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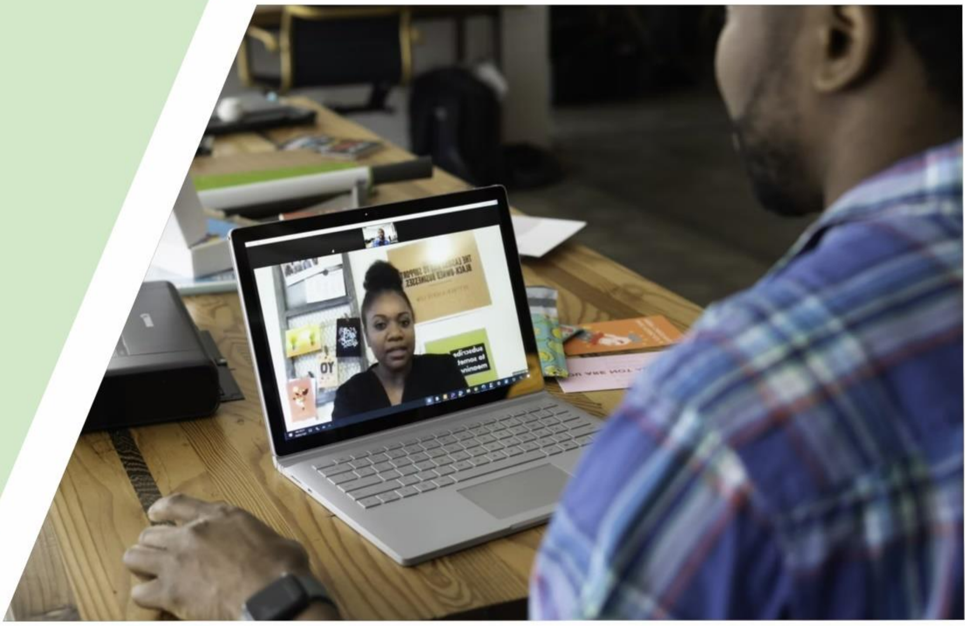

Global Economic Environment

Module 2

BUS 840 Global Economic Environment Module 2

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Published in Published in 2014, 2018, 2021 by the National Open University of Nigeria

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Module 2

Unit 1 Globalisation/International Institutions

1.0 Introduction

Today, organisations are conducting their businesses in the global environment. Many large firms have become multinationals by involving business across national boundaries. Even small firms source their production imputs overseas. Overseas firms are producing their products here. The supply chain for many goods is global. United States firms, for instance, are acquiring firms abroad. The vogue is to shift to international market and acquire as much market shares as possible. Globalisation goes with trade liberalisation among nations and the removal of all trade barriers. So that commerce and industry can flourish smoothly around the world without hitches and impediments.

2.0 Objectives

At the end of this unit, you should be able to:

- demonstrate the understanding of global business
- knowledgeable about the New International Economic Order
- explain foreign trade and comparative advantages.

3.0 Main Content

3.1 New International Economic Order

The demand for a New International Economic Order (NIEO) especially by developing nations goes back to the first session of the UNCTAD in 1964. The various resolutions adopted in the subsequent sessions of the UNCTAD contain a systematic account of the various elements of a NIEO. At the root of the call for a New International Economic Order lies the dissatisfaction of the Less Developed Countries (LDCs) with regard to trading, financial, technological and other policies pursued by the developed countries towards the LDCs. The developed nations have oppressed the LDCs, discriminated against them, drained their income and denied them access to advanced technology. Such policies have obstructed their development efforts, perpetuated inequalities in wealth and incomes and increased unemployment and poverty in them. There were three phenomena that gave an impetus to the demand for a new international economic order in the early 1970s. These were:

1. A severe energy crisis
2. The breakdown of the Breton Woods System in 1973
3. The disappointment with development aid which was much below the United Nations target of 0.7% of Gross Domestic Product (GDP) of developing countries.
4. The formation of the Organisation of Petroleum Exporting Countries (OPEC) in 1973 and its success in raising oil prices.
5. The existence of high rates of inflation and unemployment in LDCs.

