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: key trends and developments of the world economy –Globalization of the world economy-

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:

- Showing the importance of studying "international" financial management because we are now living in a highly globalized and integrated world economy

- Explaining the goals for International Finance

- distinguish between domestic and international financial transactions and identify the main characteristics of international financial contracts

1-The major economic trends

With the fall of communism, many Eastern Bloc countries began stripping themselves of inefficient business operations formerly run by the state. Privatization has placed a new demand on international capital markets to finance the purchase of the former state enterprises, and it has also brought about a demand for new managers with international business skills.

a- The emergence of globalized financial markets

The impetus for globalized financial markets initially came from the governments of major countries that had begun to deregulate their foreign exchange and capital markets. Deregulated financial markets and heightened competition in financial services provided a natural environment for financial innovations that resulted in the introduction of various instruments. Advances in computer and telecommunications technology contributed in no small measure to the emergence of global financial markets.

b-The emergence of the euro as a global currency

The advent of the euro at the start of 1999 represents a momentous event in the history of the world financial system that has profound ramifications for the world economy. Currently, more than 300 million Europeans in 17 countries (Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain) are using the common currency on a daily basis.

c- Continued trade liberalization and economic integration

Currently, international trade is becoming further liberalized at both the global and regional levels. At the global level, the General Agreement on Tariffs and Trade (GATT), which is a multilateral agreement among member countries, has played a key role in dismantling barriers to international trade. Since it was founded in 1947, GATT has been successful in gradually eliminating and reducing tariffs, subsidies, quotas, and other barriers to trade .It also created a permanent World Trade Organization (WTO) to replace GATT. The WTO has more power to enforce the rules of international trade.

d-Privatization

Privatization can be viewed in many ways. In one sense it is a denationalization process. When a national government divests itself of a state-run business, it gives up part of its national identity. Moreover, if the new owners are foreign, the country may simultaneously be importing a cultural influence that did not previously exist. Privatization is frequently viewed as a means to an end. One benefit of privatization for many less-developed countries is that the sale of state-owned businesses brings to the national treasury hard-currency foreign reserves. The sale proceeds are often used to pay down sovereign debt that has weighed heavily on the economy. Additionally, privatization is often seen as a cure for bureaucratic inefficiency and waste; some economists estimate that privatization improves efficiency and reduces operating costs by as much as 20 percent.

e-A multinational corporation (MNC)

It is a business firm incorporated in one country that has production and sales operations in several other countries. The term suggests a firm obtaining raw materials from one national market and financial capital from another, producing goods with labor and capital equipment in a third country, and selling the finished product in yet other national markets. In addition to international trade, foreign direct investment by MNCs is a major force driving globalization of the world economy. MNCs obtain financing from major money centers around the world in many different currencies to finance their operations.

2-Goals for International Finance

International Finance is designed to provide today's financial managers with an understanding of the fundamental concepts and the tools necessary to be effective global managers.

- Shareholder wealth maximization; means that the firm makes all business decisions and investments with an eye toward making the owners of the firm—the shareholders—better off financially, or more wealthy, than they were before.

- Corporate governance, that is, the financial and legal framework for regulating the relationship between a company's management and its shareholders. It is vitally important to strengthen corporate governance so that shareholders receive fair returns on their investments.

3-Glossary:

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