

**University of Pennsylvania  
The Wharton School  
Department of Management**

***SYLLABUS***

**MGMT 209** (Politics of the Multinational Firm)

**Spring 2006**

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TTH1:30-3:00 in SH-DH 1201  
Office Hours:  
MT11:00-12:00  
and by appointment

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**Objectives:**

This course explores the intersection of international strategy and international relations to help students to identify and introduce sustainable and profitable business strategies in sectors with a history of or strong potential for ongoing political intervention. We will examine the identity, background, incentives and operations of relevant national and international political actors; and the process by which they generate policies that can adversely or favorably influence firm profitability. Corporations whose success depends crucially on a sophisticated analysis of the contending forces in the international political arena and an ability to influence policy outcomes will serve as examples of the first-order strategic importance of incorporating the political environment in multinational strategy formulation.

**Outline**

We begin with a brief introduction into the course and into the evolution of models of economic development from theories of capital shortage to the components of a good investment climate. The first half of the course examines why we see so few countries adopting these components. The second half shifts the focus of attention to the strategic choices that multinational corporations make in a world characterized by imperfect investment climates. Throughout the course, we rely largely on a case-based approach using the experiences of actual firms and governments drawn from the widest possible set of geographic regions. As we proceed through the analysis of these cases, we will incorporate in our discussions real time developments at the intersection of international relations and international strategy such as trade disputes, financial crises, acts of political or regulatory expropriation of assets or revenue streams, international coordination by governmental and non-governmental organizations for economic, political, military or social purposes.

Specific cases we consider in the first half of the course begin in national policymaking institutions and then expand outwards to intergovernmental organizations, international law and complex public-private-social partnerships.

*Why is regulatory environment for the Mexican water company Aguakan designed so poorly?*

*Why does a seemingly well-designed regulatory system in Chilean electricity still encounter so many problems?*

*Does federalism help or hurt Brazil in its quest to develop? Does federalism help or hurt Dell?*

*What sort of renegotiation should foreign investors in Argentine telecommunications services and the government be willing to accept after the financial and banking crisis of 2001-02?*

*Can a U.S. firm depend upon NAFTA's Chapter 11 provision to discipline Mexican political opposition to the development of a hazardous waste facility?*

*Can Turkish cotton growers rely on international organizations to overcome European political demands for protectionism?*

*Over what time horizon should managers of Monsanto forecast regulatory convergence between the EU and US in genetically modified organisms? Can the WTO accelerate this convergence?*

*How should Exxon-Mobil respond to the NGO litigation under the Alien Tort Claims Act?*

*How can pharmaceutical firms / entertainment companies protect their intellectual property in global markets while responding to the challenge of AIDS?*

*How should De Beers respond to the challenge posed by "conflict diamonds?"*

*How should oil companies respond to NGO demands to 'Publish What You Pay'?*

The second half of the course kicks off with an analysis of the widely cited text "The Fortune at the Bottom of the Pyramid" in an attempt to ascertain why we do not see more in the way of public-private partnerships such as those we surveyed before Spring Break. We will focus on a broader set of institutional and contextual factors than those identified by CK Prahalad and use the case of electricity generator AES's investment in the Republic of Georgia to highlight the dangers of underweighting local political forces. We will then build upon this foundation case to examine the strategic choices of multinational corporations in imperfect investment climates over a series of cases which again span national and international policymaking structures. As we review these cases, we will make use of custom software developed by the AI West Learning Lab to identify likely policy outcomes and the means to influence those policy outcomes.

*How should BRE-X proceed in the development of its Indonesian gold mine when threatened with de facto expropriation?*

*How can the industry association for US medical instruments manufacturers best influence the Japanese policymaking process?*

*How can Echelon (US) influence the process of technical standard setting in the EU?*

*Does Embraer support or oppose WTO intervention in their dispute with Canadian aircraft manufacturer Bombardier?*

*How can creditors maximize their returns on their investments in Thai Petrochemical? Does the intervention of multilateral agencies in support of bankruptcy reform help their interests?*

Students will then present their team papers over three class sessions followed by two wrap-up cases which conclude the course

*Which US oil firm chose the right entry strategy for Russia?*

*What is the appropriate strategy for a foreign entrant in the Chinese telecommunications equipment market?*

**Assessment:**

*KEY DATES*

Thursday, January 12 5:00pm – Sign-ups for Discussion Question Posts Open in eRoom

7am on date of classes for which you have signed up – Upload discussion question posts to your assignment submissions folder in eRoom

Friday, March 3 5:00pm – Post team paper outlines to team folders in eRoom

Tuesday, March 14 in class – Assignment of team paper presentation dates

Thursday, April 6 – Thursday, April 13 in class – Team paper presentations (any presentations should be uploaded to team presentation folder in eRoom)

Thursday, April 13 in class – Assignment of peer reviews for team presentations

Thursday, April 20 Noon – Post peer reviews to assignment submissions folder & email them to reviewed team

Wednesday, May 3 9am – Post final version of team papers to team paper folder

*CONTENT*

Regular attendance is required. Students who fail to regularly attend the class will not receive course credit. Assessment for regularly attending students will be based on individual preparation of:

- (1) discussion questions from two different cases including one that employs a GIST scenario (2 X 15% = 30%)
- (2) team paper outline (1 X 5%)
- (3) in-class team presentation of your team paper draft (1 X 10%)
- (4) team (**NO** team > 4 members) paper (1 X 30%)
- (5) peer review of another team's presentation (1 X 5%)
- (6) overall class participation including but not limited to discussion of (1) (20%)

Note that there is NO MIDTERM OR FINAL EXAM.

These six components are discussed in more detail below.