Specific proposals for the NIEC were put forward at the Summit Conference of Non-Aligned Nations held in Algiers in September, 1973. The success of OPEC led the developing countries to call the Sixth Session of the UN General Assembly in April, 1974. This session adopted, without a vote, a declaration and a Programme of Action on the Establishment of New International Economic Order based on equity, sovereign equality, interdependence, common interest and cooperation among all states, irrespective of their economic and social systems which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and the developing countries and ensure steady acceleration of economic and social development and peace and justice for present and future generations.

In December 1974, the UN General Assembly approved the Charter of Economic Rights and duties of States. These three Resolutions constitute the documents of the New International Economic Order.
The most important objectives of the New International Economic Order based on the proposals of the UN Resolutions include; international trade, technology transfer, regulation and control of the activities of multinational corporations, reformation of the international monetary system and special aid programme, and interdependence and cooperation.

3.1.1 International Trade

The New International Economic Order lays emphasis on a greater role of LDCs in international trade by adopting the following measures which aim at improving the terms of trade of LDCs and removing their chronic trade deficits;

- establishment of LDC sovereignty over natural and especially mineral resources for export
- promoting the processing of raw materials for exports
- Increasing the relative prices of the exports of LDCs through integrated programme for commodities, compensatory financing, establishment of international buffer stocks and creation of a common fund to finance stocks, and formation of producers, associations,
- providing proper framework for establishing prices of raw materials and primary products so as to stabilise export income earnings
- indexation of LDC export prices to rising import prices of manufactured exports of developed countries
- increase in the production of manufactured goods
- improving access to markets in developed countries through progressive removal of tariff and non-tariff barriers and restrictive trade practices.

It is important to recognise that foreign trade is of great importance to both developing and developed nations of the world. Trading activities occur between nations because it brings about specialisation, and specialisation increases output. Because the United States can trade with other countries, it can specialise in the goods and services it produces well and cheaply. Then the United States can trade its goods for goods and services produced cheaply by other countries.

International differences in resource endowments, and in the relative quantity of various types of human and non-human resources, are important bases for specialisation. Consider countries with lots of fertile soil, little capital, and much unskilled labour. They are likely to find it advantageous to produce agricultural goods while countries with poor soil, much capital, and highly skilled labour will probably do better to produce capital intensive, high-technology goods.

3.1.2 Technology Transfer

The proposals of the New International Economic Order stress the establishment of mechanism for the transfer of technology to LDCs based on the needs and conditions prevalent in them. In this context, particular emphasis is on the:

(i) establishment of a legally binding international code regulating technology transfers
(ii) establishment of fair terms and prices for the licensing and sale of technology
(iii) expansion of assistance to LDCs in research and development of technologies and in the creation of indigenous technology
(iv) adoption of commercial practices governing transfer of technology to the requirements of LDCs.

3.2 Regulation and Control of the Activities of Multinational Corporations (MNCs)

The New International Economic Order declaration also emphasizes the formulation, adoption and implementation of an international code of conduct for multinational or transnational corporations based on the following criteria;

1. to regulate their activities in host countries so as to remove restrictive business practices in LDCs
2. to bring about assistance, transfer or technology and management skills to LDCs on equitable and favourable terms
3. to regulate the repatriation of their profits
4. to promote reinvestment of their profits in LDCs.

3.2.1 Reformation of the International Monetary System and Special Aid Programme

The New International Economic Order declaration proposes to reform the international monetary system on the following lines:

- elimination of instability in the international monetary system due to uncertainty of the exchange rates
- maintenance of the real value of the currency reserves of LDCs as a result of inflation and exchange rate depreciation
- full and effective participation by LDCs in the decisions of the IMF and the World Bank
- attainment of the target of 0.7% of GNP of developed countries for development assistance to LDCs
- debt re-negotiation on a case-by-case basis with a view to concluding agreements on debt-cancellation, moratorium or rescheduling
- deferred payment for all or parts of essential products
- commodity assistance including food aid, on a grant basis without adversely affecting the exports of LDCs
- long term suppliers' credit on easy terms

- long term financial assistance on concessionary terms
- provision on more favourable terms of credit goods and technical assistance to accelerate the Industrialisation of LDCs
- investment in industrial and development projects on favourable terms.

