Career Opportunities in International Finance

International Finance is a wide open, competitive, and rapidly growing field in which Maxwell Graduates, specifically with a MA-IR/MA-ECN or an MPA/MA-IR background would be well qualified to pursue careers.

Introduction

When you hear the phrase, “international finance”, what does that mean to you? The price you pay for your food or clothes, the costs of a bus or train ride, the amount of money you need to fill the fuel tank of your truck or your automobile, the construction of homes, offices, and other buildings in your town or city, the security of your job or business, the ownership and operation of the banks or finance companies in your locality, the activity of your country's stock markets and the nature of your legal system-all of these vital aspects of your life are tied to, and influenced by, flows of capital originating in other parts of the world. This is the world of international finance. It is a world that encompasses all aspects of our day-to-day activities, possibilities, and choices.

Put another way, the world of international finance affects your standard of living and influences your views about your future and the future of your family, your community, and your nation. When government officials and experts discuss how law and government policy affect your life, they are typically addressing "development," a very broad term that defies a single definition.

Two important international financial institutions were created in the post World War II environment of the 1940s, the International Monetary Fund (IMF) and the World Bank, collectively called the Bretton Woods Institutions (BWIs). Generally, the IMF has been responsible for fashioning the rules and expectations governing the behavior of member countries in their financial and economic relations with the rest of the world, especially with respect to exchange rates (the value of your country's currency), monetary policy (i.e., policies regarding the supply of your country's currency), and fiscal policy (i.e., policies regarding government taxes and spending). The World Bank's primary role has been to make loans to countries pursuing development projects or undertaking major structural changes in their economies. In the 1980s, the BWIs played highly visible roles in the efforts to cope with an international debt crisis.

The BWI’s activities, especially during the 1970s and 1980s, had a major impact on development policy and both have been subject to considerable criticism. They have consequently changed some of their operations in order to maintain their legitimacy in the global community. Recently, there have been two major topics of development vis a vis the BWIs: (i) the rise of non-governmental organizations (NGOs), which coincided with growing importance of "participatory" or grassroots development and (ii) the latest "movement" to eradicate government corruption and promote regulatory transparency.

International Reach of Finance

Globalization generally means that advances in technology and changes in laws and regulations have drawn you and your community into a much smaller world (in many cases a computer-driven "virtual world") that does not face many of the obstacles that used to separate people a decade ago. Change in this type of world come and will continue to come quickly and relentlessly. With respect to international finance, globalization means that large and powerful flows of international capital can move very quickly in and out of your country. Today, these flows, sometimes called "hot money," are created in large part by "institutional investors," entities that pool the money of many individuals seeking to buy the securities of foreign equities (companies) and/or bonds (governments).

Foreign Direct Investment

Much of what is entailed in international investment relates to a specific area that is commonly referred to as foreign direct investment, or FDI. FDI is the movement of capital across national frontiers in a manner that grants the investor *control* over the acquired asset. Thus it is distinct from portfolio investment which may cross borders, but does not offer such control. Firms which source FDI are known as 'multinational enterprises' (MNEs). In this case *control* is defined as owning 10% or greater of the ordinary shares of an incorporated firm, having 10% or more of the voting power for an unincorporated firm or development of a greenfield branch plant that is a permanent establishment of the originating firm.

In the years after the Second World War as much of the world recovered from the destruction wrought by the years of conflict, global FDI was dominated by the United States.. The U.S. accounted for nearly three-quarters of new FDI (including reinvested profits) between 1945 and 1960. Since that time FDI has spread to become a truly global phenomenon, no longer the exclusive preserve of OECD countries. FDI has grown in importance in the global economy with FDI stocks now constituting over 20% of global GDP.

Types of FDI:

- Greenfield investment is direct investment in new facilities or the expansion of existing facilities. Greenfield investments are the primary target of a host nation's promotional efforts because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace. Examples of this type of FDI include the famous Intel investment in Costa Rica in the late 90s or a Mercedes-Benz auto plant in South Carolina, USA. However, it often does this by crowding out local industry; multinationals are able to produce goods more cheaply (because of advanced technology and efficient processes) and use up resources (labor, intermediate goods, etc). Another downside of greenfield investment is that profits from production do not feed back into the local economy, but instead to the multinational's home economy. This is in contrast to local industries whose profits flow back into the domestic economy to promote growth.
- Mergers and Acquisitions occur when a transfer of existing assets from local firms to foreign firms takes place. This is the primary type of FDI. Cross-border mergers occur when the assets and operation of firms from different countries are combined to establish a new legal entity. Cross-border acquisitions occur when the control of assets and operations is transferred from a local to a foreign company, with the local company becoming an affiliate of the foreign company. Unlike a greenfield investment, acquisitions provide no long term benefits to the local economy-- even in most deals the owners of the local firm are paid in stock from the acquiring firm, meaning that the money from the sale could never reach the local economy.

Horizontal Foreign Direct Investment is investment in the same industry abroad as a firm operates in at home.

Vertical Foreign Direct Investment takes two forms: 1) backward vertical FDI: where an industry abroad provides inputs for a firm's domestic production process 2) forward verticle FDI: in which an industry abroad sells the outputs of a firm's domestic production processes.

Further Literature and Information

- IWF (1993) Balance of Payments Manual, Fifth edition, Washington D.C.
- OECD (1996) Benchmark Definition of Foreign Direct Investment, Third edition, Paris.
- IWF (2003) Foreign Direct Investment Statistics - How Countries Measure FDI 2001, 2003, Washington D.C.
- Hill (2005), "International Business: Competing in the global marketplace", 5th Edn., McGraw-Hill, p.223, 229

Keywords to Search

- Foreign Indirect Investment
- International investment position
- Bilateral Investment Treaty
- Louis Model
- Multilateral Investment Guarantee Agency

External Links of Organizations and Further Viewpoints

- The World Bank Group (www.worldbank.org)
- International Monetary Funs (www.imf.org)
- Institute of International Finance (http://www.iif.com/)
- International Finance Corporation –Part of World Bank(http://www.ifc.org/careers/)
- http://www.pri-center.com/ (Operated by the Multilateral Investment Guarantee Agency of the World Bank Group)
- OECD work on international investment
- Foreign Market Watch
- World Investment Report (UNCTAD)

see also: Wall Street Investment Firms