

## Business and Policy in the Global Economy

STRT 560; Sections 1-4 (Module 1, Fall 2021)

<u>Section</u>	<u>Days</u>	<u>Time</u>	<u>Location</u>
1	MW	14:00 – 15:20	Hariri 490
2	MW	15:30 – 16:50	Hariri 490
3	MW	09:30 – 10:50	Hariri 490
4	MW	11:00 – 12:20	Hariri 490

### Instructor Information:

**Professor:** Dr. Rachel Wellhausen ([rachel.wellhausen@georgetown.edu](mailto:rachel.wellhausen@georgetown.edu))  
**Office hours:** Hariri 563 or Zoom, Tues 14:00 – 16:00 or by appointment  
([calendly.com/rwellhausen](https://calendly.com/rwellhausen))

**TAs:** TBD

### Course Description

In today's global economy, business is increasingly shaped by nonmarket factors. The competitiveness of firms depends as much on government policies and international rules as on their market strategies. The objective of this course is to survey these nonmarket risks in the global economy, as well as opportunities to which they can give rise. Throughout, we bear in mind developments in business-government interactions as a cause and consequence of the current era of popular backlash against economic globalization.

### Learning Goals:

- Understand political goals that motivate governments to open to global business.
- Understand sources of tension between foreign investors and governments.
- Survey informal and formal strategies to mitigate political risk and resolve disputes.
- Recognize the extraordinary variation in regulatory policy across countries.

### Administrative Policies:

**MSB Policies:** You are responsible for reviewing these important student policies and taking any related action in a timely manner. The linked documents below contain information on obtaining academic accommodations for disabilities, following Community Standards of conduct, requesting makeup exams, understanding instructional continuity when campus is closed, reviewing grading scales and max mean policies, missing class commitments for religious observances, and complying with copyright of course materials.

**Academic Accommodations** (MBA Student Syllabus Policies)

**Community Standards** (MBA Student Syllabus Policies)

**Makeup Exams** (MBA Student Syllabus Policies)

**Instructional Continuity** (MBA Student Syllabus Policies)

**Grading Scale** (MBA Student Syllabus Policies)

**Max Mean Grade Policy** (MBA Student Syllabus Policies)

**Recording Policy** (MBA Student Syllabus Policies)

**Religious Holiday Observances** (MBA Student Syllabus Policies)

**Copyright of Course Materials** (MBA Student Syllabus Policies)

### **Grade Determination:**

<b>Participation</b>	<b>15%</b>
<b>Quiz 1 (2-3 Sept)</b>	<b>20%</b>
<b>Quiz 2 (16-17 Sept)</b>	<b>20%</b>
<b>Group Project</b>	<b>45%</b>
<i>Proposal (27 Sept)</i>	<i>10%</i>
<i>In-class component (6 Oct)</i>	<i>5%</i>
<i>Deliverable (12 Oct)</i>	<i>30%</i>

### ***Details on grade components:***

<b>Participation</b>	<b>15%</b>
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Excellent participation means enhancing the experience of your classmates by arriving prepared to answer questions and to collaborate effectively with your peers. As a practical suggestion: have at least two comments or questions on the class materials prepared, so that you would have no problem responding to a “cold call.”

While in-class participation is essential, you are also encouraged to experiment with other ways of supplementing your participation, for example, by taking advantage of Canvas tools, organizing out-of-class discussions and study groups, or finding other innovative ways to engage with me and the TAs. We look forward to your creativity.

- ***End of course self-evaluation:*** At the end of the course, you will submit a brief self-evaluation in which you will describe what your participation strategy was; give precise evidence as to how you carried it out; and explain how this contributed to your personal goals with regard to the class and your education more broadly.
  - o *Tip:* It is important to describe your participation in terms of quantity. It is **\*MORE\*** important to describe your participation in terms of quality. See the language posted above regarding the focus on "breadth and quality."
  - o *Grading:* While we will take your self-reflection into account, it is only one component of our evaluations of your participation.

**Absence policy:** *This is an in-person course and attendance is required. Classes are recorded and made available to be of use as review materials.*

- ***One-time absence exception:*** Everyone has one excused, no-questions-asked absence. You do not need to inform the TA or the Prof that you are taking this absence; again, no explanation needed. To make up for the absence, you will complete the assignment here.