3.2.2 Interdependence and Cooperation

Above all, the New International Economic Order declaration lays emphasis on more efficient and equitable management of interdependence of the world economy. It brings into sharp focus the realisation that there is close interrelationship and interdependence between the prosperity of developed countries and the growth and development of LDCs. For this reason, there is need to create an external economic environment conducive to accelerated social and economic development of LDCs. Furthermore, it requires the strengthening of mutual economic, trade, financial and technical cooperation among LDCs mainly on preferential basis.

3.3 International Institutions using Indian Economy as a Case Study

In our study of international institutions, we would use the Indian economy as a case study. We shall be looking at the objectives and achievements of Indians' plans and how these plans affect the national and international institutions within the Indian economy.

3.3.1 History

Planning as an instrument of economic development in India goes back to the year 1934 when Sri Visves published his book "Planned economy for India." This was a bold and constructive blue print for a ten-year programme of planned economic development of India. This pioneering work created keen interest in academic circles in the cult of planning. As a result, some more books appeared on the subject by other prominent writers in India.

In 1938, first attempt was made to evolve a national plan for India, when the National Planning Committee was set up under the Chairmanship of Pandit Nehru. The work of the committee was interrupted due to the Second World War and the political disturbance following the resignation of the Congress ministries. It was only in 1948 that the Committee could release a series of reports on Planning in India.

The next few years the above period, eight leading industrialists of Bombay became convinced of the need for planning and took the initiative of preparing a plan of economic development for India. It was published in January 1944 and came to be known as the "Bombay Plan." It was a 15-year plan envisaging an expenditure of 10,000 Rupees. It was aimed at doubling the per capita income and trebling the national income during this period. It proposed to increase agricultural output by 130 per cent, industrial output by 500 per cent and services by 200 per cent of the 1944 figures during 15 years.

3.3.2 Objectives and Achievements of Plans

India embarked on the path of planned economic development on April 1, 1951. Since then, India has gone through ten Five-Year Plans. A critical appraisal of the overall achievements and failures during this period of planning is attempted below:

Objectives: There are various objectives that run through one or the other plan. They are:

- To increase national income and per capita income
- To raise agricultural production
- To industrialise the economy
- To achieve balanced regional development
- To expand employment opportunities
- To reduce inequalities of income and wealth
- To remove poverty
- To achieve self-reliance.

In a broad sense, these specific objectives can be grouped into four basic objectives; growth, modernisation, self-reliance and social justice.

We critically evaluate the performance of Indian Plans in the light of the following objectives:

- **Growth**

One of the basic objectives of planning in India has been rapid economic growth. This is measured by the overall growth rate of the economy in terms of real GDP. The overall growth rate of the economy (1950 – 2006) in terms of GDP at factor cost at constant prices has been characterised by extreme variations from year to year. Consequently, the targets of growth rate fixed for various plans were not achieved except for the First, Fifth, Sixth, Seventh and Eight Five-Year Plans. In the First Plan, the growth rate of 3.7% per annum was achieved which was higher than the estimated growth rate of 21%. During the second plan, the actual growth rate was a little less than 4.2% as against the targeted growth rate of 4.5%. In the Third plan, the actual growth rate of 2.8% was much lower than the targeted rate of 5.6%. The Fourth Plan also showed a large decline in the actual growth rate which was 3.4% as against the estimated rate of 5.7%. But the Fifth Plan achieved a higher growth rate of 5% against the targeted rate of 4.4%. The Sixth Plan had set the target growth rate of 5.2% but achieved a higher growth rate of 5.5%. The Seventh Plan achieved the growth rate of 5.8% against the envisaged target of 5%. The Eight Plan achieved a growth rate of 6.8% as against the target of 5.6%. The Ninth Plan had the growth rate of 5.5% against the target rate of 6.5%, and the Tenth Plan 7.6% against the targeted of 8%. But except for the year 2002-2003, the growth rate was 8.6% for the remaining four years of the tenth plan.

