Chapter 3

International business: theory and practice
Gains from trade

- This is often said to occur where a country can be shown to be ‘better off’ by specialisation and trade than by being self-sufficient.
- In other words, can a country reach a consumption situation after specialisation and trade that is outside its domestic production possibility curve?
Absolute advantage (1)

- Adam Smith suggested that international trade would only benefit both countries (in a two-country, two-product model), where each country had an *absolute advantage* in one of the products.
Absolute advantage (2)

- In the following table, country A has an *absolute advantage* in steel.
- With a given set of resources, it can produce more steel than country B.
- Country B has an *absolute advantage* in textiles.
- With a given set of resources, it can produce more textiles than country A.
### Before specialisation

<table>
<thead>
<tr>
<th>Output from one unit of resource:</th>
<th>Textiles</th>
<th>Steel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>Country B</td>
<td>80</td>
<td>20</td>
</tr>
</tbody>
</table>

### After specialisation

<table>
<thead>
<tr>
<th></th>
<th>Textiles</th>
<th>Steel</th>
<th>Movement of one unit of resource from:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A</td>
<td>−20</td>
<td>+40</td>
<td>Textiles to steel</td>
</tr>
<tr>
<td>Country B</td>
<td>+80</td>
<td>−20</td>
<td>Steel to textiles</td>
</tr>
<tr>
<td>World output</td>
<td>+60</td>
<td>+20</td>
<td></td>
</tr>
</tbody>
</table>
After specialisation and trade

• Both countries can benefit by specialising according to *absolute advantages*.
• By trading the ‘surplus’ production, each country can do better than in the pre-specialisation and pre-trade situation.
David Ricardo

- Unlike Smith, Ricardo saw the possibilities of each country benefiting from specialisation and trade (in a $2 \times 2$ model), even when one country was absolutely efficient in both products and the other absolutely inefficient in both products.
- Ricardo suggested that each country should specialise in that product in which it had a comparative advantage.
Comparative advantage

• In a two-product two-country model, a country has a *comparative* advantage in that product:
  – In which its absolute advantage is greatest or in which its absolute disadvantage is least.
Before specialisation and trade

<table>
<thead>
<tr>
<th>Output from one unit of resource:</th>
<th>Textiles</th>
<th>Steel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A</td>
<td>320</td>
<td>40</td>
</tr>
<tr>
<td>Country B</td>
<td>80</td>
<td>20</td>
</tr>
</tbody>
</table>
Specialisation according to comparative advantage

• Country A has an *absolute advantage* in both products, Country B has an *absolute disadvantage* in both products.

• In the table:
  – Country A is comparatively more efficient than B in textiles than in steel.
  – Country B is comparatively less inefficient than A in steel than in textiles.

• A has a comparative advantage in textiles.
• B has a comparative advantage in steel.
### After specialisation and before trade

<table>
<thead>
<tr>
<th></th>
<th>Textiles</th>
<th>Steel</th>
<th>Movement of resources:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A</td>
<td>+320</td>
<td>−40</td>
<td>1 unit of resource from steel to textiles</td>
</tr>
<tr>
<td>Country B</td>
<td>−240</td>
<td>+60</td>
<td>3 units of resource from textiles to steel</td>
</tr>
<tr>
<td>World output</td>
<td>+80</td>
<td>+20</td>
<td></td>
</tr>
</tbody>
</table>
Conclusions

• By reallocating resources according to comparative advantages, ‘world’ (two country) output of both products increases.

• Trade, at appropriate terms, can mean that both countries do better than before specialisation and trade, i.e. can reach a consumption situation outside their own production possibilities.

• Better outcome than from ‘self-sufficiency’.
Opportunity cost

• More modern approaches use the idea of opportunity cost to identify comparative advantages.

• Opportunity cost for a product X is the amount of the other product foregone (lost) as a result of producing one more unit of X.

• We can work out the opportunity costs from our original table for each country and product.
Opportunity cost in a two-product two-country model

<table>
<thead>
<tr>
<th></th>
<th>Opportunity cost of producing one extra unit of textiles</th>
<th>Opportunity cost of producing one extra unit of steel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A</td>
<td>⅛ unit of steel</td>
<td>8 units of textiles</td>
</tr>
<tr>
<td>Country B</td>
<td>¼ unit of steel</td>
<td>4 units of textiles</td>
</tr>
</tbody>
</table>
Comparative advantage and opportunity cost

• In a two-product two-country model, a country has a comparative advantage in that product:
  – In which its opportunity cost is lowest.

