

**The Peter F. Drucker and Masatoshi Ito Graduate School of Management.  
Claremont Graduate University**

**MGT 376  
The Global Economy**

Fall 2007

Thursdays 4:00 – 6:45 PM

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**Course Objective:**

This course is designed to provide a framework for understanding and managing the impact of changing international economic environments and international competition. In particular, this course has the following objectives: (1) To develop a conceptual framework for business managers that will improve their ability to compete internationally; (2) To examine the sources of international competitive advantage available to firms--competitive advantages from their country bases, their specific capabilities, and their governments' policies; and (3) To provide an understanding of the impacts of changing international economic environments on competitive strategy—emerging trade blocs (e.g. the European Union) and the emergence of new markets (e.g. China and India).

**Course Requirements:**

The course relies heavily on case materials, and the analysis and discussion of different industry and case situations is the primary activity in class. Your preparation and participation in the discussion will be essential to the success of the class in identifying and analyzing problems. The reading assignments will not be discussed specifically in class. I will, however, give occasional lectures to supplement the case material and summarize concepts.

Preparation for case discussion should begin with a rapid reading of the assigned text and case material. Then, it is worthwhile to review the assignment questions for clues as to what issues require special attention. The next step is normally to re-read the case carefully, taking notes, which sort information, facts, and observations under a number of relevant headings. Most students will then want to perform some quantitative analyses, exploring various hypotheses as to the nature and importance of certain phenomena. Finally, preparation will include notes that can be used to guide your interventions in

class discussions on the assigned or other issues judged to be critical to the company's apparent dilemma.

### Class Participation

In grading class participation, I will normally use several criteria:

- Quality of comments
  - Are the comments relevant to the discussion?
  - Do they include analysis, or do they state opinions?
  - Are the comments related to the previous discussion?
  - Do they bring a new insight into the issues?
- Quantity of class participation

Students are expected to sit in the same seat for each class and to display a name card in all classes.

### Written Assignment

#### *Research Paper*

Write a research paper to address the question: Do National Borders Matter?

The paper should focus on the competitive advantage from the industry's country base, the firm's resources and capabilities, the government policy, and other relevant factors. The final paper should be between six to twelve pages including exhibits and typewritten with 12-point font or equivalent. The schedule for preparing the paper is as follows:

Submit your choice of example	October 18
Final report due and presentation	December 6

### Grading

The course grade will be weighted as follows:

Class participation.....	50%
Research Paper.....	50%

### **Textbook:**

Required:

1. Michael E. Porter, *The Competitive Advantage of Nations: With a New Introduction*, Simon & Schuster, 1998, ISBN 0684841479.
2. Paul Krugman, *Geography and Trade*, The MIT Press, 1991
3. Thomas Friedman, *The World is Flat: A Brief History of the Twenty-first Century*, Farrar, Strauss, and Giroux, 2005

Students are required to buy the course pack at Huntley Bookstore.

In addition to the required textbook, students may find it useful to read the relevant chapters from:

1. Thomas A. Pugel, *International Economics*, 13<sup>th</sup> edition, McGraw-Hill Irwin, 2005.
2. Robert Grant, *Contemporary Strategy Analysis*, 5<sup>th</sup> edition, Blackwell, 2004.

### CLASS SCHEDULE

<b>Week</b>	<b>Date</b>	<b>Topic</b>	<b>Case</b>	<b>Reading</b>
1	9/6	Introduction	Schweizerische Maschinenfabrik	Porter, Ch. 1
2	9/13	Country- and Firm-based Advantage	Hoechst and the German Chemical Industry  Volvo Trucks	Porter, Ch. 2 and Ch. 3
3	9/20	Geographic Scope of Competition	Finland and Nokia  Global Wine Wars	Porter, Ch. 4
4	9/27		Chiquita Brands International  Formula One Motor Racing	
5	10/4	Germany  Internationalization of Production and Branding	Renewing Germany  Porsche AG	Clusters and the New Economics of Competition
6	10/11	Entry into the Foreign Market I	Procter & Gamble Japan (A)	Japan (D1)  Distance Still Matters
7	10/18	Japan  Entry into the Foreign Market II	Japan: Beyond the Bubble  P&G Japan: The SK-II Project	Regional Strategies for Global Leadership

