The Political Economy of the Latin American Business Environment

Professor: Joseph Ricciardi  ph/voice mail: 239-4530
Office : Mustard 202 Fax: 239-5239
e-mail: jr@salsa.babson.edu Website: http://salsa.babson.edu

LATIN AMERICA: MBA 7365A Saturdays: Feb 09, March 02, March 09

Spring 2002

Educational Objectives:

• To develop an understanding of the distinctive nature and challenges of the Latin American business environment, viewed from the vantagepoint of developing economies.
• To heighten student awareness of the importance of economic and historical analysis for systematically examining the region’s diverse business environments.
• To broaden the scope of debate regarding policy formulation and the role of the state as it relates to the management of volatility in the business environment.
• To develop an understanding of the impact of the business environment on firm survival and performance and the implications for the formulation of managerial strategy.

Course Description:

This course examines the distinctive nature and challenge of the Latin American business environment: Economic and social volatility. Through examination of the region’s troubled development legacy, its embroiled macropolicy controversies, and its precarious position in the global circuits of capital, we seek to better understand the forces which shape the contemporary Latin American business environment.

The course begins from the premise that lesser developed country (LDC) economic environments pose fundamentally distinct challenges to business operations and strategy than encountered in developed country (DC) environments. In LDCs the volatility of key economic variables (prices, interest rates, exchange rates, capital flows, and even output) is an order of magnitude greater than DCs. As a result, business success or failure depends critically on the information economic analysis has to offer. In addition, the expanded role of the state in shaping the business environment in such a context highlights the importance of political economy in understanding and navigating the Latin American business environment.

The course embraces the view that effective management in developing countries requires the capacity to analyze, understand, and manage a volatile set of external forces enveloping the firm. Managers must identify what to analyze in the business environment as well as confront how to assess its relevance to the firm's strategy. From the vantagepoint of the traditional MBA curriculum, the "context-dependent" character of LDC analysis suggests that theories and management practices developed for the Northern hemisphere could yield very different and perhaps undesirable results in the South. The more volatile nature of Latin America’s economic and political climate warrants elevating business environment analysis from the background to the foreground of the course.
Course Organization:

The course is organized into two major components:

Part I: The Latin American Business Environment--Managing Volatility

I ideological Volatility: We examine the development and radicalization of competing development paradigms--The neoclassical-monetarist, Keynesian-Structuralist-Dependency, and Marxian approaches. We explore the trajectory of these distinct “ways of looking” at the development process and examine how these paradigms shape the analysis and policy prescriptions designed to address the region’s pressing development concerns.

Terms of Trade Volatility: We examine the historical roots of the region’s legacy of protectionism and industrial policy. Special attention will be given to the work of Raul Prebisch, the evolution of ECLA, and the subsequent emergence of the ‘Dependency’ school. We review the historical record of the Import Substitution Industrialization strategy, contrasting it with the contemporary neoliberal export-led industrialization strategy that formed the centerpiece of the 1990s “Washington Consensus.”

Coping with Economic Instability--The Debt Crisis and Hyperinflation: The debt-addiction and loan Pushing behavior that led to the 1980s debt crisis is examined, highlighting its role in the explosion of hyperinflation that plagued the region during the late 1980s and early 1990s. We note the sharp turn in the public debate between orthodox and heterodox approaches to stabilization. Through cases, we examine firm survival strategies in the various business functional areas to navigate the crisis.

Managing Political Volatility: We examine how firms cope with abrupt alterations in the political arena, where shifts in national strategy produce radical changes in the “rules of the game” for business. More generally, we examine the changing face of the Latin American state in shaping the business climate; e.g. Venezuela, Colombia, Peru, Ecuador, and Mexico.

Capital Surges and Financial Instability: In the early 1990s Latin American stock exchanges topped global charts in emerging market performance. We examine this market euphoria in the context of the return of capital to the region and the subsequent financial destabilization and “emerging market blues” produced by Mexico’s “Tequila Crisis,” Argentine banking distress, and the Washington Consensus “morning after.” From ‘Tequila’ to the ‘Tigers’, then ‘Vodka’, and ‘Caipirinha’, we examine the challenge of navigating the circuits of International Financial Capital and the significance of banking fragility in a world of volatile hot money flows and political insurgency fueled by growing distributional gaps.

Technological Volatility: Through class projects we will examine the opportunities and challenges to international competitiveness posed by the recent convergence (and rupture) of network technologies and capital flows in e-commerce and e-business activities.

Part II: The Salient Issues

While Part I examines the managerial challenges posed by the volatile swings in the region’s macro business environment in historical context, Part II encourages students to examine contemporary issues facing the region via the research and presentation of structured student projects. Potential
topics are driven by the interest of the class. Topics may include, but are not limited to themes such as:

- Venture Capital in Volatile Latin Capital Markets
- Dollarization and Currency Crises: Chiapas and the Peso, Hyperinflation and Argentine Convertibility, Indigenous Uprising and the End of Ecuador’s Sucré
- Latin American Banking Crises
- Latin America and the Asian Model: Lessons for Emerging Market Economies at Maturity?
- E-Business: Virtual Colonialism or Development Opportunity?
- Privatization: What happens after you privatize everything?
- Regional Trade and Financial Agreements
- Social Security Reform
- Mercosur and Argentine Distress
- Chavez, Fidel, and Radical Populism in Venezuela
- Chile Against the Odds of Global Recession
- Knowledge-based Enterprise Initiatives in Latin America

COURSE REQUIREMENTS:

- You are expected to have a functional introductory background in economics. Good foundations in International Macro are particularly important.

- There will be a final exam covering the readings and material discussed in class.

- The class will be divided into student groups to research and prepare graded class presentations of findings on the selected “Salient Issues” topics listed for the second part of the course. Each group must submit a written report with their presentation. Project proposals must be approved in advance via the Group Workspace area on the class website. Structured project guidelines are forthcoming.

- Students will be responsible for preparing short presentations to initiate discussion on the topics to be covered in class. This will be done on a rotating basis using assigned groups.

- We will adopt a seminar format. Class participation is graded—both virtual and real. Participation in online threaded discussion is encouraged. All caveats regarding quality vs. quantity of participation apply. You are expected to be prepared to answer questions on the readings in class. In addition, you are asked to follow current economic and political events in an assigned country with the object of developing “country expertise” for contribution to class discussion.

- It is impossible to participate in absentia.

- You will be encouraged to attend a number of guest lectures by experts on Latin America sponsored by the Babson Latin Forum. These activities are considered a mandatory component of the course.

Grading:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final Exam</td>
<td>≈25%</td>
</tr>
<tr>
<td>Group Presentation and Written Report</td>
<td>≈45%</td>
</tr>
<tr>
<td>Class Participation and Discussion</td>
<td>≈30%</td>
</tr>
</tbody>
</table>
**TEXTS:** The following materials have been ordered for this class:


Franko, Patrice (1999); The Puzzle of Latin American Development; Rowman & Littlefield.

Students can also expect supplemental reading materials distributed in the form of class handouts or posted on the class website.

**Internet Based Resources:**

A web site to facilitate learning outside of class sessions is being developed for this course at URL: [http://salsa.babson.edu/](http://salsa.babson.edu/)

The class outline of weekly seminar discussion topics, assignments, and supplemental course materials will be posted at this website, with a password for student access to be issued in class.