• Country A has a lower opportunity cost than B for textiles and, therefore, has a comparative advantage in textiles.

• Country B has a lower opportunity cost than A for steel and, therefore, has a comparative advantage in steel.
## Specialisation according to comparative advantage

<table>
<thead>
<tr>
<th></th>
<th>Textiles</th>
<th>Steel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A</td>
<td>+1</td>
<td>- 1/8</td>
</tr>
<tr>
<td>Country B</td>
<td>-1</td>
<td>+ 4</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>+ 3 7/8</td>
</tr>
</tbody>
</table>
Conclusion

- World (two country) output is higher, more of one product (steel), no less of the other product (textiles).
- Potential for both countries to specialise according to comparative advantages and both to benefit.
Limitation of comparative advantage

• Assumes that the following exist:
  – Constant returns to scale
  – Full employment
  – Reciprocal demand
  – Transport costs are low/zero
  – Factors are mobile
  – Free trade
  – Terms of trade between products are ‘appropriate’.
Terms of trade (1)

- Refers to the rate at which the product(s) exported exchange for the product(s) imported.
- If the terms of trade are ‘appropriate’ both countries can gain from specialisation and trade.
- ‘Appropriate’ terms of trade must lie between the slopes of the respective production possibility frontiers.
Terms of trade (2)

\[
\text{Terms of trade} = \frac{\text{Index of export prices}}{\text{Index of import prices}} \times 100
\]

- If Terms of trade (Ts of T) rise, there is said to be a *favourable* movement in the Ts of T because more imports can now be bought for any given volume of exports.
- If Ts of T fall, there is said to be an *unfavourable* movement in the Ts of T, with less imports now exchanged for any given volume of exports.
Terms of trade (3)

• Whether ‘favourable’ or ‘unfavourable’ is an accurate term depends on the reasons for change in the Ts of T.
  – *Example*: if export prices rise because of *increased demand* by overseas consumers ‘favourable’ seems an appropriate term.
  – However, if export prices rise because of higher domestic costs of production, then ‘favourable’ may seem an inappropriate term.
Gains from specialisation and trade (1)

‘A’ specialises in videos (800 videos, 0 CDs)
Exports 250 videos
Imports 750 CDs
Consumes 550 videos, 750 CDs ($C_A'$)

Production possibility frontier

Figure 3.1a  Gains from specialisation and trade
Figure 3.1b  Gains from specialisation and trade (2)

- ‘B’ specialises in CDs (1000 CDs, 0 videos)
  - Exports: 750 CDs
  - Imports: 250 videos
  - Consumes: 250 CDs, 250 videos ($C'_B$)

The graph illustrates the gains from specialisation and trade through the terms of trade (1 video : 3 CDs), the production possibility frontier, and B’s exports and imports.
Economic welfare (1)

• ‘Economic welfare’ is an attempt to measure the impacts on the economy (or society) of a policy change.

• It is usually expressed as the sum of consumer surplus and producer surplus.
Economic welfare (2)

• Economic Welfare (EW) is often defined as: 
  \[ EW = \text{Consumer Surplus} + \text{Producer Surplus}. \]

• Consumer surplus is the amount consumers are willing to pay over and above what they have to pay (market price).

• Producer surplus is the amount producers actually receive (market price) over and above what was needed for them to supply the product.
Consumer surplus

Willing to pay $0ACX_1$
Actually pays $0PCX_1$
Difference = Consumer surplus
Consumer surplus = APC
Producer surplus

![Diagram showing producer surplus](image)

- **Producer surplus**
- **P**
- **P₁**
- **W**

**Axes:**
- **Y-axis:** £
- **X-axis:** Quantity of X supplied per time period

**Graph:**
- The producer surplus is the area under the supply curve and above the price level P₁.
Gains from free trade versus no trade

\[ D_D \] = Domestic demand
\[ S_D \] = Domestic supply
\[ P_D \] = Domestic price before trade
\[ P_W \] = World (and domestic) price after free trade is introduced