(1) You should address in 2-3 single-spaced pages the *discussion question(s) in bold italics* for a given class. You are free to discuss the questions with your classmates or peers but you must each write up your submissions independently. The post should not overly emphasize facts from the readings but rather draw upon relevant material in the readings.

In the first half of the course, posts will be more policy oriented and focus on the drivers of observed imperfections in public policy outcomes. These posts should

- a) Identify the ideal policymaking structure for the investor in the case
- b) Explain why, in this case, we do not observe such a structure

- c) Offer insights into the potential to improve the status quo and the difficulties in doing so

In the second half of the course (and in your team papers), the focus shifts to multinational actors operating in an imperfect policymaking structure. Your posts in the second half of the course should

- a) Construct a scenario using the Geopolitical Influence and Strategy Tool (GIST) that represents the current national or international decisionmaking structure and likely policy outcome as portrayed in the case;
- b) Analyze the strengths and weaknesses of at least two feasible strategic options to improve upon that policy outcome based on
  - i. an understanding of the preferences of the key actors in the case and their intensity;
  - ii. the national or international decisionmaking structure that leads to the translation of these preferences into policy outcomes; and
  - iii. the likely reactions of key market and political actors to any strategic choice.
- c) Make a recommendation based on that analysis of what the firm/manager should do. Make sure that you help the reader understand the assumptions or weights that led you from your status quo scenario and your analysis of the strengths and weaknesses of options to this particular recommendation. Providing an updated GIST scenario may be helpful here.
- d) Incorporate within your analysis a refutation of the alternative strategies
- e) Succinctly summarize the key takeaway of the case (i.e., what lessons can other firms facing similar challenges take from your analysis and recommendations?)

Both of your posts should be formatted as with 1” margins in a 12-point times new roman font. Your submissions should be received before 7am on the date of the case discussion. You must sign up on web café on a first come first serve basis after the second class for your case write-ups.

(2) Each team should post a 1-2 page outline of their paper by Friday, March 3, 2006. The outline should highlight the key components of the paper’s structure as detailed below in (5).

(3) Each team will be asked to present their paper. As you will face relatively tight time constraints, please think carefully about the organization of the material, the links to topics covered in class and the “takeaway” from your case. Based on your presentation, you will receive written feedback from your peers (see point 4) and from me regarding points that you should address or improve upon prior to submission of your final paper. The dates of the presentations are Thursday, April 6 – Thursday, April 13, 2006. Specific dates will be assigned to each team by Tuesday, March 14, 2006.

(4) After the completion of the last team presentation each student will be randomly assigned a presentation on which they will write up a review. This 1-2pp. single spaced review should

- 1) Briefly summarize the substance of the presentation (1 paragraph)
- 2) Comment on the strengths of the presentation (1-2 paragraphs)
- 3) Comment on the weaknesses of the presentation **INCLUDING HELPFUL SUGGESTIONS FOR IMPROVEMENT OF THE MATERIAL** (1-2 paragraphs)

You should turn in one copy to me and one copy to the team on whose presentation you are commenting. These reviews should prove useful in making revisions on the team papers. Peer reviews are due on or before the last day of class (Thursday, April 20 2006)

(5) Teams consisting of **NO MORE THAN FOUR** students (preferably combining individuals from Wharton and the college) will identify a corporation that faced a dilemma relating to the intersection of international relations and international strategy (examples below) and draft a 12-18 page paper on the problem faced and strategy pursued by its management. In your team’s own words, you will identify and discuss the general geopolitical problem, provide sufficient detail on the specific context, assess the contending forces faced by the firm, detail the company’s strategy (or strategic options)

and assess the choices made (or make a recommendation). Papers should be written in a clear and concise manner and integrate material from multiple primary and secondary sources including local press accounts, company documents, local analysis, .... Text should be double-spaced with 1” margins in a 12-point times new roman font. Referemces, tables, charts and figures do not count towards the page limit but should be used only when they complement the text.

The six broad types of dilemmas typically examined by students along with *examples from previous classes of submitted papers are (note that these topics may be reused)* are:

- 1) Responding to corruption in national politics  
*Corruption at Skoda; Raytheon and in Brazilian air traffic control (3); Citibank in Mexico (3); Cogentrix (1) and KFC (1) in India; Mineral extraction in the Congo; The creation of a national car in Indonesia (2); Freeport McMoRan (2), BCL, B&W and Triton in Indonesia; IBM in Argentina (7); Bank of New York (2); Nomura (1) and Daiwa (1) in Japan; Shell (1) and PAL (2) in the Philippines; Bofors in India; The Salt Lake Organizing Committee in the US; Black Creek in Romania; Shell's(7) and Chevron in Nigeria; Joint ventures in the Russian oil industry; Norilsk Nicekl in Russia; and POSCO in Korea*  
*Developing a corporate code of conduct at British-American Tobacco (1) and GE (1)*
- 2) Mitigating political and regulatory risk in politically salient investments  
*Enron's renegotiation of power contract in India (5) or CalEnergy in Indonesia (1) or HUBCO in Pakistan (4)*  
*Enron's purchase of Wessex water (UK) as a stepping-stone (2) to global expansion in water Lucchetti (Chile) entry into Peru and the conflict between municipal and national Government*  
*Privatization of Yukos (oil) in Russia, Compania Peruana de Telefonos, banking sector in Czech Republic, telecommunications and electricity in India, water (2), telecommunications (2), electricity and oil in Argentina, Companhia Vale do Rio Doce [Brazil], Telebras [Brazil] (2), Senegal Telecom; Japanese National Railway, MOL [Hungary], MATAV [Hungary], KamAz [Tartarstan], Air France , Aerospatiale, Telefonica de Peru, Camisea Gas fields (Peru), SIPSEAS (Peruvian fishmeal), Bulgarian Telecom and France Telecom*  
*Push for deregulation by MCI Worldcom's in Hong Kong (1) or Nippon Oil in Japan (1)*  
*Entry of Toys R Us in Japan; News Corp in Italy; Skymark Air in Japan; Coca-Cola in Vietnam and Russia; BBZ in Latin America; and Microsoft (1) and KFC (1) in India*  
*Pakistani government's use of IPPs in water industry*  
*Reform of ECOPETROL in Colombia*  
*BP Amoco and Caspian Sea oil*  
*McDonald's, Sprint, Morgan Stanley, GM, Polaroid, Linklater, AIG and Kodak's entry strategy into China*  
*Mobil's contractual negotiations over Camisea oil/gas field in Peru*  
*Chinese bailout of GITIC*  
*The China Singapore Industrial Park*  
*A. Generali's attempted takeover of Migdali insurance (Israel)*  
*BSCH management of Chilean pensions*
- 3) Responding to an international trade or investment dispute or the formation/extension of a new free trade agreement  
*US vs. EU dispute over EU Banana Regime from the perspective of Chiquita (2) or Fyffes (1)*  
*MCI vs. Telefonos de Mexico dispute over WTO telecommunications accord*  
*Estonian shippers and the Estonia-Finland Shipping dispute*  
*Toyota's response to U.S. pressure to increase purchases of U.S. parts and to the Indonesian national car policy*

