

BUSI 1301 – Business Principles in a Global Economy

Professor: Dr. Joseph L Thompson



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 - 1130-1230 M
 - 12-1 PM Tue



Class TA

- See the syllabus for contact information
- The TA is your point of contact for everything course-related
- Students must email the TA first
- Check the Syllabus Course Calendar and Other Information Before Contacting the TA.

Required Texts

1. The Syllabus (This is the most important document in the course. Students must keep up to date with the syllabus. If changes need to be made, the professor or your TA will inform students.)
2. Geringer - International Business (3rd edition) with Connect Plus.
3. Some topics require additional readings and videos. Those readings and videos will be located in the appropriate topic folder

Recommended Readings

- Each student should acquire a copy of the classic book on writing style, *The Elements of Style* by William Strunk and E.B. White. This book will help all students learn how to write effectively for all writing inside and outside of college.
- Anyone involved in global business should be aware of business resources that provide information on industries, companies, markets, and more. Students should also pay close attention to media outlets for up to the minute stories that can have a dramatic impact on international businesses. The following library resources are highly recommended and should be used by each student when conducting research on the international business environment. These sources can be accessed via the UH library by using your CougarNet ID to log in. Click on the link (<https://guides.lib.uh.edu/business>) for more details about each of these sources.

Mental Health
Counseling and Psychological Services
<http://www.uh.edu/caps>
(713) 743-5454



Let's Talk Program
(no appointment necessary): [http://
www.uh.edu/caps/outreach/
lets_talk.html](http://www.uh.edu/caps/outreach/lets_talk.html)



Economic Systems and History of Globalization

Key Terms:

- Globalization
- Hyperglobalization
- International Trade
- Regional Trade Agreement (RTA)
- Free Trade
- Protectionism
- Mercantilism
- Absolute Advantage
- Comparative Advantage
- Corn Laws
- Resource Endowments
- Overlapping Demand
- Porter's Diamond
- Import-Substitution Industrialization
- Export-Oriented Industrialization

Lecture Outline:

- I. Globalization
 - I. A (Hyper)Globalized World
 - II. Globalization: Pros and Cons
- II. The Basics of International Trade
- III. The Regionalization of International Trade
- IV. The History of International Trade Theory
 - I. Mercantilism
 - II. Adam Smith and Absolute Advantage
 - III. David Ricardo and Comparative Advantage
 - IV. The Repeal of the Corn Laws
- V. Newer Theories of International Trade
 - I. Resource Endowments
 - II. Overlapping Demand
 - III. Porter's Diamond (Competitive Advantage)
- VI. Free Trade vs. Protectionism: Examples
 - I. Import-Substitution Industrialization (ISI)
 - II. Export-Oriented Industrialization

What is Globalization?

