
CASE STUDIES

“Case Studies” presents a case pertinent to contemporary issues and events in investment management. Insightful and provocative questions are posed at the end of each case to challenge the reader. Each case is an invitation to the critical thinking and pragmatic problem solving that are so fundamental to the practice of investment management.

Jack L. Treynor, Senior Editor



A Lively Expectation of Favors Yet to be Received

Because it offered a special combination of cheap labor and high quality bauxite ore, Phil Baker had been able to persuade American clients to invest in the developing country of Parantula.

But now he had a problem. Parantula had no middle class, no semblance of democracy. All the political power resided in its leader, Fidel Bistro. Fortunately Fidel had demonstrated his willingness to protect the mines with a large, highly active militia.

Over the years, the development of the country’s deposits had required investment in railroads, docks, as well as in the mine itself, creating badly needed jobs, both in the construction and in the subsequent operation.

Phil was satisfied that as long as Fidel needed more foreign investment, he would continue to honor the claim of Phil’s investors. Growing demand for aluminum—civilian and military—was something he did not need to worry about. But

imagine Phil’s surprise when he read in the *Wall Street Journal* about the findings of a new geological survey: Parantula was reaching the limits of its ore deposits. Fidel’s response was that Parantula probably had other natural resources that had not yet been developed. The article concluded with the observation that although there were other countries with bauxite deposits, not many had governments as friendly to investors.

Questions

The geologist’s comment got Phil to thinking. If Fidel decides to take over the mines, who can Phil complain to? The Americans’ investments were irreversible.

What if some other country had discovered bauxite deposits that were cheaper to mine? What if Parantula had been losing workers to neighboring countries? What if Bistro had enlarged the size of his militia and asked Phil’s investors to pay the cost?

How would it change Phil’s problem if Parantula had been more democratic—if the benefit for

Parantula's government had consequently been political rather than personal? What if he used the profits to build schools and roads, shorten the mine workers' work day or improve their safety?

Should Phil offer Fidel a personal interest in the mines?

Could Phil use a private contractor like Blackwater to protect his investors?

Should Phil try to find a buyer without any experience in countries like Parantula before Fidel takes any action?

Does Phil's problem explain why rich western countries used to limit foreign investment to their colonies?