Price $P_D$ $P_W$

Quantity $Q_2$, $Q_1$, $Q_3$
Theories of trade

• Factor endowments: Heckscher-Ohlin
• Disaggregated factor endowments
  – Efficiency units
  – Human capital
• Revealed comparative advantages
• Corporate competitive advantages
• National competitive advantages.
Factor endowments: Heckscher-Ohlin

- Named after two Swedish economists, the Heckscher-Ohlin (HO) theory suggests that factor endowments will determine the pattern of trade between two countries.
  - Labour abundant countries will specialise in and export labour-intensive products; capital abundant countries will specialise in and export capital-intensive products.
Problems with factor endowments

- Factors of production – such as labour, capital, etc. – are hardly homogeneous so aggregate statements such as ‘labour abundant’ may be relatively meaningless.
- Products may exhibit *factor intensity reversal* in different countries.
- Factor and product markets must be competitive if differences in factor endowments and, therefore, factor productivities are to be reflected in differences in product costs.
- The *terms of trade* between the potential exported and imported products may lie outside the limits which would permit trade to be beneficial to both parties.
- Other market imperfections may distort the linkage between factor endowment, actual production costs and the relative prices at which products are exchanged on international markets.
Disaggregated factor endowments

- **Efficiency units.** Labour and capital inputs are adjusted to take account of productivity differentials. So if American workers are twice as productive in manufacturing as, say, Thai workers, the number of American workers should be multiplied by two when comparing labour factor endowment between the two countries in terms of ‘efficiency units’.

- **Human capital.** Workers can be disaggregated by level of human capital (e.g. years of education, experience, etc.) and by type of human capital (e.g. vocational/non-vocational, marketing/non-marketing, etc.). Again, we can then apply ‘weights’ to any raw data we might have when comparing labour factor endowment between countries.
Revealed comparative advantage

- The sources of comparative advantage can be determined indirectly by observing actual trade flows between countries. For example, it is interesting to note that in the more dynamic sectors of UK industry, there are signs of a shift towards the higher end of the quality market for both UK manufacturing exports and for the production of substitutes for manufacturing imports.

- In other words, the data arguably suggests a revealed comparative advantage for the UK in terms of more technologically intensive manufacturing exports and imports (substitutes).
Corporate competitive advantage: Porter

- In the *corporate* context, the competitive advantages of a company are defined in terms of the ‘marginal’ company in that sector of economic activity. In other words, they are the collection of reasons that allow the more successful companies to create positive added-value (profits) in that sector of economic activity as compared to the ‘marginal’ company, which is just managing to survive.

- Reasons for such competitive advantages could include:
  - *architecture*, benefits to the company from some distinctive aspect of the set of contractual relationships the company has entered into with suppliers and/or customers.
  - *innovation*, benefits to the company from being more innovative than rivals (perhaps reinforced by legal structures, e.g. patent laws).
  - *incumbency advantages*, benefits to the company from being an early ‘player’ in that field of activity (reputation, control over scarce resources, etc.).
National competitive advantage: Porter (1)

- In the *national* context, Porter has again used this perspective of a dynamic, ever-changing set of competitive advantages as a basis for explaining trade patterns between countries.

- Porter sees both *product innovation* and *process innovation* as key elements in determining national competitive advantages. In his view, these dynamic elements far outweigh the more static elements of ‘factor endowments’ in determining success in international trading relationships.

- Still more so when technology is constantly changing the optimal combination of capital/labour/natural resource inputs for a product, when multinationals are so ‘footloose’ that they can readily relocate across national boundaries and when capital markets provide investment finance on an increasingly global basis.
National competitive advantage: Porter (2)

- Porter identifies six key variables as potentially giving a country a competitive advantage over other countries:
  - *factor conditions*: transport infrastructure, national resources, human capital endowments, etc.
  - *firm strategies: structures and rivalries*: the organisation and management of companies and the degree of competition in the market structures in which they operate
  - *related and supporting industries*: quality and extent of supply industries, supporting business services, etc.
  - *government policies*: nature of the regulatory environment, extent of state intervention in industry and the regions, state support for education and vocational training, etc.
  - *chance.*
International product life cycle (IPLC)

