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**GLOBAL REALIGNMENT:
THE NEW WORLD ECONOMIC ORDER**

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THE NEW WORLD ECONOMIC ORDER**

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A thesis presented in total fulfilment of the requirement for the degree
of Master of Business Studies in International Business at Massey
University

Department of Management Systems

1996

Massey UniversityCandidate's Certificate

I certify that the thesis entitled 'Global Realignment: The New World Economic Order' and submitted for the degree of Master of Business Studies in International Business is the result of my own research, except where otherwise acknowledged, and that this thesis (or any part of the same) has not been submitted for higher degree to any other university or institution.

Signed.....

Date.....21 | 8 | 96.....

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DEDICATION

I dedicate this thesis to my *Martha, Pitha, Guru and Devo* (to my mother, to my father, to my teacher and to my God)

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ABSTRACT

The purpose of this thesis is to describe the current state of the global environment in the study of international business. The thesis explains the shift in the economic forces away from multilateral arrangements to regional groupings. In particular the shift is towards regionalism, 'seen' as a medium measure, before 'globalism'. The study takes the view that the world is moving towards a tripolar global economic focus namely the European Union, the North American Free Trade Area and the Asia Pacific Economic Cooperation. The focus in the latter is on the development of the East Asian economies.

The research was developed on the assumption that the concept of competition is changing from rivalry to collaboration and from independence to interdependence. This is true for nations as well as corporations. The research also attempts to describe the forces of change and the impact of change factors such as technology and information systems on the nature of competition.

This research covers new developments in the study of the environments of international business. APEC and NAFTA are new institutions which have developed since 1989, and the European Union, whose history goes back to 1948, has in 1992 created a single Europe. These new developments require conceptualisation, academic focus and to be directed towards the teaching of international business. This research, it is hoped, does just that.

Acronyms and Glossary

- **AFTA (ASEAN Free Trade Agreement).** Formed in 1992 to create free trade between members of ASEAN. Its objectives are to reduce intra ASEAN trade tariffs to below 5% by 2003. AFTA's creation was the result of ASEAN concerns about the impact of APEC.
- **Andean Pact.** A regional trade agreement. The members are Bolivia, Columbia, Peru, and Venezuela.
- **Anti-Dumping Clauses.** Clauses preventing goods imported at prices below the cost of production, or below the selling price in the country of export.
- **APEC (Asia Pacific Economic Cooperation).** A political forum to encourage free trade in the Asia Pacific and beyond. Formed in 1989, it has 18 members including USA, Japan and China. Its objective is to have fully open trade between members by 2020.
- **ARF (ASEAN Regional Forum).** Formed in 1994 to promote regional security and to act as a forum to peacefully resolve disputes within the ASEAN region.
- **ASEAN (Association of South East Asian Nations).** Formed in 1967 by five South East Asian nations: Philippines, Thailand, Malaysia and Singapore. Brunei Darussalam joined in 1984. It was formed in response to regional security concerns and aims to promote regional cooperation on a wide range of issues.
- **ASEM (Asia-Europe Summit).** This was an exploratory meeting between Asian countries and the European Union. It was held in Bangkok in February/March 1996 and represented by the seven ASEAN countries, Japan, South Korea and China, and member countries of the European Union.

- **Asia Pacific Region.** Encompasses the countries that borders the Pacific Ocean. This includes countries in East and South East Asia, the Indian subcontinent, Australasia (Australia, New Zealand and Papua New Guinea), North America, Mexico and countries on the west coast of South America.
- **Asian Tigers.** A reference to the rapidly growing and newly industrialised countries of South Korea, Taiwan, Hong Kong, Singapore and Malaysia.
- **BENELUX.** Formed in 1948 as a customs union. Its members are Belgium, the Netherlands and Luxembourg.
- **Bilateral Trade Agreements.** An agreement between two countries to trade with each other on mutually acceptable terms.
- **Bretton Woods.** A generic reference to the agreements reached at the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire in 1947. The conference agreed among other things on a new regime for international currency based on the convertibility of the US dollars for gold. The gold system collapsed in 1971. The Conference resulted in the creation of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD).
- **CAEU.** A regional trade bloc. Its members are Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panama.
- **CAP (Common Agricultural Policy).** The CAP was adopted in 1960. It has been a controversial element of European economic policy. The focus of the policy when formulated was to build agricultural self sufficiency and preserve European farming. The CAP is in fact best known for the subsidies that have been provided to support European agriculture. The key elements of the CAP are: a single market, community preference (protectionism) and joint financial responsibility.
- **Caricom (Caribbean Community).** Established in 1973 with the purpose of achieving a Caribbean common market. Its members are Antigua, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St Kitts-Nevis, Anguilla, St Lucia, St Vincent & Grenadines, Trinidad and Tobago.