- **Additional absences:** If you are absent again, you should complete and submit the make-up assignment again. Add a brief note to the beginning of the assignment to explain the absence. We will take the context of additional absence(s) into account when grading the assignments.

**Assignment to make up for absence:**

- **Instructions:** Submit a 2-paragraph reflection on the missed content from the day. Your grade will be based on the quality of your reflection.
  - o *Note:* You will receive a poor grade if it is not clear to us from your assignment that you fully engaged with all the materials for the day – including but not limited to the readings, lecture, group work, additional notes/materials from your colleagues.
- **Due date:** The make-up assignment(s) must be submitted by the end of the course. We however strongly recommend that you complete them before the subsequent class session so that you stay current on the materials. We will grade these make-up assignments at the end of the semester after this final deadline, and the grades will be rolled into your overall participation grade.

<b>Quiz 1</b>	<b>20%</b>
<b>Quiz 2</b>	<b>20%</b>

Each quiz is a multiple-choice assessment covering materials on which you have not yet been assessed (that is, the quizzes are not cumulative). You will complete it on Canvas at the time of your choosing in a designated period. While the quiz is timed, the intention is to test knowledge rather than speed. The quiz is open-note but not open-colleague. We will review sample questions and expectations in class.

**Group Project** **45%**

The intention of this project is for you to apply what you have learned by advising a foreign investor currently embroiled in a dispute with the government of the country in which it invests. To complete this project, you will be randomly assigned to work in a small group, and all students in the group will receive the same grade. What follows is an overview of the assignment; we will discuss more in class.

**Proposal (10%):** Your group will select an unresolved Investor-State Dispute Settlement (ISDS) arbitration, in which a foreign investor has sued a host country for compensation over alleged property rights violations under an international investment treaty. <https://investmentpolicy.unctad.org/investment-dispute-settlement>. You will submit a proposal to support your choice of this dispute, in which the group will provide a justification as to why analyzing this dispute will maximize your takeaways from the course (maximum 2 pages). You will also identify and justify a second choice (maximum 1 paragraph). We will grade you on the quality of the justification, and we will lock-in which dispute you will analyze. *It is your responsibility to do research to confirm that there exists enough public information on the claimant investor and the dispute that you select for you to successfully complete the project.*

***In-class component (5%):*** In 3 minutes/1 slide, your group will: (1) lay out the substance of the dispute and the alleged property rights violation, and (2) explain one specific political risk management strategy relevant to the dispute that you think could be relevant to your colleagues' projects as well.

***Deliverable: Slide deck (30%):*** Your final goal is to produce a deliverable in the form of a slide deck aimed at the claimant's management. To be most successful, the slide deck will reflect that you can appropriately apply and extend material from the class; that you deeply understand the dispute under study and are also able to generalize beyond it; and that your decisions in assembling the deck (re: design, length, etc.) result in concision and clarity. In your slide deck, you will advise the claimant on the following, in whatever order/arrangement you see as appropriate.

*Characterize in general terms what went wrong:*

- What were the government's interests with regard to the claimant's investment?
- When and how did the claimant's and the government's interests come into conflict?
- Does your assessment of the situation match with those in the claimant's and government's legal filings? Why or why not?

*Advise on what to do going forward in this situation:*

- If the claimant were to invest further in the host country, what strategies should the claimant pursue in order to manage future political risks?
- Supposing political risk and its management were the deciding factor in the claimant's future investment decisions, would you advise the claimant to stay or go (or something else)? Explain.

*Address the claimant's broader exposure to political risk:*

- What potential sources of political risk are most relevant to the claimant in its investments abroad? Explain.
- What general strategies would you offer to the foreign investor to mitigate political risks in any given host country?

## **SCHEDULE AND MATERIALS**

### **(Part 1) Politics and Policy as a Cause of Global Business**

**(25 Aug; 30 Aug; 1 Sept)**

#### **(25 Aug) Class 1.1: Introduction**

***Key takeaway:*** *Economic globalization is the result of political choices, and ever-expanding global business is not guaranteed.*

***Framework:*** *Globalization's "winners" v. "losers" as a determinant of policy*

#### ***Required reading:***

- Frieden, Jeffrey. "The Political Economy of Economic Policy." *Finance and Development*: June 2020.