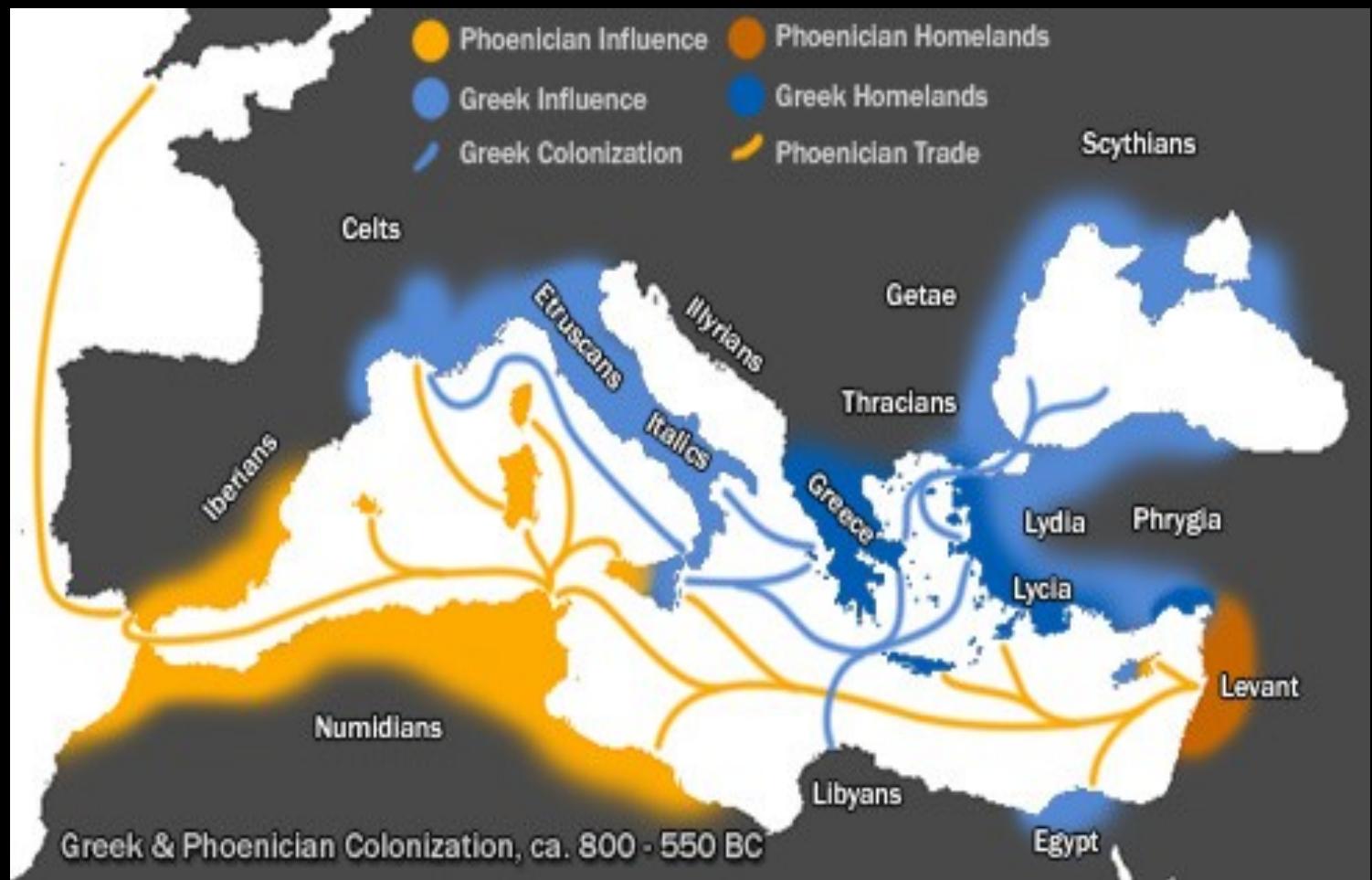


Freight trains waiting to be loaded with cargo to transport around the United Kingdom. This cargo comes from around the world and contains all kinds of goods and products.

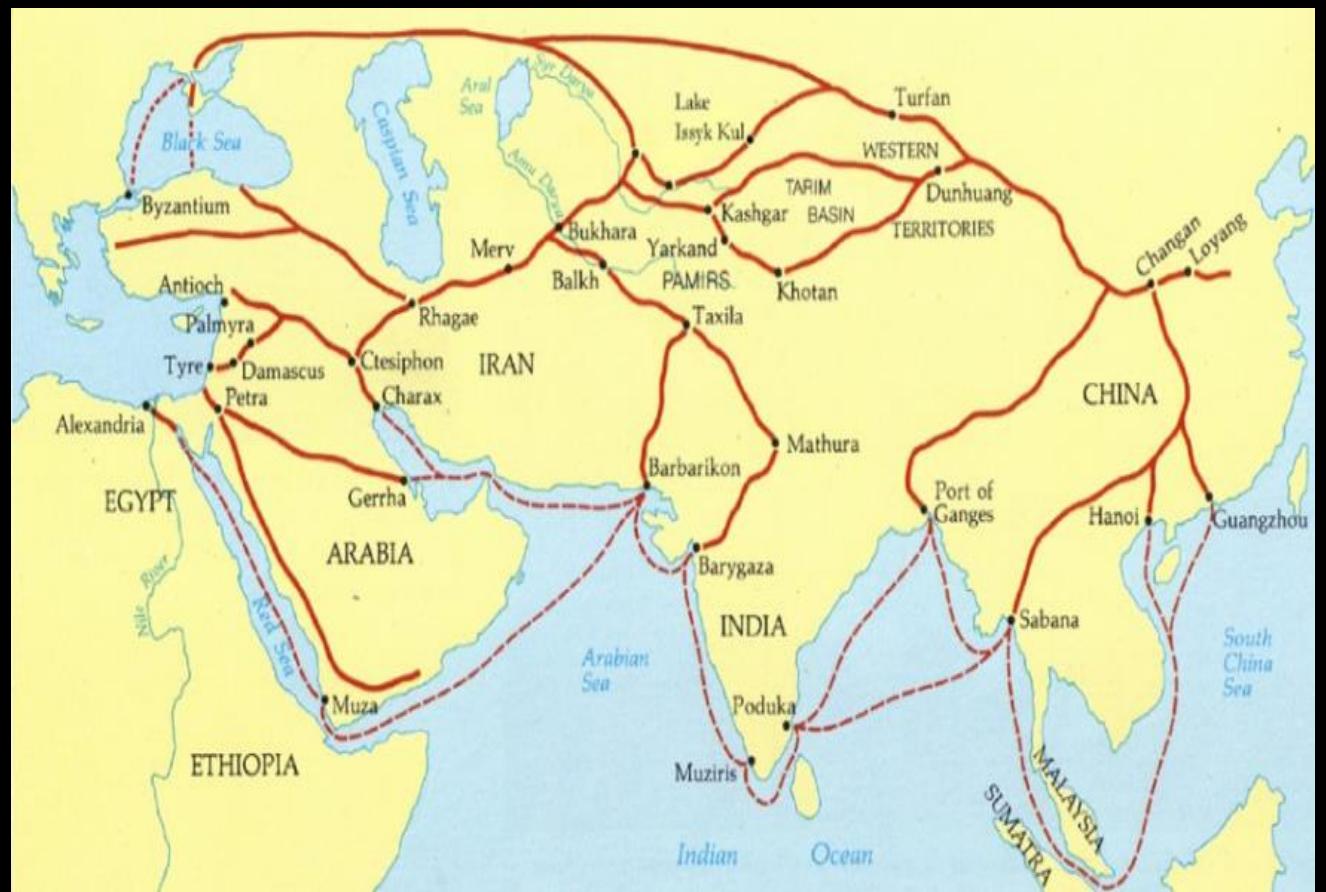
National Geographic:
“Globalization is a term used to describe the increasing connectedness and interdependence of world cultures and economies.”

Origins of International Business:

Ancient Trade



The Silk Road: 200s-1400s C.E.