- Bethlehem Steel's, Nippon Steel's and Weirton Steel's response to surge in steel imports*  
*Response of GM (1), Ford/VW (1) and local packaged good firms to the creation of*  
*MERCOSUR; GM (1) and Du Pont (1) to NAFTA (1); Toyota to AFTA (1); Nissan (1)*  
*and KKR (1) to EU (1); Hyundai (1) to ASEAN*  
*Goodyear's strategic response to union led court case challenging NAFTA*  
*Ethyl's claim under NAFTA that the Canadian government expropriated their market (2)*  
*Merrill Lynch's adoption of a European portfolio strategy replacing industry portfolios (2)*
- 4) Responding to an international liquidity or solvency crisis;  
*Hyundai's, LVMH's, Korean Air's, HSBC's, Indofood's, ChoHung Bank's, Siam Commercial*  
*Bank, Far East Bank & Trust [Philippines], P&G (2), Hyundai (2), Kia (2), LTCB, GE*  
*Capital, AAL [Indonesian palm oil manufacturer], Citibank, GM/Daewoo and*  
*Raytheon's restructuring strategies in aftermath of East Asian crisis*  
*Should LTCM have been bailed out or liquidated? (4)*  
*Ripplewood's takeover of LTCB*  
*Lehman Brothers' strategic response to the Russian debt default*
- 5) Intellectual property protection, standards or other international legal issues  
*InterTrust's strategy to minimize the losses from electronic piracy in emerging markets*  
*Snaptrack, privacy and politics on three continents*  
*Fiat and web sales of automobiles in the EU*  
*AOL and the debate surrounding the taxation of internet commerce*  
*Merger of Ambev*  
*The EU investigates the Boeing/MD Merger (3) and Daimler-Chrysler merger*
- 6) Human rights concerns or unilateral / multilateral sanctions; or other global values  
*Response to US sanctions against Iran by TOTAL (2); against Cuba by Baltimore Orioles (1)*  
*and ATT (1);*  
*UNOCAL's response to threat of court action and sanctions over Burmese operations (2) and*  
*Afghan operations*  
*Response to protests by non-governmental organizations of Shell in Nigeria (2); Eurogold in*  
*Turkey (1); Talisman in Sudan (1); General Electric in South Africa (1); Levi Strauss in*  
*China (2); BP in Colombia; Nike in Pakistan (1), Vietnam (6) and Indonesia (4); Pepsi in*  
*Burma (2); Walmart in general and Enron in India (1) and Mexico (1)*  
*Merck and river blindness*  
*Hughes in China*  
*Lockheed Martin and arms sales to the UAE*  
*Swiss banks and Nazi gold (3)*  
*Glaxo Wellcome and bioprospecting in the Amazon*  
*Political strategy of NFTC in opposing state-sponsored sanctions against firms operating in*  
*Burma*

Scenarios other than those described here may be pursued with the prior consent of the instructor.

Nine basic components should be found in the submitted 12-18 page paper. Page lengths described for each component are suggestions of a normal distribution across sections only and should not be considered binding if your topic merits relatively more/less detail in a given section. However, the complete paper must fall within the page limit and formatting requirements described above.

- 1) An unnumbered title page that identifies all team members and contains an executive summary

- 2) An introduction that identifies a specific company and a specific strategic choice that it faces in a specific policymaking environment that clearly involves a geopolitical dimension (1 page);
- 3) An elaboration upon the geopolitical problem in a general context but with examples or emphasis upon the particular country and industry setting that you have chosen (2-3 pages);
- 4) A brief background on the company and context that you have chosen highlighting facts relevant to the case discussion (2-3 pages);
- 5) Construct a scenario using the Geopolitical Influence and Strategy Tool (GIST) that represents the current national or international decisionmaking structure and likely policy outcome (online with Figures incorporated in your manuscript);
- 6) Analyze the strengths and weaknesses of at least two feasible strategic options to improve upon that policy outcome based on (4-6 pages)
  - i. an understanding of the preferences of the key actors in the case and their intensity;
  - ii. the national or international decisionmaking structure that leads to the translation of these preferences into policy outcomes; and
  - iii. the likely reactions of key market and political actors to any strategic choice.
- 7) Make a recommendation based on that analysis of what the firm/manager should do. Make sure that you help the reader understand the assumptions or weights that led you from your status quo scenario and your analysis of the strengths and weaknesses of options to this particular recommendation. It should be clear to the reader of this section why you did not choose the second best strategic option. (1-2 pages).
- 8) Succinctly summarize the key takeaway of the case (i.e., what lessons can other firms facing similar challenges take from your analysis and recommendations?) (1 page)
- 9) A list of references that includes both secondary (newspaper or magazine) **AND** primary (company newsletter, press release, annual report, company internet site or conversations with individuals familiar with the corporate response to the strategic choice) sources. Please provide enough information so that a reader can easily find the reference.

