

15.223 (Global Markets, National Politics, and the Competitive Advantage of Firms)

Please answer two (2) of the following five questions, all of which pertain to hypothetical situations.

Where real countries or organizations are mentioned, please use your knowledge of the actual background. In any answer you are entitled to make additional assumptions, if this helps you explain your reasoning and the options – but you should be VERY clear about what you are assuming and why.

**For all answers, it is good to draw on the frameworks we discussed in most detail – Porter’s Diamond, International Power Structures, and the Ladder of Technological Progress. Good answers can also draw on the pathologies that we discussed, including Political Relationships (politicians, business, and finance), Polarization, and Policies gone bad (e.g., macro and financial).**

**Citing relevant cases from class is always good.**

**Creative answers are very welcome. A solid B draws on at least one framework in answering the question. A good A integrates different frameworks and makes some clear points. An A+ comes up with a nice angle that you haven’t thought of and that you find persuasive.**

1.

You work for the Nicolas Sarkozy, president of France, who will chair both the G7 and the G20 next year. Mr. Sarkozy wants to come up with “big ideas” that will “appeal around the world” and “cut across traditional alliances.” He has also made it clear that he would like to seize “global leadership” from the United States – and transfer that role to the European Union.

Write a memo that lays out three possible ways to implement this approach. Make a specific recommendation about how to proceed – including both your assessment of the economic issues and the political dimensions.

**This question calls for an analysis of (a) what is wrong with the global economic system, (b) what could make it better.**

**A good answer could focus on the International Monetary Fund – making it more accountable to emerging markets, but also discussing the ways in which this could not be easy.**

**Another idea could be to regulate cross-border banks more effectively, but here the Basel process shows how hard this will be. (The French are actually proposing a financial transaction tax; this is unlikely to reduce the build-up of major system risk.)**

**Mr. Sarkozy might also want the euro to become more important as a reserve currency, but the eurozone’s current troubles indicate how hard this will be. Probably the eurozone**

**should start by sorting out its own fiscal problems. This would be the best basis for any potential international economic diplomatic initiative.**

**Other plausible proposals are also acceptable – as long as there is a good balance between “vision” and “practical obstacles.” In terms of class material, the discussion with had with Arvind Subramanian is an obvious reference point. The banking material is also a natural fit. A discussion of polarization and how to address it would definitely be worth high marks.**

2.

You have unexpectedly been appointed to run a large and powerful nongovernmental organization, BluePeace. Your board wants you to find ways to convince people that the earth is warming up as a result of carbon emissions (e.g., from power plants and cars).

To achieve this goal, you want to target one or more companies with some form of action that will grab headlines around the world, as happened to Shell over Brent Spar. But you also want to really change attitudes among policymakers and business leaders in many different countries, as was the experience with Nike’s labor practices.

Lay out a strategy for achieving these goals, in the form of a speech you will give to your board. Explain the potential upside but also the risks. And be frank about the allies you need to develop and the resources that will have to be mobilized in order for you to succeed.

**The problem here is to find something dramatic that people can relate to. Brent Spar worked because it was a compelling visual – and people are inclined to think that oil companies are polluting in any case. But this worked more with a German audience than elsewhere.**

**The difficulty with global warming is that it is very diffuse and somewhat vague. Perhaps finding a company that is not complying with existing emission standards would be a good way to proceed. Chinese coal-burning power plants might be one target, although this would come with some dangers.**

**Getting low pollution companies on board could be helpful. It would be good to build a lobby of powerful interests that want to address potential global warming – think about about big pharma helped get intellectual property rights protection in the Uruguay Round.**

**Discussion of the lessons from Brent Spar, Nike, and Unocal would definitely help most answers. Also the fight to get affordable HIV-AIDS treatment for low income countries may be a good model; finding and empowering activities could be the way to go.**

3.

You have been hired by the Chinese government to handle its public image around the world. Your clients are seriously annoyed by the amount of attention that their exchange rate policy has been gathering, and your mandate specifically is to put out positive messages about China's impact in (a) rich countries, (b) middle-income emerging markets, and (c) poorer countries.

You need to write up the key points that should be stressed in these messages – and also propose creative new ways to get them across. But you should also warn your clients with complete candor about how bringing more attention to some topics could start a debate that they would not like.

In this context, find a way to recommend three (3) substantive policy changes that the Chinese could consider as ways to “do good” and also gain appropriate recognition.

**China needs to move its exchange rate. This is really getting in the way of its relationships with other countries – as it effectively “takes jobs” from countries on various rungs of the productivity ladder.**

**It could sign up to best practices in terms of codes of conduct, e.g., for extractive industries and for its sovereign wealth fund. But do they want more scrutiny on these activities?**

**Giving away money is always good. Building roads and schools may be even better.**

**China could provide more financing to the IMF.**

**Nudging China towards more transparency could build more goodwill around the world. But it might come with internal disadvantages, as perceived by the people in charge.**

4.

Arvind Subramanian, a tireless champion of greater rights in the international arena for emerging markets (including India), has just been appointed Managing Director of the International Monetary Fund (IMF).

He wants you to join him in making the IMF “more representative” and also in changing its policies so that these are “more responsive to the needs of real people.”

You are willing to do this but the first order of business is the continuing crisis in the eurozone. Write a memo to Arvind that lays out (a) how the IMF should engage in the eurozone, (b) how this engagement can help feed into his broader strategy, and (c) what role you see specifically for emerging markets in helping to resolve the European crisis.

**The emerging markets have large amounts of reserves and these could help Europe – for example if committed through the IMF. But the Europeans don't want this kind of help, so the emerging markets would do well to stand back for now.**

**Arvind will want to push for greater voice and more votes for emerging markets at the IMF. The Europeans will resist – they do not want to reduce their influence at the Fund. But there may be a deal to be had, depending on how badly things go in the eurozone.**

**In any case, this question is all about the Power structure within the global economy, including how to this point – and why this history makes it hard to make change.**

5.

You have been brought in to advise the Irish Prime Minister. He wants to know how to rebuild the Irish economy using the insights from “Michael Porter’s Diamond.” In particular, he and his ministers have already chosen the slogan “Ireland is Back – Just Like Singapore,” and they want to know what policy changes will make this possible.

Your job is to explain how to use Porter’s Diamond but also to point out its limitations. You need to push them to think harder about where Ireland fits in the global economy. If you think they need to make substantive changes, be explicit about these. If you see any issues around Ireland’s image, you should highlight those.

**Singapore never had a crisis like that of Ireland, so the parallel doesn’t really work. Porter’s Diamond can give you a perspective on the elements that have to be present for a sector to be strong in international competition, but it’s not clear that this is the most relevant way to think about Ireland’s problems.**

**Ireland has a great deal of debt relative to GDP – and needs to decide if it can afford this going forward. If it tries to pay, there will be a great deal of fiscal austerity. If it doesn’t want to pay, debt restructuring will likely make it hard to attract much new investment in the near term.**

**A good answer should devote some space to discussing whether or not it would be good for Ireland to leave the eurozone – balancing the potential competitiveness gain against the disruption and uncertainty that would be caused.**

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