8	10/25	China  Joint Venture in China	China: Building “Capitalism with Socialist Characteristics”  Trouble in Paradise	The Competitive Advantage of China
9	11/1	Russia  Entry into the Chinese Market	Russia: The End of a Time of Troubles?  Wal-Mart Stores: “Every Day Low Prices” in China	
10	11/8	Intellectual Property	Alcatel in China: Business as Adventure	Why is Property Protection lacking in China  Nurturing Respect for IP in China  Microsoft in the People’s Republic of China: 1998 Update
11	11/15	Singapore  Global Strategy and Cross Cultural Management I	Singapore Inc.  Four Seasons Goes to Paris	
No class session 11/22 due to Thanksgiving Holiday.				
12	11/29	India  Global Strategy and Cross Cultural Management II	India on the Move  Silvio Napoli at Schindler India (A)	What is a Global Manager?

<b>13</b>	<b>12/6</b>	<b>Student Presentation</b>		

Week 1: Thursday September 6, 2007

*Topic:* Introduction on competition and location, nation-based advantage, firm-based advantage

*Read:* Porter, Chapter 1

*Case:* Schweizerische Maschinenfabrik Zug, A.G. (HBS 9-795-026)

Study Questions:

1. Evaluate SMZ's position in late 1992.
2. What are the most serious issues facing SMZ? Which are distinctly international in nature?
3. What should SMZ do? Are there changes in strategic direction that SMZ should make?
4. What does this case tell us about the nature of international competition and strategy?

Week 2: Thursday September 13, 2007

*Topic:* Nation-based advantage, Porter's Diamond Model.

*Read:* Porter, Chapter 2 and Chapter 3

*Case:* Hoechst and the German Chemical Industry (HBS 9-390-146)

*Study Questions:*

1. How strong was Germany's competitive advantage in chemicals in the 1980s? How would you measure it?
2. What led to this national competitive advantage? How well does this case fit Porter's model?
3. How did the nature of competition among German chemical firms change over time, and what effects did this have on their competitiveness?
4. Why do the Big Three chemical firms follow strategies that are so similar to each other even today?

*Topic:* National differences, geographic configuration of business activities

*Case:* Volvo Trucks (A) (HBS 9-702-418)

*Study Questions:*

1. Why does Volvo want to expand in the United States?
2. Why does Volvo seem to prefer an acquisition to other ways to grow?
3. Should Volvo acquire RVI?

Week 3: Thursday September 20, 2007

*Read:* Porter, Chapter 4

*Case:* Finland and Nokia (HBS 9-702-427)

*Study Questions:*

1. What did Finland do?
2. What is the role of a big crisis in a nation and in a firm?
3. How important is Finland to Nokia?
4. And how important Nokia to Finland?

*Topic:* Geographic scope of competition, globalization driver, impediments to globalization

*Case:* Global Wine Wars: New World Challenges Old (A) (HBS 9-303-056)

*Study Questions:*

1. How did the French become the dominant competitors in the increasingly global wine industry for centuries?
2. What changes in the global industry structure and competitive dynamics led France and other traditional producers to lose market share to challenges from Australia, United States, and other New World countries in the late twentieth century?
3. What advice would you offer today to the French Minister of Agriculture? To the head of the French wine industry association? To the owner of a mid-size, well regarded Bordeaux vineyard producing wines in the premium and super premium categories?
4. What advice would you offer today to the Australian Minister of Agriculture? To the head of the Australian wine industry association? To the owner of a mid-size, well regarded vineyard in the Barossa Valley producing wines in the premium and super premium categories?