- **CER (Australia and New Zealand Closer Economic Relations).** Created in 1983 to encourage closer economic ties between Australia and New Zealand. Trade between Australia and New Zealand was fully liberalised in 1990. This treaty superseded the New Zealand Australia Free Trade Agreement signed in 1965.
- **CIS (Commonwealth of Independent States).** Reconstitution of some of the former USSR states after the collapse of the USSR in 1992.
- **Comparative Advantage.** An economic concept first expounded by David Ricardo states that in international trade if each country specialises in the products in which it has a comparative advantage, the possible levels of consumption will increase in each country.
- **Council of Ministers (of the EU).** The legislative arm of the EU. Each state has a delegate who specialises in a certain area and each member is allocated a certain number of votes. Certain decisions require unanimous votes.
- **Canada-US FTA (Canada-US Free Trade Agreement).** A free trade area between Canada and the US established in 1989.
- **Dumping in economic terms** refers to the practice of flooding a market with a good, e.g., butter, to get rid of a stockpile. If this is done by another nation, for example flooding the French market with cheap New Zealand butter, then the potential is there to damage the local domestic butter industry severely.
- **EAEC (East Asian Economic Caucus).** A grouping of East Asian nations located within APEC. This is a forum whose purpose is to discuss issues peculiar to East Asia. This was initiated in 1992 by Dato Dr Mahathir Mohamad, Prime Minister of Malaysia.
- **EAEG (East Asian Economic Grouping).** This was initially proposed by Dato Dr Mahathir Mohamad, Prime Minister of Malaysia, as a trade bloc for East Asia. Due to opposition from the West, especially the US, the proposal was altered to the EAEC and a forum for East Asian nations within APEC.
- **East Asia.** Encompasses China, Hong Kong, South Korea, Taiwan, Vietnam, Cambodia, Laos and the ASEAN.

- **EC (European Community).** Established in 1967 by the merging of three European organisations, the EEC, ECSC and EURAATOM, primarily as a result of the achievement of the initial objectives of the EEC. The EC was superseded by the EU in 1993. The period was notable for expansion of membership (particularly Great Britain in 1973), the establishment of the European Monetary System (EMS) in 1989, and further efforts to establish a single European market (Single European Act approved in 1987).
- **Economic sanctions** are retaliatory instruments imposed on nations to bring them into line with the 'normal' practices of the international economy. For example, economic sanctions were imposed by the United Nations on South Africa to force the country to repeal apartheid laws.
- **ECSC (European Coal and Steel Community).** Established in 1951 by six European nations for the purpose of cooperation and regulation of the members' coal and steel industries. ECSC represented one of the first attempts at European cooperation.
- **ECU (European Currency Unit).** Devised in 1978 the ECU is a notional currency used as a reference value for various purposes. The ECU is a basket of member currencies based on their economic size. The proportions utilised are reviewed every five years.
- **EDF (European Development Fund).** An EU organ used to assist external developing nations.
- **EEA (European Economic Area).** EEA Treaty came into effect in 1993 to help to the EFTA countries gain access to the EU.
- **EEC (European Economic Community).** Often referred to as the Common Market, the EEC was established in 1957 following the signing of the Treaty of Rome. At establishment its members were West Germany, France, Italy, and the Benelux countries (Belgium, the Netherlands and Luxembourg). The objective of the EEC was to remove trade barriers between members. The EEC was superseded by the establishment of the European Community (EC) in 1967.