Examples of exceptional papers will be provided on Wharton Web Café.

**PLEASE NOTE THAT ANY QUOTATIONS OF LONGER THAN A PHRASE MUST BE EXPLICITLY NOTED IN THE TEXT. INSUFFICIENT ATTRIBUTION TO EXTENDED QUOTATIONS FROM EXTERNAL SOURCES WILL RESULT IN FORMAL CHARGES OF PLAGIARISM TO THE OFFICE OF STUDENT CONDUCT.**

Final papers are due on or before 9:00am Wednesday, May 3 2006.

(6) Your in-class discussion including but not limited to follow-ups to your written submissions, discussion of the submissions of others, and participation in debates or role-plays will also be evaluated.

### **Feedback**

I encourage anyone with specific or general questions regarding the course structure, content or discussions to drop by during my office hours or by appointment or to contact me via email or phone. There will be a detailed mid-course evaluation whose results I will present in class. If desired, we can form a quality circle to anonymously gather additional feedback.

## 1. Course Introduction (January 10)

### Readings

Note on Rules (HBS Case 9-799-013)

Managing Risk in an Unstable World (Ian Bremmer, HBR OnPoint #1126)

Mastering Management (Stephen Kobrin, Financial Times, 3/15/96, p. 13)

### Discussion Questions

1. What role do national and political institutions play in multinational strategy?
2. What are economic and financial models of political risk missing?
3. Are institutions to govern international economic activity keeping pace / surging ahead / falling behind the expansion of that international economic activity?
4. What are the implications of this trend for multinational managers?

## 2. The Evolving Frontier of Economic Development: The Components of “A Good Investment Climate” (January 12)

### Reading

Overview of World Development Report 2005: A Better Investment Climate for Everyone

[http://siteresources.worldbank.org/INTWDR2005/Resources/FNL\\_WDR\\_SA\\_Overview6.pdf](http://siteresources.worldbank.org/INTWDR2005/Resources/FNL_WDR_SA_Overview6.pdf)

(accessed 11/28/05)

### Discussion Questions

1. What does the World Bank mean by investment climate? Would you add any components to their definition? If so, what would you add and why?
2. Why should we care about foreign countries' investment climate?
3. What are the difficulties that countries encounter in improving their investment climate?
4. *What can be done to overcome these difficulties?*
  - a. *By national governments?*
  - b. *By national firms?*
  - c. *By foreign governments?*
  - d. *By foreign firms?*
  - e. *By multilateral or intergovernmental actors?*
  - f. *By NGOs?*

## 3. Regulatory Failure I: Cancun's Water System (January 17)

### Reading

#### *Background*

The Private Sector in Water and Sanitation – How to Get Started (Penelope Brook Cowen, World Bank Public Policy for the Private Sector Note No. 126, Sept. 1997)

Water Concessions: Who Wins, Who Loses and What to Do About It (Caroline van den Berg, World Bank Public Policy for the Private Sector Note No. 217, Oct. 2000)

*Case Discussion*

Cancun, Mexico: Water System Privatization (Kennedy School of Government Case CR14-00-1593.0)

Discussion Questions

1. Is the privatization of water services “different” from that of electricity or telecommunications? If so, how? And, did the reform effort in Mexico adequately account for any differences?
  2. **Identify changes in the**
    - a. *process of granting the concession*
    - b. *pricing strategy of Aguakan*
    - c. *regulatory design of CAPA*
    - d. *impact of macroeconomic stability on Aguakan and its customers that would have reduced the probability of renegotiation?*
  3. Why were these changes not adopted?
4. **Regulatory Failure II: The Game of Regulatory Reviews (January 19)**

Reading

*Background*

Price Regulation of Utilities (Australian Treasury)

<http://www.treasury.gov.au/documents/194/PDF/round5.pdf> (accessed 11/28/05)

*Case Discussion*

Strategy of a Firm Under Regulatory Review: The Case of Chilectra (HBS Case 9-702-025)

Discussion Questions

1. The reform of the electricity industry in Chile has been held up as an example of how to privatize and deregulate. What elements of their reform are the most important and why?
2. What is rate-of-return regulation, how is it supposed to work and what are its flaws? In principle, does price cap regulation solve many of the problems of rate-of-return regulation?
3. What are the problems of implementing price cap regulation? In principle does benchmarking solve these problems? What about in practice?
4. Do you predict that Chilectra’s managers will ‘game’ the regulatory system and report higher costs in the last quarter of 1999 (yes or no)? If the firm reports higher costs for this review quarter, how will this influence your expectation for the price of the company’s stock?
5. Should the Chileans reform their regulatory approach to the distribution sector? In what way? Is it likely to happen?
6. ***As a manager of a regulated utility, what would influence your preferences as between a rule-based system for setting rates (as in Chile) versus a system that gives the regulator more discretion?***

## 5. Centralization vs. Decentralization: Dell in Brazil (January 24)

### Readings

#### *Background*

On Fiscal Federalism: Issues to Worry About (Vito Tanzi, IMF)

<http://www.imf.org/external/pubs/ft/seminar/2000/fiscal/tanzi.pdf>

(accessed 11/28/05)

Power to the States: Fiscal Wars for FDI in Brazil (HBS Case 9-701-079)

#### *Case Discussion*

Dell's Dilemma in Brazil: Negotiations at the State Level (Thunderbird Case A03-03-0021)

### Discussion Questions

1. What are the arguments in favor and against federalism?
2. ***Do relations among Brazilian states and between its states and central government contribute to its development or its 'development trap'? Why?***
3. What should Maxwell recommend to Michael Dell?

