

International Business Environment

(Name)

(Institutional Affiliation)

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Finance runs the world in many ways both directly and indirectly. From giving all the comforts to being the bone of contention, it has an effect on all aspects of people's lives. Finance or economics continues to play an important role in the lives of individuals or even societies and also countries. Since its origination, humans have been active both mentally and physically, which has transformed the world from a primitive to an advanced one. The activities are normally carried out by humans, organising themselves into different countries or nations. When one looks at the annals of history, it is clearly proven that for a nation to reach the top echelons, mainly in the aspect of providing its people the needed comforts and also to gain superiority over other nations, its economy has to be strong. However, if a country's economy fails and goes into recession due to certain factors, it will result in a lot of problems for its citizens, which needs urgent attention.

Nowadays, in this globalised world, an economic problem in one country is not restricted to that country alone but affects other countries as well. This is happening today, with the economic recession that started in the United States of America having negative effects all over the world. The economies of most countries are directly and indirectly dependent on the US' economy, and with liberalisation happening everywhere, the negative effects in the USA will be felt everywhere. This paper will discuss the financial and economic impacts of the recent credit crisis on global business by focusing how its origin in the USA is having an effect all over the world.

The US Economy and Recession

From the late 1800s until now, the US economy remains the largest and the most influential economy in the world. Being a mixed economy, it is mainly run by the

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microeconomic decisions of the private parties under the regulation of the central government. The US' economy's gross domestic product (GDP) was also on the higher side all these years, but in recent times, the GDP has started to decline, showing all signs of the impending recession. Yet, despite its status, the US economy is experiencing unprecedented problems, and the threat of a recession is only one of many problems affecting the US economy (Pettinger, 2008). In the economic parlance, the term 'recession' is normally used when there is a decline in a country's GDP or negative economic growth consecutively for two or more quarters of a year. Based on said definition, recession has not yet started in the US, but it is already showing all signs of happening.

Origination and Its Impacts on the Global Business

The 'seeding' of the recession mainly happened in the housing sector due to the dubious activities of the various banks and its officials when the people approached them to get loans for house purchases. Fed Chief Bernanke also said that many of the troubles now facing the US economy stemmed from the housing slide. That is, for the bank officials to get a hefty cut from the loan deals, they granted loans to a high volume of people who wanted to buy houses. Because of this questionable practice, people obtained loans more than their credit standing could cover, so they bought more expensive houses with the money (Ray, 2008). This buying of expensive houses by many people created a 'housing boom'. However, some of the borrowers struggled to pay back the high loans, especially when the interest rates were adjusted upwards under variable interest rate mortgages. Because of this, "the banks and other financial institutions now began to be saddled with bad loans" (Ray, 2008). With the housing boom deflated, the loans given by the banks became unrecoverable even after the sale of the houses. This is because the amount recovered from the house sale was below the amount of loans granted

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as the prices of houses fell below the threshold. This housing burst resulted in the financial institutions incurring high losses, and this forced them to downsize the credit volume not only to the housing sector but also to other sectors as well. This also made people poorer as the market value of their wealth restricted their spending power.

The trouble that originated in the housing sector had and is still having an impact on the other spheres of life leading to recession in the USA and all over the world. According to Patterson and Thomasson, the crisis that began with bad home loans to sub-prime borrowers in the US is threatening to push the global economy into a recession as consumers lose confidence and banks cut back on lending (2008).

Fiscal Irresponsibility

The other reason why GDP was not able to make any movement on the positive side is because of the increasing national debt. According to the Bureau of the Public Debt, the US' national debt as of February 2008 is \$9.3 trillion, which happens to be 65 per cent of the GDP. The blame for these high debts was placed mainly on the previous government. That is, the former presidents' act of cutting taxes for the rich is considered as one of the reasons for the increase in the government deficits, leading to debts and recession. By not focusing on fiscal responsibility, according to Pettinger, the administrations have "allowed the size of the budget deficits to increase. This budget deficit puts upward pressure on interest rates, increases consumption at the expense of private sector investment" (2008). With no fiscal responsibility or expansionary fiscal policy and the resultant debts, the US economy was forced to undergo recession, with its effects having worldwide impact.

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Unemployment Factors

The other contributing factor for the recession is the increase in the unemployment rates. As some people lost jobs and other found it difficult to get one, limited to no flow of income resulted, forcing them to cut back on their luxurious and even their normal spending. According to Horovitz, "... small luxuries seemed almost necessities in happier economic times. But no more for lots of folks ... the murky financial outlook and recession fears are factors" (2008). This is clear from the latest labour statistics as the unemployment rate appears to be 5.5 per cent against the advertised 5-per cent rate. With the possibility that it might further increase to 6.5 per cent by late 2008 or by early 2009, there are high chances that recession could, indeed, happen.

As unemployment reaches high levels, its negative impact can be seen in other countries as well. Many countries' businesses are directly or indirectly dependent on American companies and American customers. From software-manufacturing companies, BPOs, KPOs, to other manufacturing units, many American companies give work to other developing countries. Although these local businesses cater to the local population and local customers, there is a sizeable portion amongst them who cater to the USA or other Western countries. However, with various American businesses suffering losses and American employees being laid off, the businesses that were dependent on those American businesses are also struggling to stay afloat. In tough times like this, it is difficult for the local businesses to recruit new employees and even keep the existing ones. Because of this predicament, many people all over the world are losing jobs, and even if they hold on to their jobs, they are facing a big drop in their income.

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This credit crisis is not only causing unemployment in the US but also in other countries, particularly developing countries. The unemployment, in turn, is negatively affecting the day-to-day life of the common people.

Minor Players Are Also Affected

Apart from the big businesses or subsidiaries, American and Western companies also support small businesses particularly the ones that are dependent on microfinance. That is, as the global credit crisis affects the financial fortunes of the big companies, these companies decide to cut down on their costs, particularly the cost they would normally spend as part of corporate responsibility in third-world countries. Many American and Western companies support small businesses like the microfinance-based entities in India and Bangladesh. However, the American companies, those that face credit crunch, planned to stop the flow of funds. According to Chandran:

... Global credit crisis that has felled large investment banks and prompted multi-billion dollar bailout packages is also hurting unlikely victims half a world away: small south Asian businesses dependent on microfinance. As credit tightens and largesse from corporations and socially-minded investors dries up, microfinance will be hit, impacting poor people who have no other access to finance. (2008)

Therefore, in the international environment, the big businesses, small businesses, and the employees in both the businesses are facing a lot of problems with finances and opportunities drying up.

Conclusion

Economic recession or credit crises are affecting businesses and people all over the world even if it originated in the USA. It is like an earthquake with the epicentre in the USA, but the

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aftershocks are felt all over the world. The crises need some time to dissipate, or else the life and the livelihood of people all over the world will be compromised.

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