- **EFTA (European Free Trade Association).** Established in 1960 at the initiative of the United Kingdom. It established a free trade area between Denmark, Norway, Sweden, Switzerland, Austria and Portugal. On admission to the European Union most members withdrew from EFTA.
- **EMCF (European Monetary Cooperation Fund).** Established in 1973 to provide short term funding to members to support the pegged exchange rate system. Its functions have been taken over by the European Monetary Institute (EMI).
- **EMI (European Monetary Institute).** The EMI has taken over the functions of the European Monetary Cooperation Fund (EMCF) and its purpose is to co-ordinate policies to achieve price stability. The EMI is charged with undertaking the technical preparations for the European Monetary Union (EMU).
- **EMS (European Monetary system).** The EMS started in 1979 and is an exchange rate mechanism to provide more or less fixed parity between the various currencies operating within the EU.
- **EPG (Eminent Persons Group).** Set up by APEC as an advisory body to suggest directions for APEC, this group is made up of highly respected personages. This group does not have structure and it is not necessary for APEC to accept any proposal it puts forward.
- **ERDF (European Regional Development Fund).** The fund is intended to address the main regional economic imbalances between various EU regions.
- **ERM (Exchange Rate Mechanism).** A set of procedures established by the EC in 1979 to improve currency management within the EC and to provide more certainty amongst members regarding exchange rates. The system links all participating currencies with each other and restricts day-to-day movements within specified ranges.
- **ESCB (European System of Central Banks).** An EU organ designed to take centralised and collective decisions on the supply of money, credit and exchange rate levels.

- **EU (European Union).** Established in 1993 when the Treaty of European Union (or Maastricht Treaty) was ratified by the 12 members of the EC. The EU represented a further phase in the goal of achieving European integration. The EU created amongst other things, a political structure that is able to override national interests, a commitment to a timetable for establishing a common currency and monetary policy, European citizenship, the aim of a common foreign and security policy, and a social charter on human rights.
- **EU Commission.** The executive arm of the EU which, in conjunction with the European Parliament, administers the EU.
- **EURATOM (European Atomic Energy Commission).** Formed in 1957 as a result of the Treaty of Rome. Designed to create cooperation in the production of atomic energy. It has proved to be of little significance as national governments preferred to keep control of nuclear energy activities.
- **Euro MPs.** Members of the European Parliament who since 1979 have been directly elected by the citizens of member states. The Parliament contains 624 Euro MPs allocated according to the population of each member state.
- **European Circles.** A proposal by the French and the Germans, similar to European Clubs, expresses the frustration of member states at the proposals for a 'single Europe'. The European Circles proposal divides Europe into five circles or membership categories. For example the inner circle or circle one, would be full membership and hence fully integrated, and circle five might be some sort of associate membership.
- **European Clubs.** A counter proposal to the European Circles by the British. This allows member nations to participate only in those components of the EU that were acceptable to them.
- **European Council.** The meeting of the heads of government of member states, usually held every six months.
- **Europol (European Central Criminal Investigation Office).** This is Europe's integrated police service introduced in 1992.
- **FDI.** Foreign Direct Investment.

- **FTA (Free Trade Area).** An agreement between countries to remove trade barriers to facilitate trading among member countries while retaining the barrier of each individual member on trade with non-member countries.
- **FRG (Federal Republic of Germany).** Formed in 1945 from the part of Germany that was occupied by the Allied Forces. FRG reunited with East Germany (German Democratic Republic) in 1990 to form Germany.
- **G3.** A regional trade arrangement involving Columbia, Venezuela and Mexico.
- **G7 (Group of 7).** These are industrialised economies of Japan, the USA, UK, France, Germany, Italy and the Netherlands.
- **GAL (General Agreement on Labour).** This was introduced in the GATT Uruguay Round in 1994.
- **GATS (General Agreement on Trade in Services).** This was introduced in the GATT Uruguay Round in 1994.
- **GATT (General Agreement on Tariffs and Trade).** The GATT agreement was reached by 23 non communist nations at the Geneva Trade Conference in 1947. Its purpose was to encourage free trade. Trade negotiations or 'rounds' formed the basis of GATT operation and there were eight rounds in total. The three most important rounds were the Kennedy Round, Tokyo Round and the Uruguay Round. GATT was superseded by the World Trade Organisation (WTO) at the termination of the Uruguay Round in 1994.
- **GDP (gross domestic product).** The monetary value of all goods and services produced by factors of production located within a nation. GDP is generally preferred over GNP (gross national product) as an economic indicator.
- **GDR (German Democratic Republic).** More commonly known as communist East Germany, formed in 1945 as a result of the partition of Germany following World War II . In 1990 East Germany was reunified with West Germany.
- **Glasnost.** Russian for restructuring. A political catch phrase created by Mikhail Gorbachev, General Secretary of the USSR Communist Party from 1985 until close to the end of the disbandment of the USSR in 1991. Glasnost,

returned to the country of origin (usually the US). American Spanish terminology which originally referred to the practice of millers keeping a portion of milled grain in settlement of millers' fees.