- Products traded between countries influenced by stage reached in IPLC
- Mainly refers to knowledge-intensive products
- Various ‘stages’
  - New product stage
  - Mature product stage
  - Standardised product stage.
IPLC and country type

Figure 3.4 The international product life cycle (IPLC) for knowledge-intensive products
### World trade and GDP

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</thead>
<tbody>
<tr>
<td>GDP</td>
<td>2.9</td>
<td>2.5</td>
<td>2.0</td>
<td>5.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Trade (exports)</td>
<td>3.8</td>
<td>4.3</td>
<td>0.6</td>
<td>8.2</td>
<td>5.1</td>
</tr>
</tbody>
</table>
Inter-industry trade

- *Inter-industry* trade refers to situations where a country exports products that are fundamentally different in type from those that it imports.
- The UK exporting computer software to Switzerland but importing precision watches from Switzerland would be an example of inter-industry trade between two countries.
Intra-industry trade (1)

• Refers to situations where a country exports certain items from a given product range while at the same time importing other items from the same product range.

• The UK exporting certain types of car to Germany but importing other types of car from Germany would be an example of intra-industry trade.

• Over half of world trade today is intra-industry trade, which consists of final goods, intermediate goods and primary goods (raw materials etc.).
Intra-industry trade (2)

Figure 3.5 Intra-industry trade has risen for primary, intermediate and final goods

## Intra-regional trade

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<thead>
<tr>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>50.7</td>
<td>48.8</td>
<td>41.8</td>
<td>63.0</td>
<td>66.2</td>
<td>68.3</td>
<td>73.9</td>
</tr>
<tr>
<td>Central/Eastern</td>
<td>19.0</td>
<td>13.2</td>
<td>46.4</td>
<td>63.5</td>
<td>54.0</td>
<td>18.7</td>
<td>22.8</td>
</tr>
<tr>
<td>Europe/USSR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>25.0</td>
<td>22.4</td>
<td>27.1</td>
<td>36.8</td>
<td>29.9</td>
<td>36.0</td>
<td>58.0</td>
</tr>
<tr>
<td>Latin America</td>
<td>11.1</td>
<td>17.7</td>
<td>17.7</td>
<td>18.7</td>
<td>20.2</td>
<td>21.2</td>
<td>24.5</td>
</tr>
<tr>
<td>Asia</td>
<td>45.5</td>
<td>66.4</td>
<td>38.9</td>
<td>36.6</td>
<td>41.0</td>
<td>51.9</td>
<td>52.6</td>
</tr>
<tr>
<td>Africa</td>
<td>10.3</td>
<td>8.9</td>
<td>8.4</td>
<td>9.1</td>
<td>5.6</td>
<td>9.2</td>
<td>9.9</td>
</tr>
<tr>
<td>Middle East</td>
<td>5.0</td>
<td>3.6</td>
<td>20.3</td>
<td>8.7</td>
<td>6.4</td>
<td>7.4</td>
<td>7.7</td>
</tr>
</tbody>
</table>
Barriers to trade

• Tariff barriers

• Non-tariff barriers
  – Quotas
  – Voluntary export restraints
  – Subsidies
  – Exchange controls

• See also OHT2.45 in Ch. 2 listing the top 10 barriers identified by the OECD.
Figure 3.7 Effects of a tariff

$S_D = \text{Domestic (home) supply}$

$D_D = \text{Domestic (home) demand}$

$S_W = \text{World supply}$
Quota of OQ* as maximum output

Result – higher price $P^*$ than free market price $P_e$
Figure 3.8  Effects of a subsidy

$p_w$ = Domestic (home) supply
$D_D$ = Domestic (home) demand
$S_W$ = World supply

Subsidy
Other non-tariff barriers

- Exchange controls
- Safety and technological standards
- Time-consuming formalities
- Public sector contracts
- Labour standards.
The case for protection

- Arguments used to justify the application of both tariff and non-tariff barriers include:
  - prevent dumping
  - protect infant industries
  - protect strategically important industries
  - maintain employment by preventing the rapid contraction of labour-intensive industries.
Preventing dumping

- *Dumping* occurs where a good is sold in an overseas market at a price below the real cost of production. Under Article 6, the WTO allows retaliatory sanctions to be applied if it can be shown that the dumping materially affected the domestic industry.