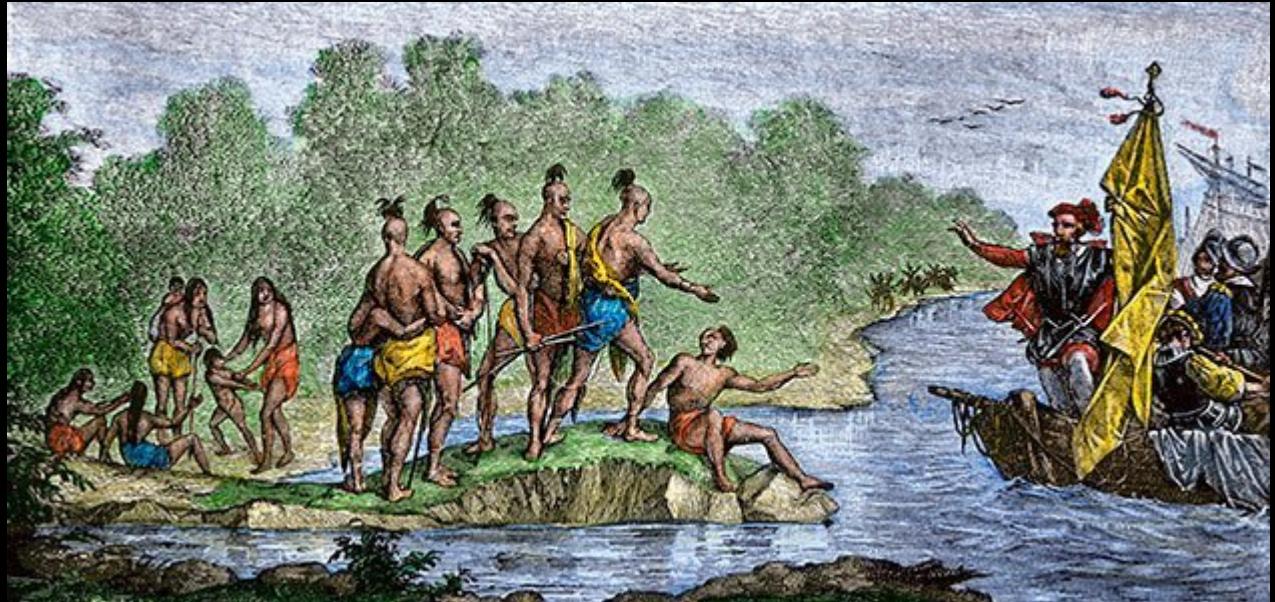
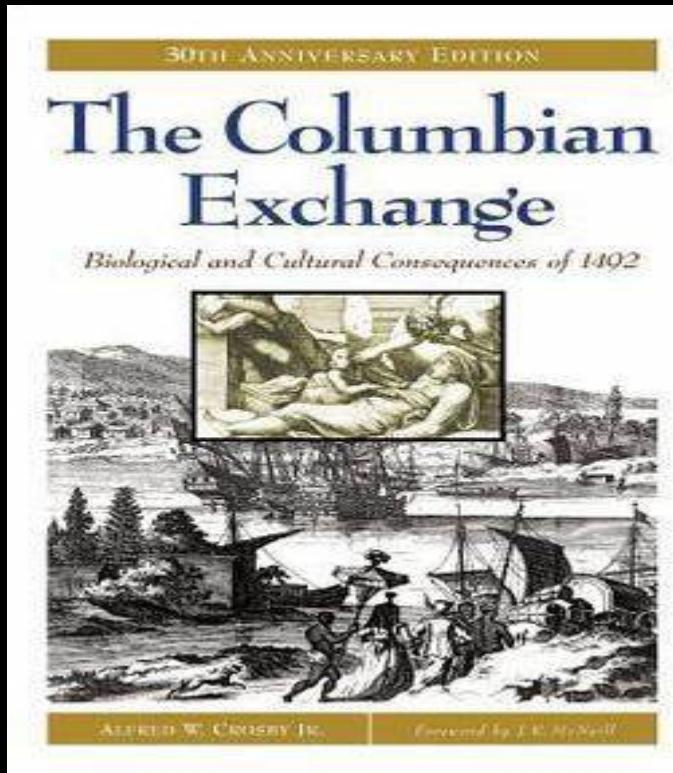


Disease and Trade



- The Black Death, which arrived on the shores of the Black and Caspian Seas (The great historic barrier of the Caucasus Mountains rises up across the wide isthmus separating the Black and Caspian seas in the region where Europe and Asia converge.) Starting in 1348, within 10 years, a third of a population of Europe died. So this is a great example of the impact disease had on trade. Think about today? How will COVID19 change our lives in the future.

