

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

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IBUS 706
Mon & Weds
2:20-3:35pm
DMSB 124
Office Hours: 3:45-5pm MW

Once viewed as a homogenizing force, globalization now appears cycling toward a world of fragmented, unpredictable markets. At the heart of these pendulum swings that appear to disrupt international managers, financiers and politicians is perhaps a misunderstanding of how institutions, at multiple levels, continue to shape both risks and competitive advantage. Economic activity is embedded in institutions, which regulate, stabilize and legitimize market outcome. Institutions are largely socio-political creations at the local and national levels. But globalization forces firms, citizens and government both to accommodate different institutional models and to construct new transnational ones. As such, the complexities of a world of nation-states and trade blocs produce both opportunities and challenges to firms operating across national boundaries.

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. A variety of industries are covered.

The course is divided into three parts. Part I on *Firms, Countries, and the Global Economy* introduces how different types of institutional configurations shape 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, and government policies affect the international competitiveness of firms. Lastly, Part III on *Transnational Integration* provides concepts and illustrations to show how different transnational integration regimes emerge, the tensions between domestic and transnational interests, and guidelines for the manager or financier to navigate this turbulence.

Pre-Requisites

This course is designed for MIB Students only.

Course Materials

All of the readings and cases listed in this syllabus are required. All Readings and some cases are available for free in the relevant FOLDER on the Blackboard Website for our course. All HBS Cases are available for purchase on a special web page for this course via this link: <https://hbsp.harvard.edu/import/560005> . You must click on this link, and register (for free) at HBS Publishing, in order to access the HBS cases in their PDF forms. Note that two cases may be only available in hard copy and so must be ordered at least a week in advance of the designated class.

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 4-5 double-spaced pages, with 12-point font and one-inch margins. NUMBER ALL PAGES, staple them. The paper should be based on the readings assigned for one of **sessions 2, 3,6-9**. 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 readings and 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 26. It is due in hard copy no later than **December 10 by 4pm at my office**. The questions and answers will be based solely on course materials and class discussions.

(4) One group project (25%). Self-formed groups of 5 students will meet and produce a collective analysis on the ongoing global financial and economic crisis. Pick one country (not the US). You will report on: the causes of crisis in the country, impact of the crisis, impact on banking and manufacturing sectors, and policies to address the given problems. 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 cannot study Korea. 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 **CLASS 9, 26 September**. You will have a special research class with the business librarian on 15 October, Class 14. Presentations will be in class on during **Classes 22-23**.

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

1. Introduction

[27 Aug]

Readings C. Hill, *International Business: Competing in the Global Marketplace* (10th ed.), McGraw Hill: Boston. Ch 6, Pp. 179-189; All Chapter 7.
“The retreat of the global company,” *The Economist*, January 28, 2017.

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

[29 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).
Benjamin Barber, “Jihad vs McWorld,” *Atlantic Monthly*, (September 1992).
Suzanne Berger, 2006, *How We Compete*. New York: Currency Doubleday. Chapter 2.
See Dossier on Blackboard 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) How does Berger see firms building different competitive strategies for global value chains?

3 SEPT LABOR DAY

3. Global Value Chains without Global Laws -- Do Standards Matter for MNCs, NGOs and Nations?

[5 Sept]

Reading: Kimberly Ann Elliott and Richard B. Freeman. 2003. *Can Labor Standards Improve Under Globalization?* Institute for International Economics: Washington, pp. 7-13.

Case: Richard Locke. 2003. “The Promise and Perils of Globalization: The Case of Nike.” In Kochan and Schmalensee, eds., *Management: Inventing it and Delivering its Future*. MIT Press, pp. 39-70.

Updates: See Blackboard Site for News Articles on Bangladesh Tragedy and Toolkit on WTO.

Exercise: Be prepared to form debate groups: Nike, LDC governments, US Govt, International NGOs.

Questions: (1) Standards are at the core of technological upgrading. Which Standards matter?
(2) How do labor standards affect trade at different levels of analysis: (a) international regimes such as the WTO or NAFTA; (b) country; (c) industry; and (d) firm?
(3) Who is responsible to the creation and implementation of standards like in labor, environment, and health? Who benefits and who loses from the standards?

4. The State and Technology – Origins

[10 Sept]

In-Class Video: American Experience: Silicon Valley

Questions: (1) How is the government important in the rise of the Silicon Valley and the emergence of silicon chip?
(2) But is government dictating technological strategies? How do private actors coordinate and learn?