## 6. Post-Crisis Business-Government Relations: Telecoms in Argentina (January 26)

### Reading

#### *Background*

Argentina: The Sequencing of Privatization and Regulation (Hill, Alice and Manuel Angel Abdala, in Levy, Brian and Pablo T. Spiller Regulations, Institutions and Commitment: Comparative Studies of Telecommunications Cambridge University Press)

#### *Case Discussion*

Argentina's Telecommunications Industry and the Economic Crisis of 2002 (Kennedy School of Government Case CR14-02-1678.0)

### Discussion Question

1. Why did it take so long to privatize the Argentinean telecommunications system?
2. How did the factors contributing to this delay influence the nature of the eventual reform?
3. How did foreign investors fare in Argentina before the 2001-02 crisis?
4. How much should foreign investors suffer as a result of the 2001-02 crisis? Why?
5. ***Propose a specific renegotiated agreement covering***
  - a. *Tariff levels and adjustments*
  - b. *Investment value and return*
  - c. *Tariff structure*
  - d. *Exclusivity and competition****JUSTIFY YOUR POSITION AGAINST THE LIKELY COUNTERARGUMENTS OF THE GOVERNMENT [in-class debate pitting 'investor' team against government team]***

## 7. An Introduction to International Regime Theory (January 31)

### Readings

#### *Background*

Diplomacy and Domestic Politics: The Logic of Two-Level Games (Robert D. Putnam, International Organization 42:3 pp.427-460)

#### *Case Discussion*

The WTO Through The Lens of International Regime Theory (Erick Duchesne, Canadian Department of Foreign Affairs and International Trade, Trade Policy Research Working Paper #03, excerpt)  
<http://www.dfait-maeci.gc.ca/eet/research/TPR-2004/TPR-2004-03-en.asp>  
(accessed 11/28/05)

### Discussion Questions

1. Why do international regimes such as the WTO emerge?
2. Why do international regimes such as the WTO encounter such opposition?
3. Given this opposition, how can international regimes change domestic policy outcomes?
4. ***What sort of actors are most in favor/opposed to increasing the number and scope of international regimes? Why?***
  - a. *What types of countries?*
  - b. *What types of firms?*
  - c. *What types of individuals?*

## 8. Limits to International Regimes I: NAFTA and MetalClad (February 2)

### Readings

#### *Background*

Regarding NAFTA (HBS Case 7-97-013)

#### *Case Discussion*

MetalClad in Mexico (A) (Thunderbird Case A03-01-0018)

### Discussion Questions

1. How does NAFTA reduce political risk for US investors in Mexico? How?
2. Is the Chapter 11 procedure a violation of Mexican national sovereignty?
3. Describe the political and regulatory risks faced by Kesler?
4. Describe the risk management approach of Kesler?
5. What could he have done differently?
6. ***To what extent should Kesler have relied on the Chapter 11 procedures for recourse (i.e., Should Kesler have believed that the threat of Chapter 11 proceedings was sufficient to generate pro-investor behavior by the Mexican government)? Why?***

## 9. Limits to International Regimes II: The Political Economy of Anti-Dumping (February 7)

### Readings

#### *Background*

The Problem Facing Europe's Cotton Weavers", speech to the European Parliament 1997

Browse [http://www.wto.org/english/tratop\\_e/adp\\_e/adp\\_e.htm](http://www.wto.org/english/tratop_e/adp_e/adp_e.htm)

#### *Case Discussion*

Confronting EU Anti-Dumping: The Grey Cotton Case Seen from Turkey (INSEAD Case 399-085-1)

### Discussion Questions

1. Why do countries impose anti-dumping duties?
2. Are these duties justifiable economically? Politically? How?
3. ***Draft an explanation from Mr Killiç on his strategy to deal with the third investigation to unhappy board members. Make clear, inter alia, whether Birlik Mensuçat is going to accept the Commission's offer of a "price undertaking" or not (and why, of course).***

## 10. Limits to International Regimes III: Regulation of GMOs (February 9)

### Readings

#### *Background*

Ships Passing in the Night: GMOs and the Politics of Risk Regulation in Europe and the United States (David Vogel)

[http://www.insead.fr/events/gmoworkshop/papers/1\\_Vogel.pdf](http://www.insead.fr/events/gmoworkshop/papers/1_Vogel.pdf) (accessed 11/28/05)

#### *Case Discussion*

Monsanto Europe (A): IVEY Case 9B02A007

### Discussion Questions

1. Will the United States and the EU converge in their policies towards GMOs?
2. What role will the WTO play in this process (i.e., to what extent is environmental policy an element of trade policy)?
3. How did the EU surmount the problems that the WTO faces in forging a common policy for different countries?
4. Will the advertising campaign that is proposed at the end of the case work? Why or why not?
5. If not, can you propose an alternative strategy that would be more effective?
6. ***To what extent should managers of agribusiness firms base their strategies on the assumption that a common global standard will emerge for GMOs? How will your answer change over time?***

## 11. Limits to International Regimes IV: International Law (February 14)

### Readings

#### *Background*

Taking Multinationals to Court: How the Alien Tort Act Promotes Human Rights (Joshua Kurlantzick, World Policy Journal, Spring 2004  
<http://www.worldpolicy.org/journal/articles/wpj04-1/Kurlantzick.pdf>