### **(30 Aug) Class 1.2: Why governments choose economic openness**

**Key takeaway:** *Global business and government priorities can be mutually reinforcing.*

**Framework:** *Business as a source of positive externalities for maintaining political power*

**Required reading:**

- "Chapter IV: Investment and New Industrial Policies." *World Investment Report 2018*. Read Pp 125-145.
- Scheve, Kenneth and Matthew Slaughter. "How to Save Globalization." *Foreign Affairs* 97(6): Nov/Dec 2018.

### **(1 Sept) Class 1.3: What governments do to attract global business**

**Key takeaway:** *At entry, foreign investors hold bargaining advantages that incentivize governments to promise preferred regulatory policies.*

**Framework:** *Countries compete in a global marketplace for foreign capital*

**Required reading:**

- "Chapter IV: Investment and New Industrial Policies." *World Investment Report 2018*. Read Pp 146-164.
- Graham, Mary. "Environmental Protection & the States: "Race to the Bottom" or "Race to the Bottom Line"?" *Brookings*: 1 December 1998.
- Jensen, Nathan M. "Do Taxpayers Know they are Handing out Billions to Corporations?" *New York Times*: 24 April 2018.

### **(2-3 Sept) \*\* Quiz on Part 1 (on Canvas) \*\***

## **(Part 2) Sources of Political Risk for Global Business**

**(6 Sept [~~Labor Day~~], 8 Sept, 13 Sept, 15 Sept)**

### **(8 Sept) Class 2.1: Operationalizing political risk**

**Key takeaway:** *Increasingly broad and deep definitions of political risk make estimates more reliable for global business; however, it also provokes backlash as sovereign governments see more of their policy choices categorized as illegitimate.*

**Framework:** *Political risk insurance*

**Required reading:**

- Wellhausen, Rachel. *The Shield of Nationality: When Governments Break Contracts with Foreign Firms*. Cambridge University Press: 2015. [Read Chapter 1.](#)
- Hobern, Laura and Derek Newton. "Political risk insurance: A primer." *Milliman*: 12 October 2017.
- "Lloyd's City Risk Index: Global analysis of political risk." *Centre for Risk Studies, University of Cambridge Judge Business School*: 2019.

### **(13 Sept) Class 2.2: The structure of business as a source of political risk**

**Key takeaway:** *Commonplace strategic choices that firms make in order to be competitive can increase nonmarket risks.*

**Framework:** *Credibility of the threat of exit*

**Required reading:**

- Gould, John and Matthew Winters. "An Obsolescing Bargain in Chad: Shifts in Leverage between the Government and the World Bank." *Business and Politics* 9(2): 1-36. 2007.

- Johns, Leslie and Rachel Wellhausen. "Under one Roof: Supply Chains and the Protection of Foreign Investment." *American Political Science Review* 110(1). Read pp 31-35.
- Johns, Leslie and Rachel Wellhausen. "The Price of Doing Business: Why Replaceable Foreign Firms get Worse Government Treatment." *Economics & Politics*. 33(2). Read Sections 1 and 2.

### **(15 Sept) Class 2.3: Bilateral relations as a source of political risk**

**Key takeaway:** Home and host governments regularly use targeted, bilateral economic policies – that generate costs for business – as tools in pursuit of foreign policy goals.

**Framework:** Variation in foreign investor nationality

#### **Required reading:**

- Wellhausen, Rachel. *The Shield of Nationality: When Governments Break Contracts with Foreign Firms*. Cambridge University Press: 2015. Read Chapter 2.
- Felbermayr et al. "The Global Sanctions Data Base." *VoxEU.org*: 4 August 2020. *Strongly recommended: Explore the database yourself.*
- Read through the website of the DFC: US International Development Finance Corporation, in order to understand (at minimum) their mission, their political risk insurance products, and their impact. <https://www.dfc.gov/>

### **(16-17 Sept) \*\* Quiz on Part 2 (on Canvas) \*\***

## **(Part 3) Political Risk Resolution and Mitigation**

### **(20 Sept) Class 3.1: Suing a host government under international law**

**Key takeaway:** Foreign investors have international legal recourse to seek compensation from host countries for realized political risks – and it is incredibly controversial.