- **Marshall Plan.** The plan named after the US Secretary of State, G.C. Marshall (1947-1949), involved massive aid (US\$13 billion) for the reconstruction of Europe after World War II. The programme began in 1947 and ended in 1952. The aid was in part humanitarian, but was also a key plank in the Truman Doctrine, the aim of which was to contain the expansion of the USSR influence in Europe.
- **Mercosur (Southern Common Market).** A regional trade agreement established in 1991 involving Brazil, Argentina, Paraguay and Uruguay.
- **MFN (Most Favoured Nation).** A key foundation stone on which GATT was built, namely that the member nations must extend to each other tariff treatment as favourable as that extended to anyone else.
- **Multilateral trade agreements.** Trade agreements between more than two nations for the supply of a variety of goods and services amongst each other.
- **NAFTA (North American Free Trade Area).** A free trade bloc formed in 1994. Its members are the US, Canada and Mexico. Chile is currently seeking membership. NAFTA is widely seen as a device for the US to protect its trade interests. Along with Japan, Canada and Mexico are the US's largest trading partner.
- **NAFTAmath.** This term is used to refer to the concept of an expanded NAFTA encompassing both North and South America.
- **NATO (North Atlantic Treaty Organisation).** A regional collective security arrangement focused on Western Europe. NATO was formed in 1949 in part as a response to the USSR's blockade of Berlin. The treaty is still in place today. NATO was a key plank in the Truman Doctrine of seeking containment of the expansion of the USSR influence.

- **NICs (Newly industrialised countries).** Industrialising countries with a GDP per capita in excess of US\$2000 and below that of the developed country status (US\$10000).
- **OECD (Organisation for Economic Cooperation and Development).** Formed in 1961 to promote economic development and open trade. Has 24 members who are all industrialised countries.
- **OPEC (Organisation of Petroleum Exporting Countries).** Formed in 1960 to co-ordinate crude oil production and cooperate on issues of mutual concern. Has 12 members representing most of the major oil producers.
- **Open Regionalism.** The concept introduced by APEC whereby the members of the group extend the benefits enjoyed by the members to non-members provided trading rules are reciprocated.
- **OPTAD (Organisation for Pacific Trade and Development).** A 1967 OECD-like proposal for the Pacific.
- **PAFTA (Pacific Free Trade Area).** A free trade area proposal first made by Japanese Professor Kojima in 1966.
- **PBEC (Pacific Basin Economic Council).** A business person's group which began in 1967 and holds conferences on regional economic issues.
- **PECC (Pacific Economic Cooperation Conference).** A forum formed in 1980 of academics, businessmen and government officials acting in a private capacity to promote open and free trade. Associated with APEC.
- **Perestroika.** Russian for openness. Similar to Glasnost (restructuring), this was a catch phrase introduced by General Secretary Mikhail Gorbachev to re-energise the ailing economic outlook in the USSR.
- **PPP (Purchasing Power Parity).** A way of defining an exchange rate. This theory originated in the 19th century, and was used to discuss the correct value of currencies in relation to gold. In general terms, it states that equilibrium exchange rates will allow people to buy the same amount of goods in any country for a given amount of money. In other words the PPP would allow a shopper to buy the same basket of goods for the same price in a reference,

usually the US dollar. Although the architects of PPPs say they should not be used as the sole measure of a currency's value, it does indicate trends and relative values.

- **PRICS.** A classification to describe the industrialised countries of the Pacific rim region.
- **Reganism.** The right wing political philosophies espoused by US President Ronald Regan.
- **Regional Trade agreements.** Terms of trade drawn up between a number of nations that occupy a similar geographic region and obtain collective benefit by trading together.
- **Renminbi.** Unit of currency used in mainland China (PRC).
- **SEA (Single European Act - 1987).** Enacted to speed the EC's progress to economic integration. It attempted to speed up the EC's decision-making, gave greater power to the European Parliament, and committed the members to a range of common policies and practices on such things as taxes, health and employment and reinforced the EMS.
- **SEM (Single European Market).** A proposal in 1985 to achieve a single common market with free movement of goods, services, people and capital.
- **Social democracy.** A term used to reflect socialist policies implemented within a democratic process. A much abused term which means different things to different people.
- **South East Asia.** Encompasses the ASEAN (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand), Burma, Cambodia, Indonesia, Laos and Vietnam.
- **SPARTECA (South Pacific Trade and Economic Cooperation Agreement).** A forum established in 1983 linking countries of the South Pacific, including Australia and New Zealand.
- **Subsidies.** A payment made usually by the government to producers of goods and services to keep the price down or encourage production.

