**B8220 SEC. 1: THE PRIVATE SECTOR AND INTERNATIONAL DEVELOPMENT**

**SPRING 2014**

Professor Jonas Hjort

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**REQUIRED PREREQUISITES AND CONNECTION TO THE CORE**

The learning in this course will utilize, build on and extend concepts covered in the following core courses:

<table>
<thead>
<tr>
<th>Core Course</th>
<th>Connection with Core</th>
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<tbody>
<tr>
<td>Strategy Formulation</td>
<td>1. Determinants of firm performance</td>
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<td>2. Trade-offs, efficiencies</td>
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<td>3. Diversification and scope</td>
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<tr>
<td>Managerial Economics</td>
<td>1. Hold-up</td>
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<td>2. Strategic interaction among firms and Nash equilibrium</td>
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<td>3. Market competition</td>
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<tr>
<td>Managerial Statistics</td>
<td>1. Linear regression</td>
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<td>2. Causal analysis</td>
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<tr>
<td>Global Economic Environment I</td>
<td>1. Economic growth and development</td>
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<td></td>
<td>2. Relationship between government policies and private-sector performance</td>
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<td>3. Global imbalances</td>
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COURSE DESCRIPTION

This course provides a framework for studying the role of the private sector in international development, and risks, challenges and opportunities that loom large in developing countries for private sector actors. As the globalization of firms continues apace, BRICS countries account for a steadily increasing share of the world economy and the business climate improves also in poorer developing countries – including, for example, parts of Africa in recent years – the value of such a framework for ambitious future managers becomes apparent.

Our focus will be on the non-market factors that influence private sector behavior in the developing world. Non-market factors are relevant for the behavior of firms anywhere but particularly important in poor countries. To succeed in developing countries – whether seeking new markets for its own products, new suppliers in its production process or high-yield local investment opportunities – a firm must be able to assess factors such as the risks posed by weak legal systems that limit the enforceability of contracts, corruption and political instability.

Our goal in this course is not to become experts on particular countries or regions but rather to train ourselves in the use of a framework and principles that can be applied across many countries, markets and sectors. The framework derives primarily from the field of economics, and we will not completely jettison its traditional assumption of efficient markets. But developing countries’ economies are characterized in part by significant market- and contracting failures, the analysis of which will play a large role in our analysis. In doing so we will integrate specific examples with the latest research in economics and other relevant fields.

We will consider solutions to specific problems posed by weak institutional systems, where the “rules of the game” may be vague, opaque, or under threat of change. In the process, we will also touch on deep issues in international development, and we will see that firms can have significant impacts – both positive and negative – in the places they operate. The opportunity to affect the local environment raises the possibility of ancillary social benefits on the one hand and possible ethical concerns on the other.

CLASS PREPARATION

Readings:

A course packet, which includes nearly all of the readings and cases, is required. There is no textbook for this course. For each topic, there will be a set of assigned readings, sometimes including cases, which will help develop the underlying concepts and/or provide examples. It is essential that you read these materials prior to class.

Extra Readings:

This course provides a broad survey of many issues, and at times you may want to read further about issues of personal interest. The reading list will therefore also point to resources where you may find more extensive (and technical) analysis. These readings are entirely optional, and are meant simply to provide a reference for you now or in the future.
ASSIGNMENTS AND EVALUATION

The grade is made up of four components: a group analysis and presentation; an essay; a final test; and class participation.

1. **Group analysis and presentation (25%, assignment type A).** Each class will begin with a 15-minute presentation applying the framework and concepts from the previous week’s class to a specific question or challenge facing a firm, investor, policymaker, social enterprise or NGO in a poor country. There will be 10 of these presentations, beginning in class #3. If you would like to get a group of approx. (# of students in class / 10) students together and pick a specific week’s material to focus/present on, feel free to do so (if you would e.g. like to present on the material from class 3 in class 4, let me know at least two days before class 3. First come, first served). If no group has picked a week one day before class, I will pick names at random from the class list and inform you of this by email. The group can then discuss possible questions to focus on before or after class with each other and me (be sure to get your question approved by me by the end of the day of class), giving you a week to work on the analysis and prepare a short presentation.

2. **Essay (25%, due April 23, assignment type C).** Use this essay as an opportunity to take a deeper dive into any of the topics we discuss in the course, elaborating on an idea that is triggered by, and making reference to, course materials. These should be short “think pieces” of perhaps 5-10 pages of text (single-spaced, normal margins). It is a good idea to mention your proposed question/idea to me ahead of time and get my reaction (in/after class or by email, or come to office hours if you’d like to discuss in more detail). There are many potential directions. A few examples:

- Provide an analysis of how your company or organization has dealt with the vagaries of bribe demands or contracting difficulties.
- What – if anything – could Honduras do to attract foreign investors in 2011?
- What are the considerations that a “double bottom-line” social enterprise should take into account in a situation in which its profit and social goals are not aligned?
- Why, in your opinion, have some large companies extracting natural resources in poor countries failed while others have succeeded?
- Why did a particular technology fail to spread while another similar one was widely adopted?