- As well as using the WTO, countries within the EU can refer cases of alleged dumping for investigation by the European Commission, which can recommend action, which may range from ‘no action’ where dumping is found not to have taken place, to either obtaining an ‘undertaking’ of no further dumping, or imposing a tariff.

- The US has consistently been one of the main initiators of anti-dumping investigations and has had such success in securing WTO approval for retaliatory tariffs that the current official figures for average US tariffs on manufactured imports of 6% rises to around 23% when these additional retaliatory tariffs are included.
Protecting infant industries

• The use of protection in order to establish new industries is widely accepted, particularly in the case of developing countries. Article 18 of the WTO explicitly allows such protection.

• An infant industry is likely to have a relatively high-cost structure in the short run, and in the absence of protective measures may find it difficult to compete with the established overseas industries already benefiting from scale economies.

• The EU has used this argument to justify protection of its developing high-technological industries.
Protecting strategically important industries

- The protection of industries for *strategic reasons* is widely practised both in the UK and the EU, and is not necessarily contrary to the WTO rules (Article 2).
- The protection of the UK steel industry has in the past been justified on this basis, and the EU has used a similar argument to protect agricultural production throughout the Community under the guise of the CAP.
- In the Uruguay round of the then GATT (now WTO), the developing countries used this argument in seeking to resist calls for the liberalisation of trade in their service sectors. This has been one of the few sectors recording strong growth in recent years and is still a highly ‘regulated’ sector in most countries.
Maintaining levels of employment

- There is a small but growing body of opinion that advocates a degree of protection to maintain levels of employment and that questions the benefits to be derived from international trade and is hostile to the drive by the WTO to liberalise trade.
- This movement comprises environmentalists, trade unions, charities, third-world activists, among many others, and has manifested itself in WTO/IMF demonstrations in many other locations in recent years.
- Opponents of the WTO contend that the gains are largely expropriated by big business, leaving both workers and developing nations no better off and in many cases actually worse off. Groups such as Global Trade Watch suggest that the WTO has little regard for democracy or for environmental standards and almost always acts against the public interest.
Case against protectionism: retaliation

• A major drawback to protectionist measures is the prospect of retaliation. The consequences of retaliation could be especially serious for countries increasingly dependent on international trade flows.

• For example, in 2007 German exports of goods and services totalled 38% of GDP, France 24%, Italy 22%, UK 19%, with lower percentages for the export: GDP ratio in Japan (14%), and the USA (8%).
Case against protectionism: misallocation of resources

- Protectionism can erode some of the benefits of free trade.
- A tariff raises domestic supply at the expense of imports. If the domestic producers cannot make such products as cheaply as overseas producers, then one could argue that encouraging high-cost domestic production is a misallocation of international resources.
Trade diversion (1)

- This refers to the diversion of trade from more efficient to less efficient producers as a result of forming the customs union.
- Countries inside the customs union now have to impose the ‘common external tariff’ (CET) on trade with countries outside the customs union.
Trade diversion (2)

- This CET may be higher than any previous tariffs on trade with these countries.
- This, and/or the fact that tariffs are now removed on trade with countries inside the customs union, may cause trade to switch away from these more efficient suppliers outside the customs union to less efficient suppliers within the customs union (no tariff on such trade).
Trade creation and diversion (1)

Figure 3.9 Customs Union, trade creation and trade diversion.

The costs and benefits from trade creation and trade diversion. A free trading bloc is established between the domestic country and country A only, with a tariff $t$ still levied on country B imports.
Trade creation and diversion (2)

- We have, in this example both trade creation and trade diversion
  - *Trade creation*: The result of removing the tariff \( t \) on trade with country A has created extra trade (with A) of the magnitude \( q_1 q_2 + q_3 q_4 \).
  - *Trade diversion*: The result of removing the tariff \( t \) *only* on country A (i.e. forming a trading bloc with A) has enabled country A to undercut country B (the more efficient producer) in the domestic market. The volume of trade \( q_2 q_3 \) previously undertaken with B prior to the trading bloc is now undertaken with the less efficient producer A. Trade has been 'diverted' by the formation of the trading bloc.
Welfare effects of trade creation/diversion

- Using our earlier ideas of consumer and producer surplus, we can seek to measure gains and losses from trade creation and trade diversion.