- **Tariffs.** A customs levy (tax) paid on the value of goods imported or exported. There are two types of tariffs which may be imposed. Protective tariff are designed to insulate domestic producers from foreign competition; revenue tariffs are placed on both exports and imports as a means of raising revenue for the government. Revenue tariffs are used extensively by developing countries.
- **Tariff Quota.** A limit on the quantity of goods that may be imported at a given rate of duty.
- **Thatcherism.** A reference to the right wing economic policies espoused by Margaret Thatcher, the first women Prime Minister of Great Britain (1979-1990).
- **The Court of Auditors (EU).** Established to monitor the EU's financial activities.
- **The Court of Justice (EU).** Established to ensure that European treaties are implemented in accordance with EU law.
- **Third world nations.** Originally coined to refer to those nations not directly aligned with the two post World war II super powers, the US and the USSR. The term has been loosely used to refer to all less developed countries (LDCs).
- **Treaty of Rome.** Signed in 1957, the treaty resulted in the formation of the European Economic Community (EEC) and the European Atomic Community (EURATOM).
- **Treaty of Versailles.** The Treaty was signed by Germany and the Allies at the end of World War I at Versailles (near Paris) in 1919. The Treaty detailed the terms of the German surrender and resulted in the creation of the League of Nations which was charged with supervising the implementation of the Treaty.
- **Truman Doctrine.** The Doctrine named after the US President Harry Truman (1945-1953) was a foreign policy strategy to prevent the feared expansion of the USSR communist power. The Marshall Plan and NATO were significant manifestations of this doctrine.
- **UNCTAD (United Nations Conference on Trade Aid and Development).** The first conference was held in 1964. UNCTAD's goal was to act as a

comprehensive forum for dealing with trade and aid issues focused on economic development in the developing nations.

- **United Nations.** The successor to the League of Nations. Formed in 1945 its goals amongst other things were to maintain peace and security and encourage respect for human rights. Membership at formation was 50 nations, today membership exceeds 180 nations.
- **Uruguay Round.** A reference to the last major GATT trade negotiation which started in 1986 and completed in 1994.
- **USSR (Union of Soviet Socialist Republics).** Formed in 1917 as a result of the Russian Revolution which ended Czarist rule. The nation was characterised by the complete domination of the Communist Part over all walks of life. Under the Warsaw Pact, the USSR controlled Eastern Europe for the bulk of its existence. The USSR collapsed in 1991 under the weight of its doctrinaire social and economic policies. The USSR constituted of 15 republics. Eleven of these are now the reconstituted Commonwealth of Independent States (CIS).
- **Value chain.** The process of economic value added at each step in the economic process.
- **Vienna Congress.** A European conference (congress) in 1814 to re-establish the political divisions of Europe at the end of the Napoleonic Wars following the defeat of Napoleon.
- **Visegrad Three (now four).** The EEC negotiated cooperation arrangements with Czechoslovakia (now Czech Republic and Slovakia), Hungary and Poland. These countries came to be known as the Visegrad countries in reference to the place where the discussions took place.
- **Warsaw Pact.** A communist military alliance established in 1955 in response to the formation of NATO. The Pact was signed in Warsaw by the USSR and its Eastern European satellites. This Pact was dissolved in 1991.
- **Werner Plan.** Named after the then Luxembourg Prime Minister the Plan was floated in 1970, and proposed fixed and unchangeable exchange rates between the currencies of Europe.

- **Western Europe.** The nations of EU and EFTA.
- **World Bank.** Also known as the International Bank for Reconstruction and Development. Established by the UN in 1944 as a result of the Bretton Woods Conference. The Bank operates as a development fund provider to member nations.
- **WTO (World Trade Organisation).** The WTO superseded GATT from 1 January 1995. The WTO was established at the end of the Uruguay Round, and takes on all the functions of GATT and has expanded responsibilities in such areas as trade disputes. It has an autonomous structure and will be able to develop new policies and ideas.
- **WWC (World Wide Companies).** Companies that are global in nature such as Coca Cola, McDonalds and Levi.
- **Yaounde Convention.** Created in 1963 the Convention was an agreement between the EEC and 18 African countries which established reciprocal trading rights.