



Contemporary World

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New Economic Order

- Soviet Union and its satellite States
- Bulgaria.
- Cuba.
- Czechoslovakia.
- East Germany.
- Hungary.
- Mongolia.
- Poland.
- Romania.



New Economic Order

- downfall of communism and the end of cold war
- free market economy
- Sold government-owned businesses to private investors.
- built new ties to the more industrialized nations of the world.



New Economic Order

- Poland, Hungary, the Czech Republic, and Slovakia were the most successful in moving toward market economies.
- The 40 percent exports of these countries to EU
- The main exports were food, chemical and Steel.



Free Market Economy in the third world

- In Industrialized countries production cost is high.
- Southeast Asia and Latin America, labor was plentiful and wages were low.
- Western Workers earn 5 times as much as Taiwan' s worker and ten times as Brazilian or Mexican worker



What Is Globalization?

- The world is toward an interdependent, integrated global economic system
- **Globalization** refers to the shift toward a more integrated and interdependent world economy, including two facets:
 - Globalization of markets
 - Globalization of production



Globalization of Markets

- **Globalization of markets** refers to the merging of historically distinct and separate national markets into one huge global marketplace.
- Instead, there is the “global market”
 - falling trade barriers make it easier to sell globally
 - consumers’ tastes and preferences are converging
 - firms promote the trend by offering the same basic products worldwide



Globalization of Production

- **Globalization of production** refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production like land, labor, and capital.
- Companies can
 - lower their overall cost structure
 - improve the quality or functionality of their product offering



Implications for Business

- Lower barriers to trade & investment mean firms can
 - view the world as their market
 - base production in the optimal location for that activity
- Technological change means
 - lower transportation costs - help create global markets
 - lower information and communication costs
 - low-cost global communications networks - help create an electronic global marketplace
 - global communication networks and global media - create a worldwide culture, and a global market for consumer products



The Changing Demographics of the Global Economy

- There has been a drastic change in the demographics of the world economy in the last 30 years
- Four trends are important:
 1. Changing World Output and World Trade Picture
 2. Changing Foreign Direct Investment (FDI) Picture
 3. Changing Nature of the Multinational Enterprise (MNE)
 4. Changing World Order



Changing World Output & World Trade Picture

- In 1960, the US accounted for over 40% of world economic activity; by 2008, it accounted for just over 20% of world economic activity
 - A similar trend occurred in other developed countries
- The share of world output accounted for by developing nations is rising and is expected to account for more than 60% of world economic activity by 2020
 - From 1963 to 2008, China's share of world GDP increased to 11.2%



Multinational Enterprise (MNE)

- A **MNE** is any business that has productive activities in two or more countries
- Since the 1960s, two notable trends in the demographics of the MNE:
 1. The rise of non-U.S. multinationals – a relative decline in the dominance of U. S. firms in the global marketplace
 2. The growth of mini-multinationals – international business (IB) is conducted not just by large firms but also by medium-size and small enterprises



MNE

- MNE or MNC
- TNC(transnational corporation)managed and owned by Two different countries.
- Global company: integrates its operations that are located from different countries. (owned and managed by two different countries)
- Multidomestic company: allow each of its foreign company to act fairly independntly.packaging and producing products according to country(coca cola)



The Changing World Order

- Soviet union, Yugoslavia
- Many former Communist nations in Europe and Asia are now committed to democratic politics and free market economies
 - so, there are new opportunities for IB
- China and Latin America are also moving toward greater free market reforms
 - between 1983 and 2008, FDI in China increased from less than \$2 billion to \$90 billion annually
 - but, China also has many new strong companies that could threaten Western firms



Global Economy of 21st Century

- The world is moving toward a more global economic system...
- But globalization is not inevitable
 - there are signs of a retreat from liberal economic ideology in Russia
- Globalization brings risks
 - the financial crisis that swept through Southeast Asia in the late 1990s
 - the recent financial crisis that started in the U.S. in 2008, and moved around the world



The Globalization Debate

- Supporters believe that increased trade and cross-border investment mean
 - lower prices for goods and services
 - greater economic growth
 - higher consumer income, and more jobs
- Critics worry that globalization will cause
 - job losses
 - environmental degradation
 - the cultural imperialism of global media and MNEs
- Anti-globalization protesters now regularly show up at most major meetings of global institutions



Globalization, Jobs and Income

- Critics argue that falling barriers to trade are destroying manufacturing jobs in advanced countries
- Supporters contend that the benefits of this trend outweigh the costs
 - countries will specialize in what they do most efficiently and trade for other goods—and all countries will benefit



Globalization, Labor Policies and the Environment

- Critics argue that firms avoid costly efforts to adhere to labor and environmental regulations by moving production to countries where such regulations do not exist, or are not enforced
- Supporters claim that tougher environmental and labor standards are associated with economic progress
 - as countries get richer from free trade, they implement tougher environmental and labor regulations



Globalization and National Sovereignty

- Is today's interdependent global economy shifting economic power away from national governments toward supranational organizations like the WTO, the EU, and the UN?
- Critics argue that unelected bureaucrats have the power to impose policies on the democratically elected governments of nation-states
- Supporters claim that the power of these organizations is limited to what nation-states agree to grant
 - the power of the organizations lies in their ability to get countries to agree to follow certain actions



Globalization & the World's Poor

- Is the gap between rich nations and poor nations is getting wider?
- Critics believe that if globalization was beneficial there should not be a divergence between rich and poor nations
- Supporters claim that the best way for the poor nations to improve their situation is to
 - reduce barriers to trade and investment
 - implement economic policies based on free market economies
 - receive debt forgiveness for debts incurred under totalitarian regimes



Managing in the Global Marketplace

- Managing IB differs from managing a domestic business because
 - countries are different
 - the range of problems confronted in IB is wider and the problems more complex than those in a domestic business
 - firms have to find ways to work within the limits imposed by government intervention in the international trade and investment system
 - international transactions involve converting money into different currencies