#### *Case Discussion*

Mobil in Aceh (A) (Stanford Graduate School of Business Case IB-40A, 11/21/02)  
Mobil in Aceh (B) (Stanford Graduate School of Business Case IB-40B, 11/21/02)

### Discussion Questions

1. What do you think MOI did well in their development phase? Would you do anything differently?
2. What stakeholders do you think were important in the 1970s? Has this changed at all in the 80s & 90s? If so, how?
3. Is NGO use of the Alien Tort Claims Act
  - a. A triumph for human rights? or
  - b. An abuse of the legal system?
4. If there anything that gives you concern for the future of operations in Indonesia?
5. ***It is December, 1998, and you are the CEO of Mobil Oil Indonesia. How do you respond to the five claims made by Sumatra NGOs and WAHLI (Exhibit 1)?***
  - a. *How will you handle your relationship with the Jakarta government?*
  - b. *How will you handle your international media relations?*
  - c. *How will you handle your relations with NGOs?*
5. How should Exxon-Mobil respond to the filing of the Alien Tort Claims Act suit?

## 12. Public-Private Partnerships I: Big Pharma & Intellectual Property Rights VS. NGOs & Human Rights (February 16)

### Readings

#### *Background*

Turning Gadflies into Allies (Michael Yaziji, Harvard Business Review, February 2004, R0402J)

#### *Case Discussion*

Life, Death and Property Rights: The Pharmaceutical Industry Faces AIDS in Africa (HBS Case N2-702-049)

Phase Two: The Pharmaceutical Industry Responds to AIDS (HBS Case N2-703-005)  
Big Pharma and the Golden Goose (FT, April 16, 2001: 16)

### Discussion Questions

1. What is the basic rationale for intellectual property protection?
2. How does this rationale relate to our previous discussions regarding political risk?
3. Are the managers of Cipla pirates or modern-day entrepreneurial Robin Hoods?

4. Why are the drug companies reluctant to comply with demands for affordable AIDS drugs from developing countries?
5. ***Should Pfizer and Merck change their strategies (beyond those described in ‘Phase Two’)? Why? How? Your answer should address***
  - a. *Pricing strategy for AIDS drugs (in developed and emerging markets)*
  - b. *Relations with NGOs*
  - c. *Relations with emerging market governments*
  - d. *Relation with emerging market drug companies*

**[In-class debate on this question]**

### 13. Public-Private Partnerships III: Conflict Diamonds (February 21)

#### Readings

##### *Background*

The DIAMOND Business Gets Rough (Bristol Lane Voss, Journal of Business Strategy, July/August 1998, pp. 36-43)

Currency of War, misery: DIAMONDS (B. Harden, Orange County Register, 4/9/2000, p. A35)

Browse the website:

[http://magma.nationalgeographic.com/ngm/data/2002/03/01/sights\\_n\\_sounds/media.1.2.html](http://magma.nationalgeographic.com/ngm/data/2002/03/01/sights_n_sounds/media.1.2.html)

Watch the Video: [http://stream.realimpact.net/rihurl.ram?file=realimpact/witness/DIA\\_0001.rm](http://stream.realimpact.net/rihurl.ram?file=realimpact/witness/DIA_0001.rm)

[To view this video you must have RealOne Media Player installed on your computer: See <http://www.real.com>]

##### *Case Discussion*

A New Cut on an Old Monopoly (Nicholas Stein, Fortune, February 19, 2001, pp. 186-209)

#### Discussion Questions

1. What challenges did De Beers face in the 1997-98 period? How did it respond?
2. Describe the additional complication posed for De Beers by the high media profile of “conflict diamonds” in 1999-2000. How did De Beers initially respond to this challenge?
3. How did De Beers’ strategy subsequently shift? Why?
4. Consider the implications of De Beers’ strategy for:
  - a. The structure of the diamond market
  - b. The profitability of De Beers
  - c. The amount of “conflict diamonds on the market
5. ***What are the strengths and weaknesses of DeBeers’ new strategy? What should it do to increase the strategy’s effectiveness?***

### 14. Public-Private Partnerships III: Publish What You Pay (February 23)

#### Readings

##### *Background*

Time for Transparency (Global Witness, pp. 1-6 plus your choice of ONE country case study – available online at <http://www.globalwitness.org/reports/download.php/00128.pdf>)

*Case Discussion*

- Beyond the Rhetoric: Home Country Governments (Save the Children) pp. 1-4  
[http://www.publishwhatyoupay.org/measuring\\_transparency/pdf/homegovts.pdf](http://www.publishwhatyoupay.org/measuring_transparency/pdf/homegovts.pdf)  
(accessed 11/28/05)
- Beyond the Rhetoric: Oil Companies (Save the Children) pp. 1-6  
[http://www.publishwhatyoupay.org/measuring\\_transparency/pdf/companies.pdf](http://www.publishwhatyoupay.org/measuring_transparency/pdf/companies.pdf)  
(accessed 11/28/05)
- Browse <http://www.publishwhatyoupay.org/> and <http://eitransparency.org/>  
[http://www.publishwhatyoupay.org/english/pdf/pwyp\\_eiti\\_comparison.pdf](http://www.publishwhatyoupay.org/english/pdf/pwyp_eiti_comparison.pdf)  
(accessed 11/28/05)

Discussion Questions

1. What incentives do oil companies have to pay bribes and be complicit in corrupt regimes? Who are the key actors that favor complicity?
2. Who are the key actors that favor and oppose disclosure?
3. ***What are the best mechanisms to enhance disclosure? Compare voluntary mechanisms such as the EITI versus legal, accounting and policy changes such as proposed by PWYP.***