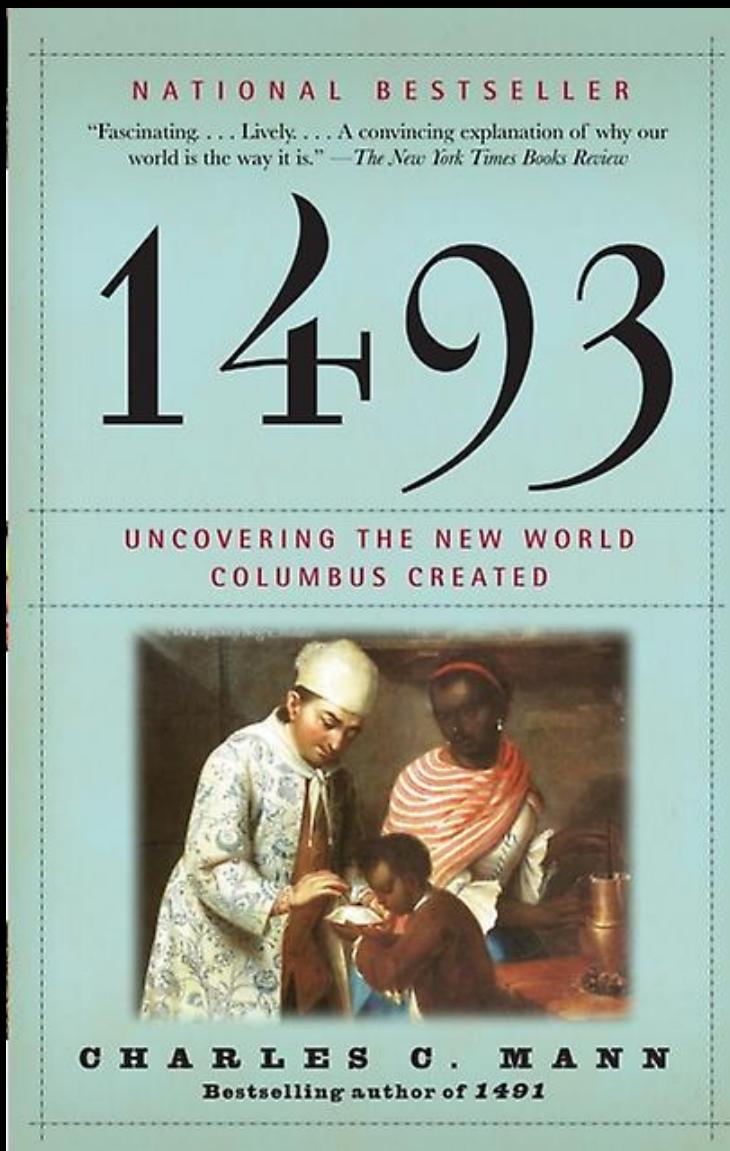
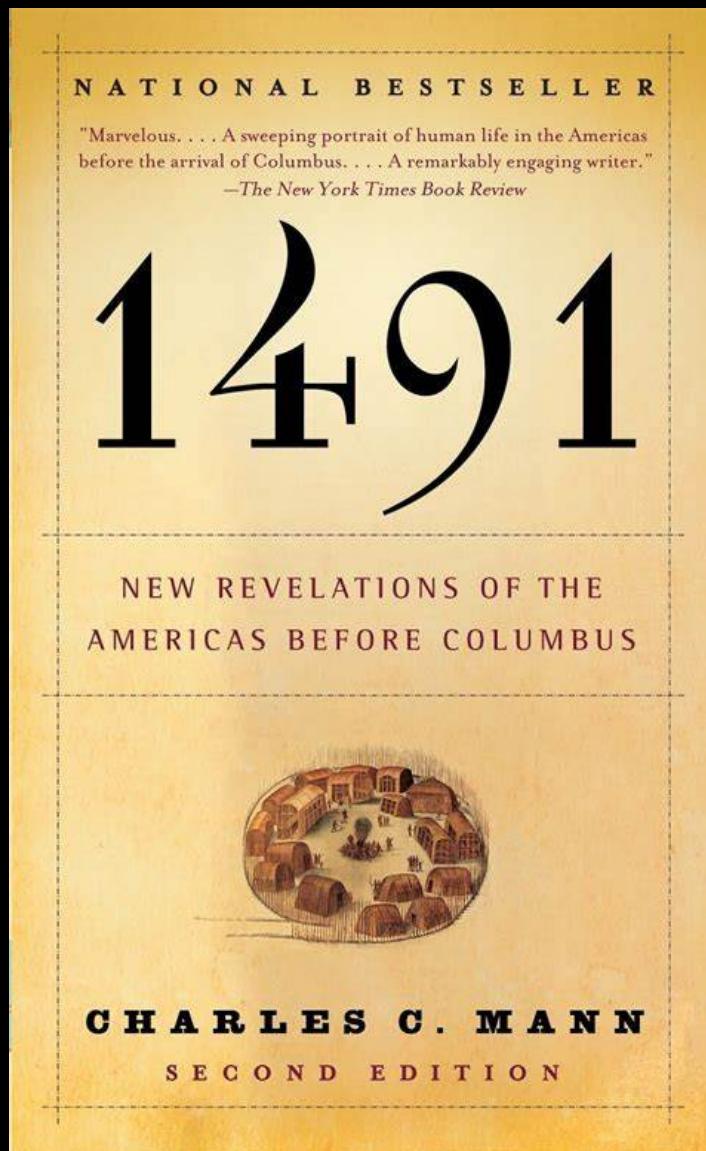
Birth of Globalization? Birth of Modern Globalization...



Historian Alfred W. Crosby coined the term "Columbian Exchange" in reference to the impact of living organisms traded between the New World and Old World

Two Worlds and ecosystems separated for millions of years were suddenly brought back together. This is called the Columbian Exchange (ecological convulsion) has been called one of the biggest events in the “history of life since the death of the dinosaurs.” Played a huge role in human history. The year 1492, this “Columbian Exchange” between two different worlds, is the birth, as many experts would say, of globalization.