- **Modernisation**

Modernisation refers to "a variety of structural and institutional changes in the framework of economic activity." A shift in the sectorial composition of production, diversification of activities, and advancement of technology and institutional innovations have all been part of the drive to change a feudal and colonial Indian economy into a modern and independent entity.

- **National Income:**

The sectorial distribution of national income reflects the structural transformation of the Indian economy. The composition of GDP shows significant changes over the period 1950-2006. In 1950-51, 59% of GDP came from the primary sector (agriculture) which dropped to 18.5% in 2006. This is a concomitant result of the development process whereby the primary sector gives place to the secondary sector (industry) and the tertiary sector (services) in the economy.

- **Agriculture:**

Modernisation and structural changes in agriculture have played an important role in the process of planned development. The country has made giant strides in the production foodstuff especially grains, cash and horticultural crops to meet the consumption requirements of the growing population, the raw material needs of the expanding industry and for exports. The phenomenal increase in the output of food-grains by four times has been due to the spread of high-yielding varieties of inputs, extension of irrigation facilities and water management programmes, establishment of a system of support prices, procurement and public distribution, promotion of agricultural research, education and extension, and institutional arrangements to suit small and marginal farmers.

- **Industry:**

The main component in the drive for structural diversification has been towards modernisation and diversification of industries. Over the past 50 years. India has achieved a broad-based industrial development. Apart from quantitative increase in the output of industrial products, the industrial structure has been widely diversified covering the entire range of consumer, intermediate and capital goods. Chemicals, engineering, transport, petro-chemicals, synthetics, electronics, etc. have made rapid strides. In most of the manufactured products, the country has achieved a large measure of self-reliance.

- **Social Services:**

Modernisation is also reflected in the spread of social services. There has been a significant increase in development expenditure on social services whose share in GDP grew from 3% in 1950 to 28% in 2006. There has been a marked expansion of health services. The number of doctors, nurses and hospitals has increased substantially, and villages have been electrified. Drinking water has been supplied to many villages. There has been a spectacular spread of education in rural areas. The number of secondary schools, colleges, universities, medical and engineering institutes has multiplied manifold.

- **Self-Reliance:**

Self-reliance means "a reduction in the dependence on foreign aid, diversification of domestic production and a consequential reduction in imports for certain critical commodities and the promotion of exports to enable us to pay for imports from our own resources. A major constraint towards achieving the objective of self-reliance has been unfavourable balance of payments. The deficit in current account balance continues to increase till the end of the Seventh Plan. It started declining from the Eighth Plan.

4.0 Conclusion

The developed nations have oppressed the **less developed** countries (LDCs) and discriminated against them, drained their income and denied them access to advanced technology. Such policies have obstructed their development efforts, perpetuated inequalities in wealth and incomes and increased unemployment and poverty in them. The phenomena that gave impetus to the demand for a new international economic order in the early 1970s include: severe energy crisis, the breakdown of the Bretton Woods System, the disappointment with development aid which was much below the United Nations target of 0.7% of Gross Domestic Product (GDP) of developing countries.

5.0 Summary

The vogue is to shift to international market and acquire as much market shares as possible. Globalisation goes with trade liberalisation among nations and the removal of all trade barriers. So that commerce and industry can flourish smoothly around the world without hitches and hazards. International operations go with cultural differences which must serve international firms and businessmen for success in the international markets.

6.0 Self-Assessment Exercise

1. What are the main issues that led to the demand for a New International Economic Order by developing countries?
2. List the major factors that gave impetus to the demand for New International Economic Order.
3. Discuss the advantages of international trade.

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Unit 2 Global Power and Wealth Distribution

1.0 Introduction

Since the mid-1980s, politics throughout the world has been rocked by dynamic and unpredictable developments. The most visible changes were set in motion from bipolar politics into uni-polar diplomacy, and revolutions of 1989 in central and Eastern Europe that led to the disintegration of much of the communist world. This also influenced economic diplomacy and wealth distribution across the globe. By the end of 1991, the soviet, once a formable superpower, had collapsed into 15 troubles republics, including a much humbled Russia (William A. Joseph 2007).