5. Finance, Regulation, and Politics

[12 Sept]

Reading: Joe Nocera, “Shiela Bair’s Bank Shot,” *The New York Times Magazine*, July 9, 2011. [On

Blackboard]

“The Warning,” Documentary by Frontline of PBS. (In-class film.)
<https://www.pbs.org/wgbh/frontline/film/warning/>

17 SEPT Special Session for Professional Development Series in our classroom

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

[19 Sept]

Reading: Clayton Rose, “Note on Comparative Capitalism,” HBS Case Note 9-315-077. Rev: June 1, 2015.

Case: “Denmark: Globalization & the Welfare State,” HBS Case 9-709-015, Rev: July 15, 2009.

Video-Lego: <http://www.bloomberg.com/news/videos/b/4a56e664-4427-49fc-82fb-2d5e4a6f4502>

Optional: 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? Consider the differences between LMEs and CMEs.
(2) How does Denmark and its institutions support growth, open markets, a generous welfare state, and strong labor unions?
(3) What are its current weaknesses and can the model survive? How can you transplant this model into a country like the US?

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

[24 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. **READ ALL THIS ARTICLE.**

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. **READ only parts about variation in Lean Production implementation.**

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? Why are they having trouble implementing Lean Production in the US?
(3) 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?

8. National Strategies for International Competition *** NOTE DATE, TIME and PLACE**

[25 Sept] **9-11am, DMSB 324**

Reading: Stephan Haggard. 2015. “The Developmental State is Dead: Long Live the Developmental State!” In James Mahoney and Kathleen Thelen, eds., *Advances in Comparative-Historical Analysis*. New York: Cambridge University Press, pp. 39-66.

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 is the Developmental State? What is distinct about the use of industrial policy?
(2) What is the relationship between government support and learning in Korea?
(3) Explain the mid tech strategy and how it understands innovation? What is the role of government policy?

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

[26 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? How do they differ beyond simply the density of firms in a region?
 - (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 INSTITUTIONS – COMPARATIVE MANAGEMENT – Institutional Creation and Business Organization

10. Institutions and Competitiveness in Germany

[1 Oct]

Reading: “What Germany offers the world” *The Economist* (April 12, 2012). **[On Blackboard]**

Case: “Fraunhofer: Innovation in Germany” HBS Case 9-711-022. (Rev: Jan 6, 2012)

- Questions:
- (1) Compare R&D between the US and Germany. Is the Germany competitive? Why?
 - (2) Should government be involved in financing and also *conducting* R&D?
 - (3) Is Fraunhofer an effective applied R&D organization? Can the Fraunhofer model be exported?

11. State Capitalism as Nemesis: Brazil

[3 Oct]

Reading: Ian Bremmer, “State Capitalism Comes of Age: The End of the Free Market?,” *Foreign Affairs*, 88(3): 40-55.

Case: “Vale: Global Expansion in the Challenging World of Mining.” HBS 9-710-054, Rev: Oct 14, 2010.

- Questions:
- (1) What are the pros and cons of state capitalism? Is it really so new?
 - (2) What should Angelli do about Lula?
 - (3) What makes Vale the #1 player in the iron ore industry and one of the top five mining companies in the world? What is Vale’s competitive advantage?
 - (4) How should Angelli explain the purchase of Chinamax vessels to Lula?

12. State Capitalism as a Conflicting Models: China

[8 Oct]

Case: “The ‘Chongqing Model’ and the Future of China,” HBS 9-713-028, Rev: July 12, 2013.

- Questions:
- (1) How do the TVEs fit with liberalization but not private property? What changed in the 1990s for SOEs and FDI? What was the impact on China of its entry into the WTO?
 - (2) Explain the model Chongqing and its different institutional components.
 - (3) How did Chongqing grow so dramatically between 2007 and 2012? Is this sustainable?
 - (4) Does China need a new model? Which model is better for China – Chongqing or Guangdong?

13. FDI: Rebuilding Ireland through High Technology

[10 Oct]

Reading: “Foreign Direct Investment,” HBS 9-703-018, Oct. 28, 2002.

Case: “Foreign Direct Investment and Ireland’s Tiger Economy,” HBS Case 9-706-007, Rev: March 10, 2010.

- 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? Could/should a place like South Carolina replicate the Irish model?

14. Research for Group Project - Guest Speaker

[15 Oct]

Guest Speaker: Jean Clenney, DMSB/USC Business Librarian

Assignment: Come prepared with research questions regarding your project; review relevant materials.

15. Property Rights I: The Great Transformation in East-Central Europe?

[17 Oct]

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

Cases: 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.

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

[Blackboard]

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

Questions: (1) According to Sachs, what is the root of the economic problems in transforming communist countries and how should they rectify it? How do you establish better performance for firms?
(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?
(4) How did Poland's approach differ from what Sachs recommended and what Russia and the CR did?