**Framework:** Filing for Investor-State Dispute Settlement (ISDS)

#### **Required readings:**

- Wellhausen, Rachel. "Recent Trends in Investor-State Dispute Settlement." *Journal of International Dispute Settlement*: 1-19. 2016.
- Peinhardt, Clint and Rachel Wellhausen. "Withdrawing from Investment Treaties but Protecting Investment." *Global Policy*: 2016.
- *Recommended:* ISDS documentary (ARTE). Note: Anti-ISDS perspective. (1hr30min)

### **(22 Sept) Class 3.2: Political risk mitigation strategies**

**Key takeaway:** Foreign investors have developed a myriad of creative strategies to mitigate political risk, the most effective of which are tailored to the specific context of a particular investor-host government relationship.

**Framework:** Retrospective analysis of concluded ISDS cases

#### **Required readings:**

- "Policy Options to Mitigate Political Risk and Attract FDI." *World Bank*: 2020.

**To prepare for class – "match-making" for final project:** Be ready to discuss one example of (1) a real-world firm's political risk management strategy, (2) the narrative of how it played out in a specific context, (3) an evaluation of and explanation for its success (or not), and (4) citations and/or details on where you found this information.

**\*\* DUE 23 Sept (by midnight): Email TA with final group project team (3-5 members) \*\***

**(27 Sept) Class 3.3: Risk mitigation through coalition-building?**

**Key takeaway:** *It can be difficult but useful for investors to collaborate with other foreign investors, domestic firms, NGOs, and/or other actors in pursuit of mitigating political risk.*

**Framework:** *Collective action and public goods*

**Required readings:**

- Olson, Mancur. 1982. "Chapter 2: The Logic." In *The Rise and Decline of Nations*. New Haven: Yale University Press.
- "The Free Rider Problem." *Stanford Encyclopedia of Philosophy*. 21 May 2003.
- "What is the Free Rider Problem?" Youtube, Marginal Revolution University. 18 July 2018. 2 minutes.
- Kaplan, Robert et al. "Inclusive Growth: Profitable Strategies for Tackling Poverty and Inequality." *Harvard Business Review*: January-February 2018.

**(29 Sept) Class 3.4: Risk mitigation through global governance?**

**Key takeaway:** *Multinational firms are increasingly influential in efforts to harmonize international regulation and shape international economic rules alongside countries.*

**Framework:** *Private MNC goals and/or public goods provision?*

**Required readings:**

- Donnan, Shawn. "Christine Lagarde warns of global 'economic malpractice'." *Financial Times*: 28 September 2016.
- Rodrik, Dani. "Industrial Policy, Innovation, and Global Rules." *World Trade Report Opinion Piece*. 2020.
- "How the Economy will look after the Coronavirus Pandemic." *Foreign Policy*: 15 April 2020.
- *World of Work: The Magazine of the International Labor Organization*. 2019 issue. *You do not need to read the articles beginning at p7 or p46.*
  - o Tip: focus on general themes/takeaways from the magazine and its contents as a whole, rather than the specifics of the articles themselves.

**\*\* DUE 30 Sept (by midnight): Group project proposal/justification \*\***

**(4 Oct) Class 3.5: Risk mitigation through engagement with activism?**

**Key takeaway:** *Consider the potential for mutually beneficial collaboration with activist groups at home and abroad.*

**Framework:** *Private MNC goals and/or public goods provision?*

**Required readings:**

- Rodrik, Dani. "New Firms for a New Era." *Project Syndicate*: 12 February 2020.
- Ferraro, Salvatore. "What limits shareholder activism as a force for good: the free-rider problem." *The Conversation*: 11 December 2019.
- Hutson, Matthew. "Who Should Stop Unethical AI?" *The New Yorker*: 15 February 2021.

**(6 Oct) Class 3.6: \*\* Group project in-class component \*\***

**(12 Oct, by midnight) \*\* DUE: Slide Deck \*\***

**(13 Oct, by midnight) \*\* DUE: Self-assessment of participation \*\***