- In Fig. 3.9, the reduction in price from $P_d$ to $P_d$ via creating the trading bloc has increased consumer surplus by area $(a + b + c + d)$, but reduced producer surplus by area $a$, since domestic production has fallen from $q_2$ to $q_1$. The tariff revenue $(c + e)$ previously earned on trade with country B is also lost as trade is diverted to tariff free country A.

- As long as the net benefits $(b + c + d)$ brought about from trade creation exceed the losses $(c + e)$ brought about from trade diversion, the formation of the economic trading bloc can be regarded as beneficial overall.
Policy conclusions

• The greater the degree of overlap in the economies of the countries contemplating the formation of an economic bloc, the greater the likelihood that the bloc will be a trade - creating one.

• The greater the differences in production costs between the potential members in their overlapping industries, the greater the potential for trade creation.

• The higher the tariff rates prior to the amalgamation of the economies, the greater the gains from the associated tariff reductions.
Government polices and international business

• The Common Agricultural Policy (CAP) of the EU is a useful case study of government influence on trade policies.

• Agriculture has been treated differently from industry with the EU.

• Unlike industry, it has remained a heavily protected sector between the member states as well as with non-member states.
Common Agricultural Policy (CAP) (1)

- The European Agricultural Guarantee and Guidance Fund (EAGGF) ran the CAP.
- The **Guarantee Section** provided financial support for agriculture, including maintaining minimum prices for various products.
- The **Guidance Section** sought to encourage less efficient farmers to leave the agriculture sector.
Common Agricultural Policy (CAP) (2)

Figure 3.10  The system for setting the intervention (guaranteed) price and how the target price $P^*$ is maintained in a situation of excess supply
World Trade Organisation (WTO)

- Successor to General Agreement on Tariffs and Trade (GATT) in 1995.

- WTO principles
  - Progressive reduction in tariff and non-tariff barriers
  - Non-discrimination
  - Solving trade disputes through consultation rather than retaliation.
Support for WTO

- Unilateralism/bilateralism as alternative to multilateralism
- Absence of rules as alternative to (imperfect) WTO
- ‘Localisation’ as alternative to WTO
- Reformed WTO seen as more balanced in approach to ‘North’.
Criticisms of WTO

• Bias to the ‘North’
• Inability to progress Doha round
• Undue emphasis on ‘TRIPS’
• Undue emphasis on liberalising trade in services.
International Monetary Fund (IMF) (1)

- Provision of foreign currencies (via quotas)
- Provision of world liquidity
  - Compensatory financing facilities
  - Extended fund facilities
  - Oil facilities
  - Bufferstock facilities.
International Monetary Fund (IMF) (2)

- Other instruments and facilities
  - Supplementary financing facility
  - Enlarged access facility
  - Structural adjustment facility
  - Trust fund facility
  - Systematic transformation facility
- Special Drawing Rights (SDRs).
IMF stabilisation programmes

Include some or all of the following:

• Fiscal contraction
• Monetary contraction
• Devaluation of exchange rate
• Liberalisation of economy
• Incomes policy.
Criticisms of IMF stabilisation programme

- IMF programme inappropriate
- IMF programme inflexible
- IMF support inadequate and too expensive
- IMF dominated by major industrial countries.
World bank

- A grouping of three international institutions:
  - International Bank for Reconstruction and Development (IBRD)
  - International Development Association (IDA)
  - International Finance Corporation (IFC).
International Bank for Reconstruction and Development (IBRD)

- Formed in 1946.
- Sought to help countries raise the finance needed to reconstruct their war-damaged economies.
- Still provides loans for reconstruction and development.
- By guaranteeing loans, countries can obtain them at lower interest rates.
International Development Association (IDA)

- Formed in 1958.
- Provides development finance for low income nations which have insufficient resources to pay interest on IBRD loans.
OECD

• This is the Organisation for Economic Cooperation and Development.
• Formed in 1961, it includes the advanced industrialised economies only.
• Its mission statement is to encourage ‘high levels of economic growth and employment in a stable financial system’.
• Group of 7 (8 with Russia) – called G7/G8 meet from time to time to discuss policies.