Jan 29

Readings:

1. "Billionaires' Rise Aids India, and the Favor is Returned," *The New York Times* July 26, 2011
2. Marleen Dieleman, "Transforming Indonesia's Business Groups," *The Jakarta Post*, January 18, 2008
3. Khanna and Yafeh (2007), "Business Groups in Emerging Markets: Paragons or Parasites?" *Journal of Economic Literature* XLV: 331-372 (June)
4. Anand, Khanna, and Rivkin, "Market Failures", Harvard Business School: Note, April 2000

5. "Iraqi Family Ties Complicate American Efforts for Change," *The New York Times*, Sept 28, 2003.
6. *Extra Reading*: 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

Due on Jan 29: List of group members for group project (at the beginning of class)

Session 7 and 8: Growth, Human Development and Poverty: Models, Methods and Data
Feb 3 and 5

Readings:

1. Debraj Ray, "Development Economics," Princeton University Press, Chapter 3 (pp 47-93)
2. "Bleak Portrait of Poverty is Off the Mark, Experts Say," *The New York Times*, November 3, 2011.
3. "Putting a Plague in Perspective," *The New York Times*, January 1, 2008.
4. "Ending Famine, Simply by Ignoring the Experts," *The New York Times*, December 2, 2007

Session 9: Contracts

Feb 10

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. "Venezuela's 'Shell' Game: Hugo Chavez Turns to Big Oil," *Forbes.com*, February 11, 2009, Commentary by Raymond Fisman
4. Case: "Intergen and the Quezon Power Project," HBS 9-799-057

Session 10: Expropriation Risk

Feb 12

Due on Feb 12: One-page overview of group project (at the beginning of class)

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
3. Strobel, J and A. van Benthem, "Resource Extraction Contracts under Threat of Expropriation: Theory and Evidence," mimeo, Stanford University.

Session 11 and 12: Intellectual Property and the Tension between Property Rights and Human Rights

Feb 17 and 19

Due on Feb 19: Homework 1 (at the beginning of class)

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. “Entrepreneur’s Rival in China: The State,” *The New York Times*, December 7, 2011
5. “Universities Branch Out,” *Newsweek* Aug 21-28, 2006 (by Yale President Levin)
6. “U.S. Steps up Effort Against Drug Imports,” *The New York Times*, January 24, 2004
7. 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>
8. *Extra Reading*: Zhao, “Doing R&D in Countries with Weak IPR Protection: Can Corporate Management Substitute for Legal Institutions?”, NYU, unpublished manuscript, July 2004

Feb 20: one-on-one meetings with each group about 1 pagers

Sessions 13 and 14: Corruption: Costs and Patterns

Feb 24 and March 24

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
3. “Telecom Scandal Plunges India Into Political Crisis,” *The New York Times*, December 13, 2010
4. *Extra Reading*: Gray and Kaufmann, “Corruption and Development” *Finance and Development*, March 1998
5. *Extra Reading*: Shyam Sunder, “Changing Expectations as a Source of and Remedy for Corruption,” *J. of Public Budgeting, Accounting and Financial Management*, 17(3): 420-423, Fall 2005.

Session 15: Firm Strategy in Corrupt Environments

March 26

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
4. *Extra Reading*: Mobarak and Purbasari, “Corrupt Protection for Sale to Firms,” manuscript, University of Colorado at Boulder

Session 16: Catch-up and Midterm Review

March 31

Readings:

1. Khanna, Palepu and Sinha, "Strategies that Fit Emerging Markets," *Harvard Business Review* 2005

Session 17: MIDTERM EXAM

April 2

Session 18: Political Risk

April 7

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 19: Government Structure and Macroeconomic Credibility

April 9

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**Session 20: Exploiting the Environment**

April 14

Due: Five-page draft of group project (at the beginning of class)

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

Session 21: Exploiting Natural Resources

April 16

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. "China, Filling a Void, Drills for Riches in Chad," *The New York Times*, Aug 13, 2007.
4. Fischer, Carolyn (2004). "The Complex Interactions of Markets for Endangered Species Products," *Journal of Environmental Economics and Management* 48: 926-53

Session 22: Low Wages & Labor Issues

April 21

Readings:

1. “Chinese Girls’ Toil Brings Pain, Not Riches,” *The New York Times*, October 2, 2003
2. “Garment Factories, Changing Women’s Roles in Poor Countries,” *The New York Times*, July 21, 2010
3. “Grinding the Poor,” *The Economist*, September 27, 2001
4. Brown, Deardorff, and Stern, “The Effects of Multinational Production on Wages and Working Conditions in Developing Countries,” NBER Working Paper #9669, 2003

April 22: One-on-one meetings about 5-pagers

Session 23: Habits and Social Marketing

Apr 23

Due: Homework 2 (at the beginning of class)

Readings:

1. “Warning: Habits May be Good for You,” *The New York Times* July 13, 2008.
2. G. Bryan, S. Chowdhury and A. M. Mobarak “Seasonal Migration and Risk Aversion: Experimental Evidence from Bangladesh”
3. Esther Duflo, “Social Experiments to Fight Poverty”, video on TED.com
http://blog.ted.com/2010/05/03/social_experiment/

Session 24: Credit Market Failures

Apr 28

Readings:

1. 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
2. Chapter 8 (“Measuring Impacts”) of Armendariz de Aghion and Morduch (2005), *The Economics of Microfinance*
3. “The Role of Microfinance,” *New York Times* December 28, 2009, 2:28 pm, Nicholas Kristof blog post by Banerjee, Duflo and Karlan
4. “Microcredit Pioneer is Ousted, Head of Bangladeshi Bank Says,” *The New York Times*, March 2, 2011.
5. “Microlenders, Honored With Nobel, Are Struggling,” *New York Times* January 6, 2011
http://www.nytimes.com/2011/01/06/business/global/06micro.html?pagewanted=2&_r=1&hp

Session 25 and 26: Student Presentations of Group Projects

April 30 and May 5

Due on May 6: Final report and presentations of group projects