For both the group analysis/presentation and the essay, factors that will influence your grade include: clearly defining the issue to be addressed, drawing on course materials, drawing on materials/data from outside of the reading list, justifying your reasoning, etc.

3. **Final Test (30%, closed book):** There will be a 90-minute test on the final day that will focus on comprehension of core course concepts and materials. Many of these will be fact-based questions, but at the same time you should be able to intuit the answers to most of these if you’ve grasped the main concepts of the course.

4. **Class Participation (20%):** Attendance, preparation, and participation are essential. I will assume that you come to class prepared and may call on people at random on occasion. Please do not hesitate to point out anything in the material we go though in need of clarification (if something is not clear to you it is likely also not clear to your classmates).
CLASS SCHEDULE

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
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<tbody>
<tr>
<td>Jan 29</td>
<td>Welcome and overview of the course: Why are emerging markets still emerging?</td>
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<td><em>Part 1. The Rules of the Game 1: Property rights</em></td>
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<tr>
<td>Feb 5</td>
<td>Contractual problems and investor protection</td>
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<td>Feb 12</td>
<td>Intellectual property issues</td>
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<td><em>Part 2. The Technology of Production</em></td>
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<tr>
<td>Feb 19</td>
<td>The organization of the private sector</td>
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<tr>
<td>Feb 26</td>
<td>The organization of firms</td>
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<tr>
<td>Mar 5</td>
<td>Technology adoption</td>
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<td><em>Part 3. The Resources of Production</em></td>
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<tr>
<td>Mar 26</td>
<td>Exploiting natural resources in developing countries</td>
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<tr>
<td>Apr 2</td>
<td>Low wages and labor issues</td>
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<td><em>Part 4. The Rules of the Game 2: Politics, corruption and cooperate social responsibility (CSR)</em></td>
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<tr>
<td>Apr 9</td>
<td>Politics and the private sector</td>
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<td>Apr 16</td>
<td>Corruption</td>
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<td>Apr 23</td>
<td>Social enterprise and CSR</td>
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<tr>
<td>Apr 30</td>
<td>Test</td>
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READINGS

Jan 29: Welcome and overview of the course: Why are emerging markets still emerging?

Readings:
7. “Bulging in the Middle”, *The Economist*, October 20 2012

Optional Readings:
4. Acemoglu, Johnson, and Robinson, “Institutions as a Fundamental Cause of Long-Run Growth”, *Handbook of Economic Growth* (ch. 6), 2005

Feb 5: Contractual problems and investor protection

Readings:
5. Case: “Gazprom and Hermitage Capital: Shareholder Activism in Russia”

Optional Readings:

Feb 12: Intellectual property issues

Readings:

Optional Readings:
   (http://www.hks.harvard.edu/fs/dyanagi/Research/FakeDrugs.pdf)

Part 2. The Technology of Production

Feb 19: The organization of the private sector

Readings:

Optional readings:

Feb 26: The organization of firms

Readings:
4. “Give Sam Walton the Nobel Prize”, Foreign Policy, May/June 2013

**Optional readings:**

**March 5: Technology adoption**

**Readings:**
4. “Mobile Banking for the Unbanked”, HBS case

**Optional readings:**
8. “Is it a phone, is it a bank?”, *The Economist*, March 30 2013
Part 3: The Resources of Production

March 26: Exploiting Natural resources

Readings:
5. “Zimbabwe farmers turn to Nigeria”, Reuters, November 20 2009

Optional Readings:

April 2: Low wages and labor issues

Readings:
3. “Grinding the Poor,” The Economist, September 27, 2001
4. “Hitting the Wall: Nike and International Labor Practices”, HBS case

Optional Readings:
5. Kaur, “Nominal wage rigidity in village labor markets”, 2012, mimeo Columbia
Part 4. The Rules of the Game 2: Politics, corruption and corporate social responsibility

April 9: Politics and the private sector

Readings:
4. “Rwanda and other aid darlings: Efficiency vs freedom,” The Economist, August 5, 2010

Optional Readings:

April 16: Corruption

Readings:
5. “The Road to Hell is Unpaved,” The Economist, December 19, 2002
6. “Corruption in International Business (B)” (HBS)

Optional Readings:

April 23: Social enterprise and cooperate social responsibility (CSR)

Readings:
Optional Readings:
3. “Sustainability Nears a Tipping Point“, report on CSR by BCG and the MIT Sloan Management Review, 2012 (https://www.bcgperspectives.com/content/articles/sustainability_vision_mission_sustainability_nears_a_tipping_point/)

April 30: Test