**15. Putting it all together .... And Still Failing I: Bolivian Privatization (February 28)**

Readings

Capitalization: The Politics of Privatization in Bolivia (Kennedy School Case CR15-98-1447.2)  
Privatization Bolivian Style: A Cautionary Tale (Benjamin Kohl, International Journal of Urban and Regional Research 28:4 (December 2004) pp. 893-908

Discussion Questions

1. How did the privatization program in Bolivia take into account local political realities?
2. How was the privatization program in Bolivia influenced by international actors?
3. ***Why did the privatization program in Bolivia fail?***

**16. Putting it all together .... And Still Failing II: Cochabamba (March 2)**

Readings

*Background*

The Issue of Dependency and Economic Development (Richard Gilpin, Ch. 7 of The Political Economy of International Relations)

*Case Discussion*

Browse <http://www.1worldcommunication.org/bolivia.htm#Bechtel%20and%20Edison>  
[ADDITIONAL READINGS TO BE ASSIGNED AND DISTRIBUTED IN CLASS OR POSTED ON WEB CAFÉ]

Discussion Questions

1. Why does dependency theory have such strong power in Bolivia and elsewhere in Latin America?
2. ***Was the failure of the privatization of Cochabamba in Bolivia inevitable? Why or why not?***

## 17. Why Aren't Multinational Corporations Tapping Into "The Fortune at the Bottom of the Pyramid?" (March 14)

### Readings

The Fortune at the Bottom of the Pyramid (C.K. Prahalad and Stuart L. Hart, Strategy + Business Issue 26 downloaded from <http://www.digitaldividend.org/pdf/bottompyramid.pdf>)  
Managing Political Risk and Opportunities (Witold J. Henisz and Bennet A. Zelner *draft manuscript under revision for resubmission to Harvard Business Review*)  
[NB: This reading to be distributed via WebCafe]

### Discussion Questions

1. According to Prahalad & Hart, why aren't Multinational corporations tapping into the 'Fortune at the Bottom of the Pyramid'?
2. What are the gaps in their logic? Consider
  - a) The nature of the products demanded by consumers at the 'Bottom of the Pyramid';
  - b) The identity of the current producers of those products including their relationship to the government;
  - c) Alternative means of making the investment to enter these markets in competition with these producers (i.e., where would production take place and would that investment in production capacity be easily redeployed?)
  - d) The impact of such investment into those markets in competition with those producers including the likely reaction by consumers, competitors and the government;

## 18. Introductory Case: AES-Telasi (March 16)

### Readings

#### *Background*

Managing Political Risk and Opportunities (Witold J. Henisz and Bennet A. Zelner *draft manuscript under revision for resubmission to Harvard Business Review*)  
[NB: This reading to be distributed via WebCafe]

Is Foreign Infrastructure Investment Still Risky? (Lou Wells, Harvard Business Review, Sept-Oct. 1995, Reprint 95511)

#### *Case Discussion*

AES-Telasi (Witold J. Henisz and Bennet A. Zelner) [NB: This case to be distributed via WebCafe]

### Discussion Questions

1. Try to describe the process that generates government policy? Policy change?
2. Why should firms care about this process? Should firms operating abroad care more or less? Why?
3. How can firms identify the risk of a potential policy change that reduces their profitability or the opportunity of a potential policy change that increase their profitability?
4. How can firms insulate themselves from the impact of adverse policy changes and/or promote favorable policy changes?
5. What are the challenges to the implementation of such political influence strategies?

6. Did AES-Telasi face substantial policy risks? Why?
7. ***What were the shortcomings of the strategy of Michael Scholey towards the policy risks faced by AES-Telasi? What alternative strategy would you recommend that Ignacio Iribarren implement upon his arrival?***

## 19. Informal National Structures: Corruption in Indonesian Mining (March 21)

### Readings

#### *Background*

Corruption and Development (C. Gray & D. Kaufman, Finance & Development, 3/1/98, pp. 7-10)

#### *Case Discussion*

Busang: River of Gold (HBS Case 9-798-002)

### Discussion Questions

1. How does corruption affect the development of the private sector?
2. How is corruption related to the structure of a nation's political institutions?
3. How is corruption related to informal norms within a country?
4. What are the "rules of the game" in Indonesia's mining sector at the time of the case? Has Bre-X played by the rules?
5. Has Bre-X developed relationships in Indonesia? Does it need to? How?
6. ***How should David Walsh respond to Minister Sudjana's announcement? What options are open to him and to Bre-X?***

## 20. Formal National Structures: The Medical Technology Industry in Japan (March 23)

### Readings

#### *Background*

Japan: Beyond the Bubble (HBS Case 9-702-004)

#### *Case Discussion*

The Medical Technology Industry and Japan (A) (HBS Case 9-902-010)

### Discussion Questions

1. What does HIMA want from the Ministry of Health and Welfare?
2. Do you think that pressure from the US government will achieve this objective? Why or why not?
3. Are the reforms consistent with Japan's broader economic policy reforms? Why are these reforms not moving more rapidly given the dire state of the economy?
4. ***What other strategies could HIMA pursue? Describe and elaborate upon your expectations regarding the key players who might be involved and the determinants of the effectiveness of these strategies.***

## 21. Formal Regional Structures: The European Union and Standards (March 28)

### Readings

#### *Background*

European Monetary Union (HBS Case 9-799-131)

#### *Case Discussion*

Echelon in Europe (Graduate School of Business, Stanford University Case P-22)

Browse the website [http://echelon.com/support/documentation/stories\\_papers.htm](http://echelon.com/support/documentation/stories_papers.htm)