Week 4: Thursday September 27, 2007

Case: Chiquita Brands International (A) (HBS 9-797-015)

*Study Questions:*

1. What role has politics played in the history of Chiquita Brands, and its predecessor, the United Fruit Company?
2. What role has protectionism played in the global banana market? Is this role defensible?
3. What should Lindner do about the EU's banana policy?

Case: Formula One Motor Racing (HBS 9-703-412)

1. What were the key steps in Bernie Ecclestone's transformation of Formula One (F-1) into a multi-billion dollar global sporting spectacle?
2. Evaluate the economics of each of the key actors in the F-1 market. Why do auto racers, teams, car manufacturers, advertisers, track owners, race promoters, and fans continue to flock to F-1 races?
3. What are the key challenges facing F-1 in 2002?

Week 5: Thursday October 4, 2007

*Topic:* Germany, the European Union, globalization

*Read:* Michael Porter, "Clusters and the New Economics of Competition,"  
*Harvard Business Review*, November 1998 (HBS 98609)

*Case:* Renewing Germany: Kohl's Legacy and Schroeder's Dilemma (HBS 9-702-087)

1. What is the most serious challenge Germany faces now?
2. Does the traditional German model work? If not, why?
3. Is the US model a good model for Germany?
4. What is the implication of the current challenges on German firms' competitiveness?
5. Is Germany a good place for direct investment?

*Topic:* Internationalization of production and branding

*Case:* Dr. Ing. h.c. F. Porsche AG (A): True to Brand? (HBS 9-706-018)

1. Should Porsche move into the sport-utility market? Did it have other options? What would you have recommended at this time?
2. Because of the success of the Boxster, its main production plant in Stuttgart-Zuffenhausen near its headquarters worked at near capacity. Where should it locate its new plant to build the new SUV? How important is it for the new model to be "made in Germany"?
3. By moving to the SUV market, did Porsche remain true to its brand? What does that mean in 1998?

Week 6: Thursday October 11, 2007

*Topic:* Entry into the foreign market I: barriers to entry and local business practices

*Read:* Japan (D1): A Strategy for Economic Growth (HBS 9-378-106)

*Read:* Pankaj Ghemawat, "Distance Still Matters: The Hard Reality of Global Expansion," *Harvard Business Review*, September 2001 (HBS R0108K)

*Case:* Procter and Gamble Japan (A) (HBS 9-391-003)

1. Why did P&G's first attempt at entering the Japanese market fail?

Week 7: Thursday October 18, 2007

*Topic:* Japan: the changing economic environment in the 2000s

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

1. Do you think the way in which Japanese firms do business changed in the late 1990s through 2004? If so, how?

*Topic:* Entry to the foreign market II: short-term strategy vs. long term strategy, Japanese consumers, new models of global organization

*Read:* Pankaj Ghemawat, "Regional Strategies for Global Leadership," Harvard Business Review, December 2005, pp. 98-109 (HBS R0512F)

*Case:* P&G Japan: The SK-II Globalization Project (HBS 9-303-003)

1. As Paolo DeCesare, what factors do you need to consider before deciding what to recommend in your SK-II presentation to the global leadership team (GLT)? What kind of analysis will you need to do in preparing for that meeting?
2. Does SK-II have the potential to become a global brand within Procter & Gamble's worldwide operations? Why or why not?
3. Which of the three options should Paolo DeCesare recommend to the GLT? What benefits do you expect to gain? What risks do you see?
4. How should he implement your recommended option? What are the implications for P&G's new post-O2005 organization? What support and/or resistance do you expect?

Week 8: Thursday October 25, 2007

*Topic:* China' economic development

*Read:* "The Competitive Advantage of China" (Stanford IB-57)

*Case:* China: Building "Capitalism with Socialist Characteristics" (HBS 9-706-041)

1. What is the key success factor for China's economic performance in the past decade?
2. What was the logic underlying the Chinese development strategy?

