Mohamed Khaider University, Biskra

Faculty of Economics, Commerce and Management Sciences

Commerce Department

**Module:** International Finance

**Branch:** International Trade
**Level:** Third year Bachelor

# Lecture 01: The Aspects of Global Business Environment

## Unit 01: Introduction to International Finance

### Unit Overview

This Unit offers a primer on International Finance

### Learning Outcomes

When you have completed your Study of this unit and its readings, you will be able to:

- Describe the Globalization

- Identify Major Trends and development of global Business Environment because we are now living in a highly globalized and integrated world economy

The term "globalization" has become a widely used term to describe business practices over the past few decades, and it is likely to remain a fundamental concept in business management throughout this century. This lecture examines several major trends and developments in the global Business Environment.

## 1-The major Global Business Aspects

Following the collapse of communism, numerous Eastern Bloc nations began eliminating inefficient state-run enterprises. Privatization created a growing need for international capital markets to fund the acquisition of these former state-owned businesses while also increasing the demand for skilled managers with expertise in international business.

### a- The emergence of globalized financial markets

During the 1980s and 1990s, international capital and financial markets rapidly integrated due to government-led deregulation. Countries like Japan and the UK took steps to open their markets, with London's "Big Bang" reforms in 1986 making its financial sector highly competitive. The repeal of the U.S. Glass-Steagall Act further increased competition among financial institutions. Even developing nations such as Chile, Mexico, and Korea began allowing foreign investments.

Deregulation and competition fostered financial innovation, leading to new instruments like currency futures, exchange-traded funds (ETFs), and international mutual funds. Corporations contributed to globalization by listing shares on foreign stock exchanges, enabling easier international investments. Advances in computer and telecommunications technology also played a crucial role by providing real-time financial information, reducing transaction costs, and facilitating cross-border financial activities. As a result, global financial markets have expanded significantly in recent years.

**b-The emergence of the euro as a global currency**

The introduction of the euro in 1999 marked a significant milestone in global finance, with over 300 million Europeans across 17 countries using it daily. Its wide adoption is the most extensive in Europe since the Roman Empire, and its influence may grow as more EU nations consider joining. However, adopting the euro means surrendering national monetary policy to the European Central Bank (ECB), which aims for price stability.The euro has the potential to rival the U.S. dollar in international trade and finance due to the eurozone's economic size and stability. Economist Robert Mundell predicted inevitable competition between the euro and the dollar, potentially leading to a bipolar monetary system. The euro has already transformed European finance, fostering deeper capital markets, cross-border mergers, and reduced dependence on banks for capital. Since World War I, the U.S. dollar has been the dominant global currency, used for trade, reserves, and foreign exchange. This dominance benefits the U.S. by allowing it to run trade deficits with minimal consequences. However, if the euro gains credibility and wider usage, the dollar may have to share its privileges, leading to a shift in the global financial landscape.

**C- Crises;**

**- Financial Crisis 2007**

The 2007 U.S. subprime mortgage crisis led to a global financial crisis in 2008–2009, triggered by excessive borrowing, risk-taking, and weak financial regulation. The crisis escalated when Lehman Brothers collapsed in September 2008, causing panic in financial markets, a stock market crash, rising unemployment, and a severe global recession.

Subprime mortgages, designed for low-income homebuyers, were widely securitized and sold to investors. As U.S. interest rates rose, house prices declined, leading to mass defaults that spread risk across the financial system. Contributing factors included loose monetary policies, an influx of foreign capital, the deregulation of banking, and the interconnected nature of global markets. The crisis revealed the dangers of unregulated financial innovation and excessive risk-taking.

To stabilize the economy, the U.S. government intervened with major rescue programs, including the $700 billion TARP bailout and an $850 billion stimulus package. Other countries, including the U.K., France, Germany, China, and Korea, also implemented similar measures. In response to the crisis, the U.S. introduced stricter financial regulations in 2010 to prevent future crises.

The crisis also highlighted the growing role of the G-20 as a key forum for coordinating global financial and economic policies, emphasizing the need for stronger international financial oversight.

**- Sovereign Debt Crisis 2010**

The euro's rise as a global currency faced a major setback during Europe's sovereign debt crisis, which began in December 2009 when Greece revealed a much higher-than-expected budget deficit due to falsified data. Greece's excessive borrowing and inability to devalue its currency led to investor panic, triggering a broader crisis that affected Ireland, Portugal, and Spain. Credit rating downgrades worsened the situation, causing borrowing costs to soar and the euro to weaken.