### Discussion Questions

1. What are the goals or objectives of the European Union?
2. Describe initiatives by the European Union other than tariff and subsidy reductions that have the purpose of achieving these goals. Why are these important?
3. Should the EU be able to set standards that are binding upon individual nation-states? Why or why not?
4. How will the enlargement of the EU in 2004 influence the scope of EU authority? Why is it so contentious?
5. ***Should Echelon maintain its defensive blocking strategy? Why or why not? If not, how should it seek to influence the adoption of an open architecture policy at the EU level?***

## 22. Formal Multilateral Structures: The World Trade Organization and National Subsidies (March 30)

### Readings

#### *Background*

Trade Winds (The Economist, 11/8/97: 85-86)

The World Trade Organization: Toward freer trade or world bureaucracy (HBS Case 9-795-149)

#### *Case Discussion*

Bombardier: Canada vs. Brazil at the WTO (HBS Case 9-703-022)

### Discussion Questions

1. If free trade is so good, why is it so hard to obtain and maintain?
2. Why do governments provide subsidies, tax concessions, credits, ...?
3. Make the legal case for the position of the Brazilian (Canadian) government at the WTO.
4. Beyond the legal basis for the dispute, make the argument from the perspective of Embraer (Bombardier) to the Brazilian (Canadian) government that your firm should receive subsidies.
5. ***Beyond the legal basis for the dispute, make the argument from the perspective of Embraer (Bombardier) to the Brazilian (Canadian) government that your firm is better off in the presence of a relatively more effective WTO (i.e., one that is equally effective in limiting both governments' ability to subsidize).***

## 23. Formal Multilateral Structures II: Conditionality and the East Asian (or IMF?) Crisis (April 4)

### Readings

#### *Background*

Can the IMF play Supercop? (James Smalhout, Euromoney, September, 1998, pp. 90-93)  
Prevention is more complex than cure (James Smalhout, Euromoney, Sept. 2001, pp. 320-325)  
Stinging Critiques of IMF, US Treasury (Chakravarthi Raghavan, Third World Network  
<http://www.twinside.org.sg/title/sting.htm> Accessed 11/29/05)

#### *Case Discussion*

Cultural Differences Divide Creditors and Asian Debtors (Darren McDermott, Asian Wall Street Journal, 12/3/98, p. 1)  
TPI Serves as Benchmark for Thai Court (Nick Cumming-Bruce, Asian Wall Street Journal, February 29, 2000, p. 1)  
ADB, World Bank: Further Thai Bankruptcy Law Reform Urgent (Dow Jones, 3/10/2000)  
Fixing the Debt Mess (Frederik Balfour, Business Week, February 12, 2001, pp. 18- )  
Fight in Bangkok (Robert Frank, Wall Street Journal, February 12, 2001, p. A1)  
A Thai Tycoon's Tragedy (Julian Gearing, AsiaWeek, April 27, 2001)

### Discussion Questions

1. Who or what is to blame for the depth of the recessions/depressions in East Asia?
2. How is reaction of the International Monetary Fund and the World Bank perceived by lenders, foreign investors, local entrepreneurs, local conglomerates, and local consumers?
3. Why is legal reform – particularly reform in the bankruptcy law – so important to international investors and the international financial institutions?
4. Are the bankruptcy reforms adopted by the Thai government sufficient? Why or why not?
5. Take the position of either TPI (or of its creditors) and argue the case against (or for) the liquidation of TPI Polene. **[In-class debate on this question]**
6. *Should the Creditors of TPI have pursued a different strategy? Explain.*

## 24. Presentations I (April 6)

## 25. Presentations II (April 11)

## 26. Presentations III (April 13)

## INTEGRATION & SYNTHESIS

## 27. Strategy in the Russian Oil Industry (April 18)

### Readings

#### *Background (same as for AES-Telasi Case)*

Managing Political Risk and Opportunities (Witold J. Henisz and Bennet A. Zelner  
*draft manuscript under revision for resubmission to Harvard Business Review*  
[NB: This reading to be distributed via WebCafe]

Is Foreign Infrastructure Investment Still Risky? (Lou Wells, Harvard Business Review, Sept-Oct. 1995, Reprint 95511)

*Case Discussion*

White Nights and Polar Lights: Investing in the Russian Oil Industry (HBS Case, 9-795-022)

Discussion Questions

1. What are some of the relevant characteristics of the oil industry and, in particular, the oil industry in Russia that lead political and regulatory risk to pose such concerns to investors?
2. How does political and regulatory risk affect the entry strategy of foreign oil firms in Russia?
3. ***Evaluate the entry strategies of Phibro, Mobil and Conoco. Which one chose wisely? Why? [In-class debate on this question]***
4. How will the returns from the development of Russian oil likely be distributed in the long term? Why?

**28. Strategy in Chinese Telecommunications (April 20)**

Readings

*Background*

The Great Transition (HBR Reprint R0301D)

Navigating China's Changing Economy: Strategies for Private Firms (David Ahlstrom, Gary Bruton, and Steven Lui, Business Horizons, Jan-Feb 2000, pp. 5-15)

Qualcomm in China (A) (Richard Ivey School of Business Case 901M73)

*Case Discussion*

Qualcomm in China (B) (Richard Ivey School of Business Case 901M74)

Discussion Questions

1. What political and regulatory risks are inherent in the sale of telecommunications equipment and, specifically, mobile telephone equipment? How have these affected Qualcomm outside of China?
2. Which specific risks had Qualcomm faced in its efforts to gain adoption of CDMA in China?
3. ***How did / could Qualcomm use information on formal and informal national political institutions in China and international organizations' relations with China to maximize the adoption of CDMA technology within the Chinese telecommunications sector?***

**Deadline for Team Paper Submission (to Team Projects Folder): 9:00am Wednesday, May 3 2006**