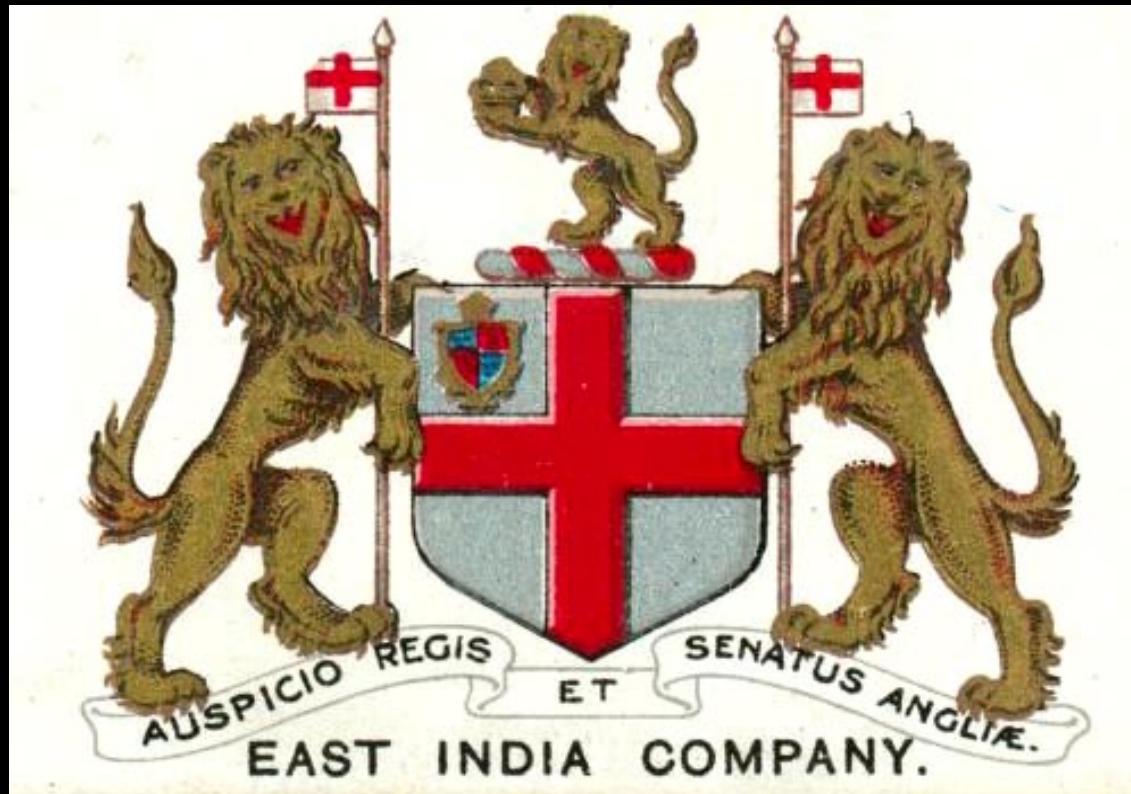
Charles Mann – 1491 and 1493



Video Link:

<https://youtu.be/nhncJH4UFQI>

The First MNCs: Joint Stock Companies



- Out to make a profit, but more importantly served the needs of their home countries
- Examples: British East India Company, Dutch East India Company
- Part of mercantilist system

Mercantilism (16th-18th centuries)

- Dominant mode of economic thought in early modern Europe
- Make the state stronger and more powerful
- This required resources that could be turned into goods for export
- Positive balance of trade
- Government intervention: high tariffs on imports and other restrictions

The Globalization of Markets



- 1980s: Theodore Levitt argued technology was creating a global market
- *“Ancient differences in national tastes or modes of doing business”* will disappear
- Standardized products, standardized manufacturing, standardized trade and commerce
- Was Levitt right?

(Hyper)Globalization

- Industrial Revolution began to erode protectionist policies and beliefs
- By WWI, a number of American companies went abroad
- Bretton Woods conference 1944: Changed the game. Delegates from 44 allied nations to discuss this new monetary order. Facilitate a system of international trade. Meant to be a superior alternative to the interwar monetary order that led to the Great Depression and WWII. This helped kick off globalization. Established system of payments based on US dollar. Defined all currencies and its relation to the dollar. US currency is effectively the world currency.
- 1980s-today: (hyper)globalization



Why Globalize?



Jack Welsh, former CEO of (GE) General Electric

- Politics
- Technology
- Markets
- Costs
- Competition

Five Drivers of Globalization



Globalization: Good or Not So Good?



- Good:

- Promotes economic growth
- Creates better job opportunities



- Evil:

- Hurts local/small businesses
- Corporations take advantage of workers
- Harms the environment
- Widens gap between rich and poor



Comments for and against Globalization: French President Emmanuel Macron (left) and Jeffry Frieden (right), Professor of Government at Harvard University | Specializes in politics of international monetary and financial relations.