*Topic:* Doing business in China, joint venture

*Case:* Xin and Pucik, "Trouble in Paradise", Harvard Business Review, August 2003 (HBS R0308X)

1. What are the foreign partner's (Heartland Spindle Company) underlying assumptions about:
  - a. The Chinese competitive arena?
  - b. The way that Chinese people work?
  - c. The Chinese partner (Suzhou First Textile Company)?
  - d. The role of the government?
2. How would you characterize Heartland's commitment to being in China? Why are they in a joint venture?
3. How would you manage the changing nature of a joint venture?
4. What would you do if you were Mike (the expatriate manager in the case)?

Week 9: Thursday November 1, 2007

*Topic:* Russia's transition to capitalism, comparison to China

*Case:* Russia: The End of a Time of Troubles? (HBS 9-701-076)

1. Russia's transition to capitalism did not go as planned. What went wrong?
2. Who is to blame?
3. What is to be done?
4. Compare Russia's pattern of economic development with China's pattern. What is the most significant difference between the two countries? Why do their patterns of transformation into capitalism differ?

*Topic:* Entry into the Chinese market

*Case:* Wal-Mart Stores: "Every Day Low Prices" in China (HKU590)

1. Why is Wal-Mart successful in the US?
2. Should Wal-Mart replicate its American model in its original form in China?
3. What should Wal-Mart do in China?

Week 10: Thursday November 8, 2007

Case: Alcatel in China: Business as an Adventure (IMD179)

1. What underlying assumptions do you think Alcatel and the Chinese Ministry of Information Industry (MII) are operating under?
2. What is the situation in the Chinese telecom equipment sector?
3. Why is China such a difficult market for a firm such as Alcatel?
4. Why does the MII want Alcatel to stay in this market? Why are they interested in the outcome of the Shanghai Bell joint venture?
5. How does China fit into Alcatel's worldwide strategy?

*Topic:* Intellectual property and international competition

*Read:* Shaomin Li, "Why is Property Right Protection Lacking in China?" *California Management Review*, Spring 2004 (CMR 286)

*Read:* von Krogh and Acefliger, "Nurturing Respect for IP in China", (HBR F0704E)

*Read:* Microsoft in the People's Republic of China, 1998 Update (HBS 9-797-107)

*Study Questions:*

1. How large was the market when Microsoft entered in China in the early 1990s?
2. What happens if Microsoft does not enter the PRC now?
3. How does piracy affect international competition?

Week 11: Thursday November 15, 2007

*Topic*: Singapore and its growth strategy

*Case*: Singapore Inc. (HBS 9-703-040)

1. How has productivity growth been attained, and why is it growing rather slowly of late?
2. Do you approve of Singapore's new strategy for getting the economy growing?

*Topic*: Global strategy and cross cultural management I

*Case*: Four Seasons Goes to Paris: "53 Properties, 24 Countries, 1 Philosophy" (HBS 9-803-069)

1. What has made Four Seasons successful over the last 30 years?
2. How do you feel about the way Four Seasons entered the Paris/French market? What was good and/or bad about the entry strategy? Why?

Week 12: Thursday November 29, 2007

*Topic*: Economic growth in India

*Case*: India on the Move (HBS 9-703-050)

1. Why did India experience relatively slow economic growth (3.5%) from independence until 1991?
2. How big a deal are Hindu-Muslim frictions? Demographic fragmentation? Deficits?
3. Is India an attractive site for foreign direct investment?

*Topic*: Global strategy and cross cultural management II

*Read*: Christopher Bartlett and Sumantra Ghoshal, "What is a Global Manager?"  
Harvard Business Review, August 2003 (HBS R0308F)

*Case*: Silvio Napoli at Schindler India (A) (HBS 9-303-086)

1. Was Silvio Napoli the right choice for general manager of Schindler's India operations?
2. As Luc Bonnard how would you evaluate Silvio's first seven months as general manager of the Indian company?
3. What advice would you give to Silvio regarding his decision on the nonstandard glass wall elevator that has been ordered?
4. How should he deal with the challenges he is facing over transfer prices and limited technical cooperation from the European plants?

Week 13: Thursday December 6, 2007

***Student Presentation and Discussion***