Post-cold war political and economic changes and transformation of the global balance of power have produced new forms of international cooperation and competition – a new source of international tension and violence and new method of wealth distribution across the globe. The grime but predictable bipolar world of superpower rivalry between United States and Soviet Union, new Russia reinforced by NATO and Warsaw treaty organizational (Warsaw Pact) alliances has been replaced by the uncertainties of more fragmented map of global power.

These international changes have had far – reaching effects on economic redistribution of wealth on countries of Asia, Africa and the Latin America. The issues of debt rescheduling and conciliation, technological transfers, and other means of wealth redistribution have created problem and removed strategic leverage of economic empowerment on the less developed nations. The contemporary world politics, economic diplomacy has provided unique laboratory for the study of global powers and issues of wealth redistribution across nations. The instrument for wealth redistribution includes:

- technological transfers
- bilateral agreement
- signing of economic pacts
- regional economic means
- gifts
- the use of multination corporations.

The above represents instrument for redistribution among comity of nations today.

2.0 Objectives

At the end of this unit, you should be able to:

- evaluate the role of super powers or global powers in wealth distribution in modern state
- list some global power nations.
- explain the interaction of states within the economic international order
- state the role of states and super powers in global economic management
- enumerate the roles of technological transfer and other instrument in wealth redistribution

- discuss that wealth distribution is based on the national interest of global powers, not merely on the interest of nation expecting development.

3.0 Main Content

3.1 Global Power and Wealth Distribution

There are many strategies in the hands of state in the global political economy, as regards wealth distribution in modern diplomacy. Emergence of globalisation began as an attempt to examine the way in which states or global powers responds to and attempted to manage the process of globalisation and wealth distribution. The instrument of competitive strategies, did not favour less developed nations. The role of less developed nations in the global political economy in wealth distribution is in decline, and globalisation had become a mysterious, omnipotent and incontrollable force, somehow rendering wreathing in its wake powerless. (Ronew Palan 2009).

In the word of Francis Balle (2009 p. 207), in technological and economic terms, the world is a village, nevertheless, the world remains a mechanism for cultural, economic and political difference. Under the combined effect of the globalisation of the economy and distribution of wealth revolution, have led to Americanisation or the balkanisation of culture as regards wealth distribution has promoted forced standardisation. This was also queried by Charles Ziagber (2007) that great power are not the avatar of development but a new stage in resource allocation. The danger of the 21st century is not of a forced march towards Americanisation, but rivalry between economic powers and the globalisation of markets and distribution of economic resources.

The global power has attempted and still attempting to distribute wealth in the society. The wealth of nations is not evenly distributed. Some nations are rich in natural resources. Others are rich in both human and natural resources, but lacked technological expertise. The global powers like the USA, Britain, France, Russia, Germany have formed a cartel or grouping as regards use of wealth and how it is distributed across the globe. Most third world nations have resources, e.g. Nigeria has oil or crude oil but cannot exploit them because she depends on advanced nations to use its natural resources.

3.2 Instrument for Wealth Distribution

Although much of the wealth of nations naturally sited, but its distribution are centrally controlled. The wealth owners can hardly have effective control of its wealth because the global powers have signed agreements, given aids as way of controlling natural resources or wealth of less developed nations.

The use of Multinational Corporation: The global power have used and still using multinational corporation as a means of distributing wealth, because they have link with their home government to repatriate dividends and export both finished and raw material to anywhere deemed appropriate by the global powers.

We have experienced numerous conflicts and violence, as a result of the use of multinational corporations as engine of growth and for wealth distribution.

Another instrument for wealth distribution is through cartel and use of threat and loan demal to deal with less developed nations where natural resources are endowed. For example, the super powers have used threat assassination and coup to deal with less developed nations to bow to their whims and caprices. David Allende of Chile was destooled because he refused USA and its allies to control their natural resources.

Besides, the global powers also uses joint ventures, and technical exports as a way of distributing wealth to area where not located. The joint venture enables poor nations to be assisted in their wealth exploration and distribution. Most of the Arabia wealth is found in USA and its allied super power, because they use joint ventures to entice poor nations to inviting them.