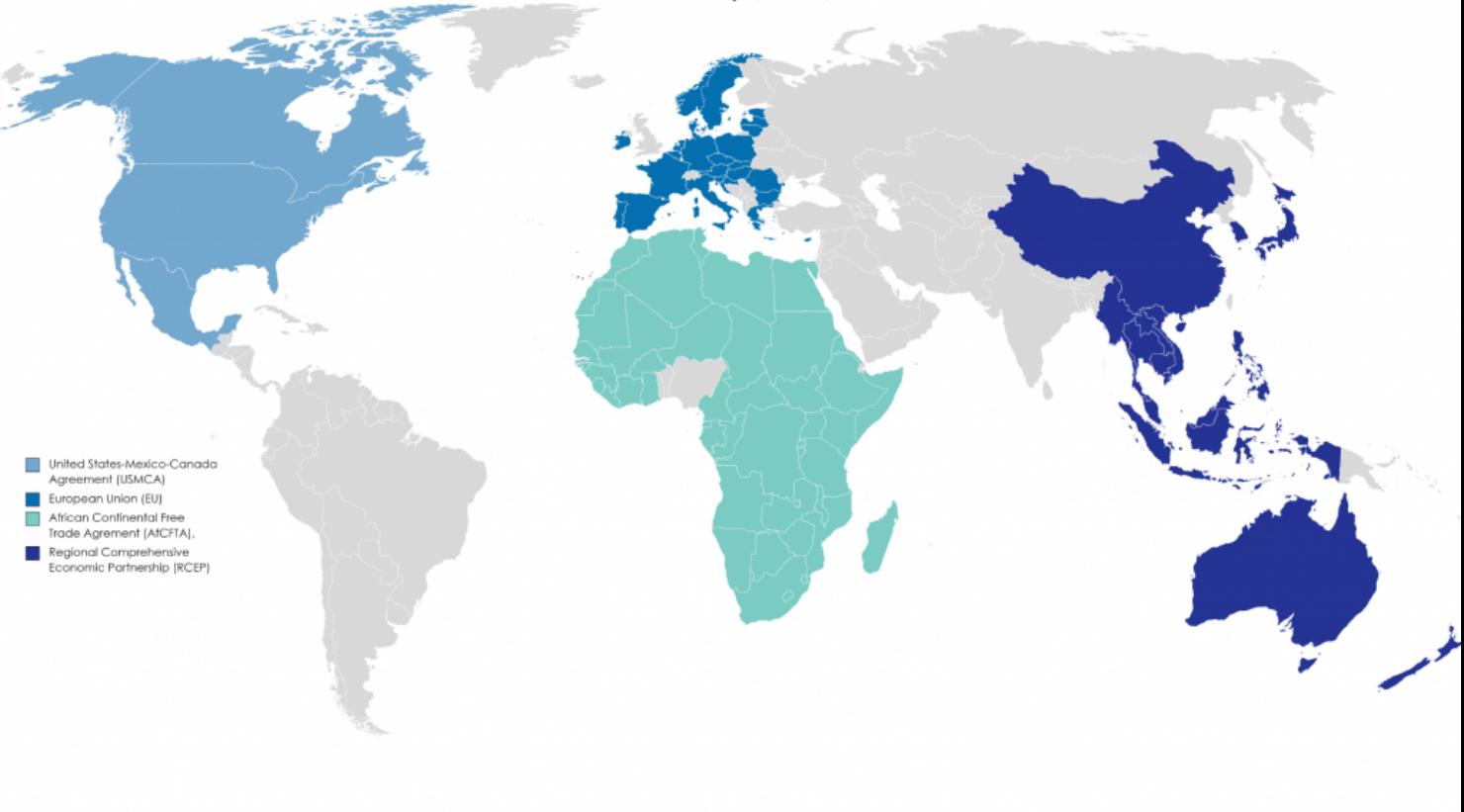
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Regional Trade Agreements (RTAs)

- Lower barriers to trade between neighboring countries
- Examples:
 - NAFTA
 - Pacific Alliance
 - Trans-Pacific Partnership (TPP)
- Why RTAs?

The Four Largest Trade Agreements Today

European Union (EU), United States-Mexico-Canada Agreement (USMCA)
African Continental Free Trade Agreement (AfCFTA), Regional Comprehensive Economic Partnership (RCEP)



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RTAs from a Business Perspective

- Little to no trade regulations, such as tariffs or quotas
- Known infrastructure in place for handling your products
- Demand for your products because of cultural similarities
- Importing encourages neighboring countries to buy from you

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Other Benefits of RTAs

- Lower importing prices for RTA member countries
- Decreased reliance on countries outside of the RTA
- Increased bargaining power on the world stage
- Entry point into international trade negotiations

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Free Trade vs. Protectionism: Still Relevant