16. Misunderstood Miracle: Chile, Exports and the Roles of the State and Associations

[22 Oct]

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

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

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) What are the roles of standards? How is public-private coordination necessary to compete?

17. Building Public-Private Institutions to Become Export Competitive [All Readings on Blackboard]

[24 Oct]

Readings: Elisa Giuliani, Pietrobelli, C., & Rabellotti, R. 2005, "Upgrading in global value chains: Lessons from Latin American clusters," *World Development*, 33(4): 549-573.

Case: "Developing a Region while Transforming an Industry: Public-Private Institutions and the Rise of the Argentine Wine Industry," IAE Case C111-03687, August 2011.

Questions: (1) What were the key factors that have shaped the transformation of the Argentine wine industry, especially in the Province of Mendoza?
(2) What was Mendoza's approach to restructuring the industry and building new institutions? How did this experience shape the creation of the Ley Pevi and COVIAR?
(3) Is COVIAR built to handle the new challenges of the industry? What would you recommend to Sancho and Molina?

18. Property Rights II: Foreign Direct Investment and Institution Building in Africa

[29 Oct]

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. TRANSNATIONAL INTEGRATION & TRANSNATIONAL INSTITUTIONS

19. FDI Risk Management: Investing in China and Developing a Technology Partnership

[31 Oct]

Case: “ABB: In China, For China,” HBS 9-711-044, Rev: December 20, 2012.

- Questions:
- (1) Evaluate ABB’s strategy in China. How well have they managed their technologies?
 - (2) Were they right to agree to transfer high voltage direct current technology? Does China gain much?
 - (3) Is their mid-market strategy a good idea? Will Winmotion succeed?

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

[5 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)?

21. The European Union – Do Subsidies Help or Hurt International Trade?

[7 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?

22. Group Project Presentations

[12 Nov]

23. Group Project Presentations

[14 Nov]

24. EU Accession – Linking Integration and Local Institutional Development

[19 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 Nov – 24 Nov THANKSGIVING DAY BREAK

25. Euro-zone & EU Crisis – Finance and Politics [All Readings on Blackboard]

[26 Nov]

Readings: Paul Krugman, “Can Europe be Saved?” *New York Times Magazine*, January 12, 2011
“What makes Germans so very cross about Greece?” *The Economist*, February 23, 2010

“The Crisis of the Single Currency is Political as much as Financial,” *The Economist*, July 14, 2011.

Rana Foroohar, “Why Germany Must Save the Euro,” *Time*, August 12, 2013.

- Questions:
- (1) What is the key institutional differences between the US and EU in terms of fiscal management and monetary policy?
 - (2) What are the key political issues at the heart of the current crisis in the EU and with the Euro?

26. NAFTA and the Future of Mexico

[28 Nov]

Readings: Handout on NAFTA. [Blackboard]

Laszlo Bruszt & Gerald A. McDermott, 2012, “Integrating Rule Takers: Transnational Integration Regimes Shaping Institutional Change in Emerging Market Democracies,” *Review of International Political Economy*, Forthcoming. [On Blackboard]

Case: “Mexico: Crisis and Competitiveness,” HBS 9-710-058, Rev: June 30, 2010.

- Questions:
- (1) What are the key domestic and international factors driving Mexican growth and institutional reforms over the past 20 years?
 - (2) How has NAFTA helped and hurt Mexico? Who benefits and loses?
 - (3) How has NAFTA helped and hurt the diffusion of international standards and institutional reforms? Who is responsible for their definition, implementation, and enforcement?
 - (4) What should the US and Mexico do about NAFTA? Is NAFTA dead?

27. Can America Adapt and Compete in the World? – The Case of NUMMI [Blackboard]

[3 Dec]

Readings: Charles Fishman, “The Insourcing Boom,” *The Atlantic*, December 2012.

Andy Grove, “How to Make an American Job Before It’s too Late,” *Bloomberg Businessweek*, July 1, 2010.

Adam Davidson, “Making it in America,” *The Atlantic*, January 2012.

Short readings on Volkswagen’s efforts to bring “work councils” into its plant in Tennessee

Case: Transcript of Radio Show Interviews about NUMMI. [Blackboard]

<http://www.thisamericanlife.org/radio-archives/episode/403/nummi>

- (1) What are the key methods used to transfer Japanese methods to the NUMMI plant?
- (2) What were the major changes in the practices and organizations that helped make NUMMI successful?
- (3) What were the major barriers to implementing the practices of NUMMI into other plants of General Motors?

28. Review Session

[5 Dec]