Increase globalisation: Another instrument for wealth distribution is through globalisation where the world is a global village, where transaction is concluded through internet, e-market and so on. Globalisation has provided ways for making wealth distribution easy. The super have used their technical know-how to improve the distribution of wealth of nations.

Through the instrument of regional bodies: The great power has formed NATO, WARSAW, European Union as a way of maximizing advantages in wealth utilisation and distribution. Regional bodies have assisted in distribution wealth across the globe.

3.3 Problems of Global Power in Wealth Distribution

The place of global powers in wealth distribution has continued to generate confusion and conflicts among great power that have technological expertise and power, than those nations who possessed resources without technological advantage. Political instability, violence and war have resulted from wealth distribution in modern world diplomacy and economic relations.

One of these problems is the problem of financial insecurity experienced by the majority of developing countries. The problems are three factors, namely, hasty and disorganised financial liberation, excessive debt and lack of capital flow into underdeveloped nations, liberalisation of financial markets without the slightest examining countries in transaction. IMF orders the liberalisation of financial markets without evidence that stimulate growth and economic development in countries adopting it. This was the case of Nigeria and Russia (Neijib Mekache 2007).
An influx of capital into economic with an immature and insufficiently regulated financial system can do more harm than good. The influx and sudden withdrawal of capital in South East Asia and Latin America brought 1999 – 1998 crisis and uprising in Arab world recently.

Stieglitz (2010) clearly explained, "It is unfair to demand that developing countries with a scarcely functioning backing system should risk apenus up their market operation rules, it is bad economic decision because speculative capital whose elob and flow leaves chaos in its wake. The small developing country are like small boats, rapid liberalization of financial markets by IMF force them to take to sea in high wind before they are able to plug the hoes in the bull". Reviewed from the above, the possibility of developing getting financial ship reck is high.

There is the need to free developing countries from the Anglo-Saxon financial model based on the free circulation of capital.

Another problem resulting from great power wealth distribution is increased debtedness of less developed countries that have natural resources, without adequate technical knowhow and expertise to distribute the wealth. Many nations have van into debts, which crippled their economy. G8 initiative adopted at the Gleneagles summit in June 2005 for the cancellation, in full, of the debt of countries benefiting from the programme for payments of transfer (PPT) with respect to the IMF. G8 initiative should be extended to non-PPT countries with similar level of revenue and poverty. Many nations have suffered and are still suffering from debt they incurred due to wealth distribution.

Furthermore, political instability have came into the purview of nation for example, have experienced and still experiencing violence, bomb blast due to resource distribution and power acquisition. Political hegemony remained the last resort to wealth distribution. The global power through IMF introduced privatisation and commercial of public enterprise, the only access to wealth is through political office. Many rested interest, who could not reach corridor of power used violence to change things. The Nigerian state gradually bleeding slowly into death.

4.0 Conclusion

We attempted to look at global power and wealth distribution across the comity of nations. Global powers are super powers and their allies. The USA, Britain, France, Russia. Other great powers, emerging after the cold war include, Germany, Asian Tigers' and other colonise which have reached their human and technological ebbs and flow. Global powers depends on their military might's, technological superiority and the use of loans, and other instruments to intimidate less developed nations with natural wealth. We have seen that global power uses, globalisation and financial institutions to get their ascendance as a resources and wealth distributor. They have formed economic blocks; use IMF as a tool, and multinational corporations as a tool to entrench themselves avatar of wealth distribution. The politics of wealth distribution as authoritative allocation of values rest in the hands of global powers. This has created pockets of resistance and violence on its wake.

5.0 Summary

We have examined the objectives of this unit, looked at global powers and the instrument they used the pursue wealth distribution. We also examined some of the problems inherent in wealth distribution based on the focus and Louis of global powers. This tendency has resulted into violence, financial crisis, indebtedness of Third World nations, and lack of even development across the globe.

6.0 Self-Assessment Exercise

1. Which countries are regarded as global powers?
2. Identify instrument for wealth distribution?
3. What are the problems in wealth distribution?

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