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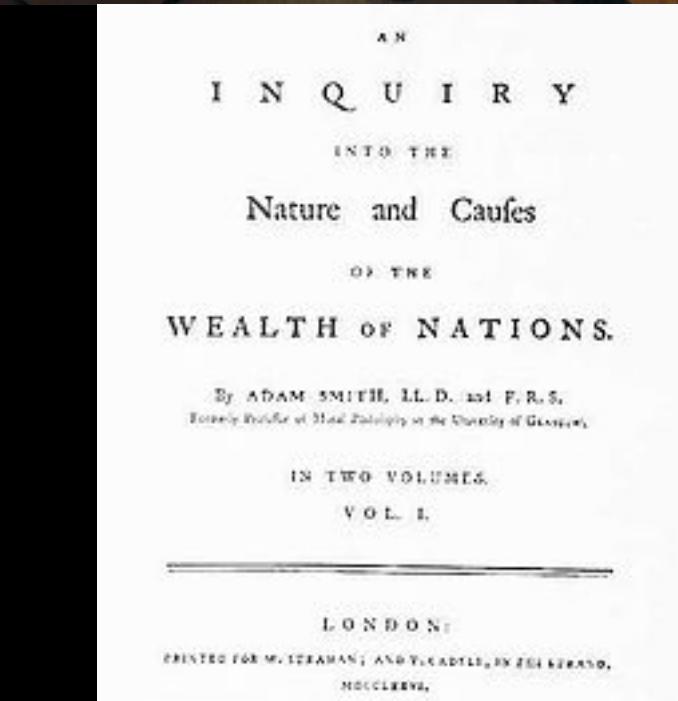
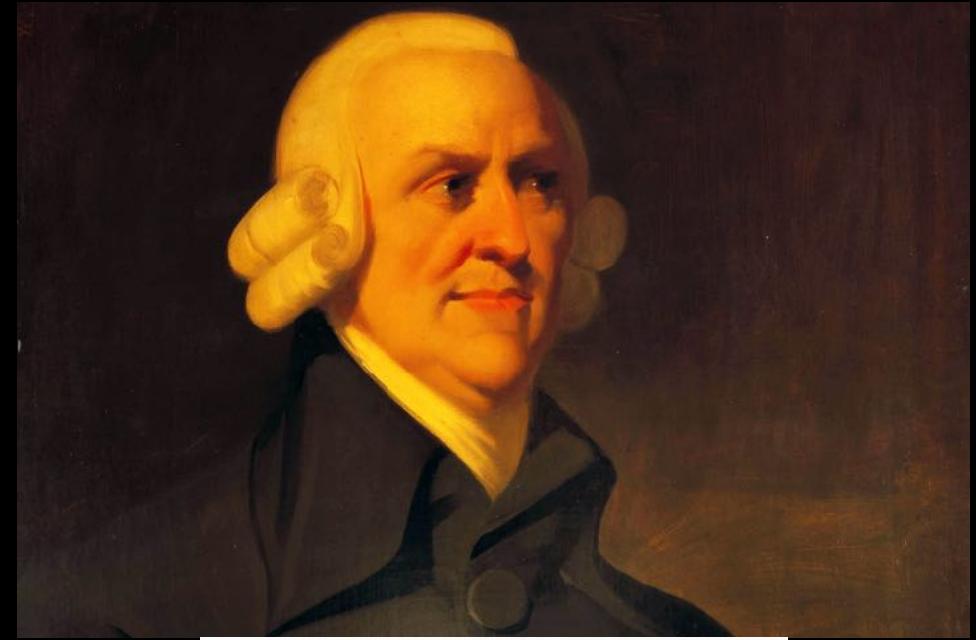
Mercantilism (16th-18th centuries)

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Adam Smith

- *The Wealth of Nations* (1776)
- People are self-interested and that would lead to prosperity
- “Invisible hand”
- Free-market principles, like reduced tariffs
- Absolute advantage: specialization in what a country is most efficient at



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David Ricardo and Comparative Advantage

United States

- 15 Pounds of Pop-Tarts
- 5 Pounds of Coffee

Colombia

- 4 Pounds of Pop-Tarts
- 2 Pounds of Coffee

Comparative advantage: the ability of a country to produce a good or service at a lower opportunity cost than another.



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Repeal of the Corn Laws (Great Britain, 1846)

| THE CORN LAWS. | |
|---|--|
| Supposed advantages of a Repeal of the Corn Laws. | Real results from the Repeal. |
| HIGH WAGES. | LOW WAGES, OR NO WAGES. |
| CHEAP BREAD. | DEAR BREAD, OR NO BREAD AT ALL. |
| <p>Repealers say "the Corn Law is a Tax on Bread---a law for the advantage of the few---a cruel and unjust act of oppression," &c. Now, so far from this being the case, it is a tax <i>not on</i>, but <i>for</i>, Bread,---not <i>against</i>, but <i>for</i>, the poor---not to render Bread dearer, but <i>virtually cheaper</i>, by securing for the poor man permanent employment and a just remuneration for his labour. And lastly, not a law for the few, but for the advantage of ALL! <i>Attend to a few facts--incontrovertible stubborn facts!</i></p> <p>THE PROOF.</p> <p>If the Corn Laws be repealed, there will be little or no demand for the products of the land ; consequently Farmers will not cultivate it, and therefore must discharge their workmen ; these will flock in thousands into the Towns for work, and will be compelled to take <i>any</i> wages, rather than <i>no</i> wages ! thus depriving thousands of work, and REDUCING THE WAGES OF ALL.</p> <p>Although Bread may be, for a time, a little <i>cheaper</i>, yet it will always be <i>virtually</i> dearer : for this simple reason ; wages being lowered, as just proved, the poor man has much less in his pocket, after purchasing his "cheap" loaf, than he has <i>now</i> after purchasing his "dear" loaf ! For example ; suppose a day's wages now to be 2s. 6d. and the loaf 9d. after paying for his loaf he has now 1s. 9d. in his pocket ! On the other hand, suppose the loaf to be reduced to 6d. and his wages to 1s. 6d. then after purchasing his <i>cheap</i> (!) loaf, he finds only 1s. left ! losing by his <i>cheap</i> (!) bread 9d. <i>on each day's wages</i> ! Thus stands his balance sheet :</p> <p>With the Corn Without the Corn</p> | |

- One of the most important steps on the road to free trade
- Set of laws intended to protect landowners (high tariffs on imported grain)
- Manufacturers wanted the laws repealed to open foreign doors to their exports
- Workers wanted/needed cheaper prices of grain
- Repeal of the Corn Laws opened up new markets for manufactured British goods

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The Postwar Economic Order: Free Trade Consensus