In response, the EU and IMF launched a €750 billion bailout, though Europe's fragmented decision-making process delayed the rescue, making it more costly. The crisis exposed a key flaw in the euro system: while euro-zone countries share a common monetary policy, they lack fiscal integration, allowing national financial mismanagement to escalate into a broader crisis.

The long-term stability of the euro depends on resolving this imbalance. ECB President Jean-Claude Trichet called for a "fiscal confederation" to strengthen economic governance, but it remains uncertain whether Europe can meet this challenge.

**d- Continued trade liberalization and economic integration**

International trade has expanded significantly, with the global export-to-GDP ratio rising from 7% in 1950 to 24.4% in 2006, growing nearly three times faster than world GDP. Some countries, like Germany and Korea, experienced even greater growth, while previously protectionist Latin American nations have adopted more open trade policies.

The theory of comparative advantage, introduced by David Ricardo, supports free trade by emphasizing specialization and mutual benefits. Trade liberalization has been driven by agreements like GATT and the WTO, with initiatives such as the Uruguay and Doha Rounds aiming to reduce trade barriers. However, disagreements between developed and developing countries have stalled negotiations.

China and India have emerged as major players in global trade and investment, with China’s rapid economic growth driven by exports and foreign investment, while India has become a hub for IT outsourcing and entrepreneurship. Their economic influence is expected to reshape global trade patterns.

On a regional level, economic integration has strengthened through agreements like the European Union (EU) and NAFTA. The EU, with 27 member states, has eliminated trade barriers and introduced the euro, potentially challenging the U.S. dollar’s dominance. NAFTA has also boosted trade among the U.S., Canada, and Mexico, significantly increasing Mexico’s export-to-GDP ratio. These regional efforts highlight the ongoing trend toward globalization and economic cooperation.

**e-Privatization**

The economic integration and globalization that began in the 1980s accelerated in the 1990s through privatization, where governments transferred state-owned businesses to the private sector. This shift, especially after the fall of communism, marked a significant move toward capitalism, improving efficiency and reducing costs.

Privatization takes various forms depending on national priorities. In the Czech Republic, rapid privatization was achieved through a voucher system that enabled citizens to acquire business shares. Russia also embraced privatization, with the majority of nonfarm workers now in the private sector and millions of citizens owning stocks. China pursued privatization by listing state-owned enterprises (SOEs) on stock exchanges, enabling both domestic and foreign investment while retaining government control over most public firms.

For some countries, privatization has led to globalization. New Zealand, for instance, opened its economy to foreign investment to achieve fiscal stability, with foreign companies taking control of key industries. This transition helped stabilize inflation and boost economic growth. Overall, privatization has played a crucial role in economic reform, attracting cross-border investment, and fostering market-driven growth.

**f-A multinational corporations (MNCs)**

Foreign direct investment (FDI) by multinational corporations (MNCs) is a major driver of globalization, outpacing international trade in growth since the 1990s. There are about 60,000 MNCs worldwide with over 500,000 foreign affiliates, reshaping the global economy.

MNCs operate across multiple countries, sourcing materials from one market, financing from another, and producing and selling goods in different regions. The largest MNCs, such as General Electric, Toyota, IBM, and Nestlé, play a significant role in job creation and economic integration. U.S. firms dominate the top 100 MNCs, followed by companies from the U.K., France, Germany, and Japan. Some MNCs, like Nestlé, generate nearly all their revenue from international markets.

MNCs benefit from economies of scale by spreading R&D and advertising costs globally, leveraging purchasing power, and optimizing labor costs in developing countries. They also gain access to advanced R&D and management expertise from foreign markets.

Outsourcing has become a key strategy for cost savings and efficiency. For example, Microsoft outsourced Xbox production to Flextronics, which then manufactured the consoles in China, reducing costs and leveraging specialized expertise. Many companies worldwide follow similar outsourcing strategies to remain competitive.

**3-Key Terms:**

**Euro**: The common European currency introduced in 1999 of the 11 countries of the EU that make up the EMU

**General Agreement on Tariffs and Trade (GATT)**: A multilateral agreement between member countries to promote international trade. The GATT played a key role in reducing international trade barriers

**Privatization**; Act of a country divesting itself of ownership and operation of business ventures by turning them over to the free market system

**World Trade Organization (WTO);** Permanent international organization created by the Uruguay Round to replace GATT. The WTO has the power to enforce international trade rules