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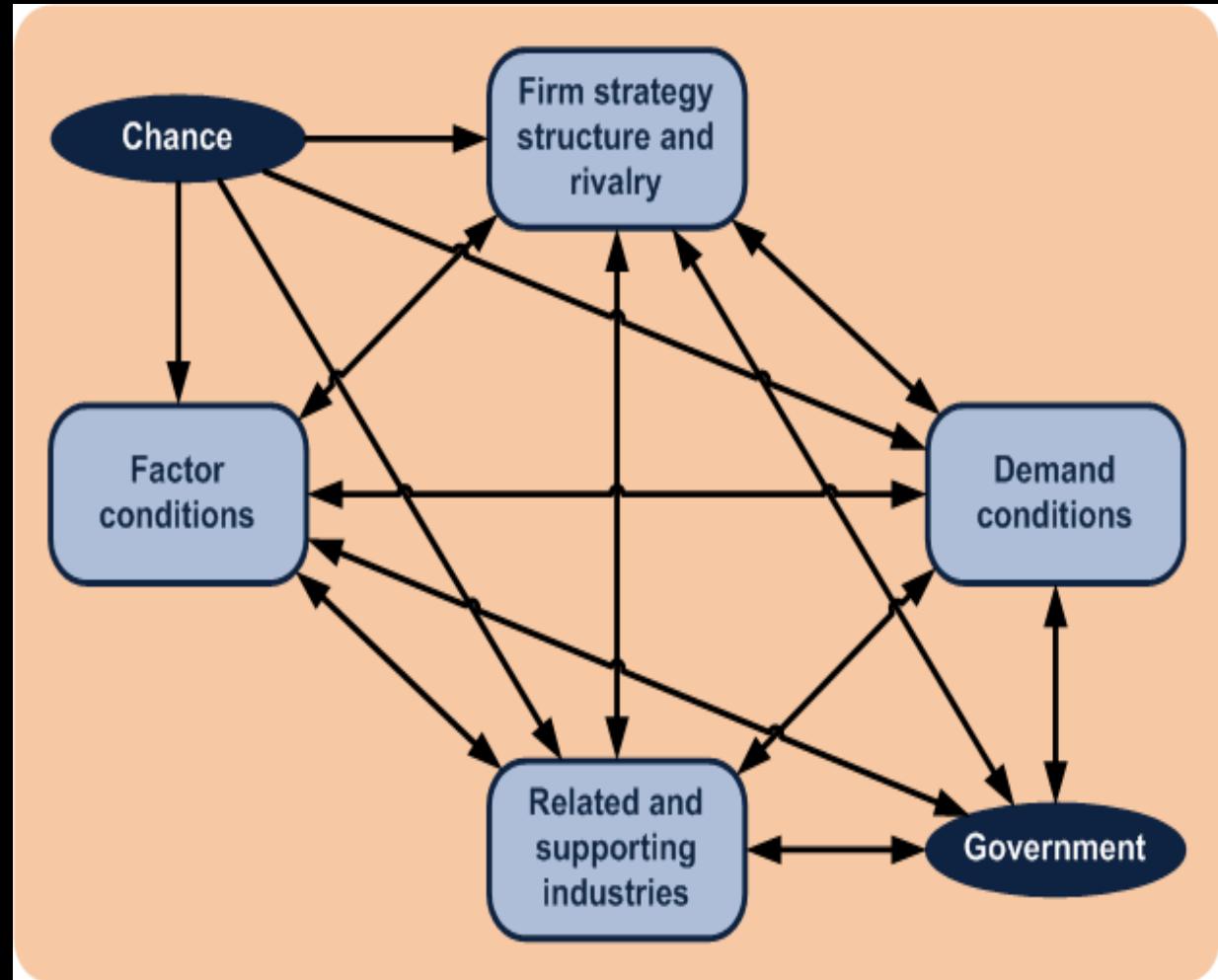
Newer Theories of International Trade

- Resource Endowments
 - Resources determine what a country will specialize in and export
 - Different countries have different resources
 - Explains trade between developed and developing countries
- Overlapping Demand
 - Income level impacts demand
 - Higher-income countries demand goods of a higher quality
 - These higher-quality goods are produced by developed countries
 - Explains why developed countries trade with each other

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Porter's Diamond (Competitive Advantage)

- Certain factors determine a nation's competitive advantage
- Demand Conditions
- Factor Conditions
- Related and Supporting Industries
- Firm Strategy
- See Porter's Diamond Video under this lecture topic in CANVAS



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Protectionism vs. Free Trade: Twentieth-Century Examples

- Import-Substitution Industrialization (Protectionism)
- Export-Oriented Industrialization (Free Trade)



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Import-Substitution Industrialization (ISI)

- Mostly Latin American countries after WWII (but also Africa, Middle East, and parts of Asia)
- State-run economic program of industrialization to replace imported goods with goods made locally
- Protection of local “infant” industries with high tariffs, import quotas, and government subsidies
- Generally ignored the idea of comparative advantage



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- 1950-1961: GDP rate of growth exceeded 7%
- Industry annual growth rate of over 9%; agriculture was only 4.5%
- BUT: Lack of competition stifled innovation and raised prices for consumers
- Nationalization and other heavy-handed government policies discouraged foreign investors and businesses
- Ultimately worsened economic inequality and did not improve rates of poverty

ISI in Brazil



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Export-Oriented Industrialization



- Primarily in East Asia; four “Asian Tigers” of Hong Kong, Singapore, South Korea, and Taiwan
- Opened up domestic markets to competition (reduced tariffs) in exchange for market access in other countries
- Rapid industrialization to produce exports for these overseas markets
- Embraced comparative advantage
- Rapid economic growth and more equal income distribution
- **Click on link to left for Export-led Industrialization of South Korea**

[Video: Export-led Industrialization of South Korea\(5min\)](#)