

What is international economics?

All of the economic interactions that occur between countries. International economics includes international trade and international finance.

What is international trade?

International trade includes all interactions that involve the sale and exchange of goods and services across national borders (between countries).

When countries sell goods or services to other countries, they **export** those goods and services. When countries buy goods or services from other countries, they **import** those goods and services.

In many cases, countries or groups of countries set up **trade barriers** (restrictions on trade) in order to protect their industries and workers at home. These restrictions can take on different forms, such as **tariffs** (taxes on imports) or **import quotas** (limits on the number of imports). By taxing imports, countries can effectively raise the price consumers (customers) pay for those imports. Tariffs help protect a country's own industries from competition from countries that are able to produce goods more cheaply. Quotas allow for some competition from foreign goods, but limit that competition, thereby allowing the country's own workers and manufacturers to also make a living and a profit.

The major world body that regulates trade is the **World Trade Organization**, also known as the **WTO**.

What is international finance?

International finance includes all interactions that involve moving money from one country to another.

There are typically four ways that money moves from one country to another:

1. **Borrowing (loans)** – Countries can borrow money from other countries, from international organizations (like the **World Bank** or the **International Monetary Fund**) or from commercial banks. Countries that borrow money must usually pay it back with interest.
2. **Foreign direct investment** – Companies invest money in other countries, usually by building factories or buying real estate.
3. **Financial markets** – Stocks and bonds are often traded internationally.
4. **Foreign aid** – Countries give money to other countries, usually to assist other countries with specific needs, such as health care, education, or disaster relief.

CASE STUDY #1

Directions:

- Read through the case study.
- Complete the accompanying worksheet.

“A World Unravels” (excerpted) by Tyler Marshall, Evelyn Iritani, and Marla Dickerson, The Los Angeles Times, January 16, 2005:

As a poor nation struggling to compete in an increasingly globalized [worldwide] economy, Cambodia has little to offer factory owner Leon Hsu.

Electricity is erratic [works sometimes]. Traffic along the road to the port of Sihanoukville includes the occasional elephant. If a truckload of men's shirts doesn't reach the port on time, it may be days before another vessel [ship] departs for Singapore, where goods are transferred to a larger ship for the voyage to the United States.

None of that much mattered over the years, because international quotas [a quota is a set number; here a set number of items that are sold to other countries] guaranteed Cambodia the chance to sell clothing and textiles to retailers in rich, developed nations. Designed to protect manufacturers in North America and Europe from foreign competition, the import quotas [set numbers of items that can be brought into North America and Europe from other countries] ended up working as a global version of Head Start, an affirmative action program for countries that had large, unskilled workforces and not much else.

The last provisions of the 30-year quota system disappeared at the beginning of the month [January 2005], leaving Hsu few reasons to stay in Cambodia. Beckoning [calling] him are far more efficient venues [locations] — chief among them China — with modern factories, highways and ports, prolific [very productive] workers and all the fabric, thread and buttons he could want.

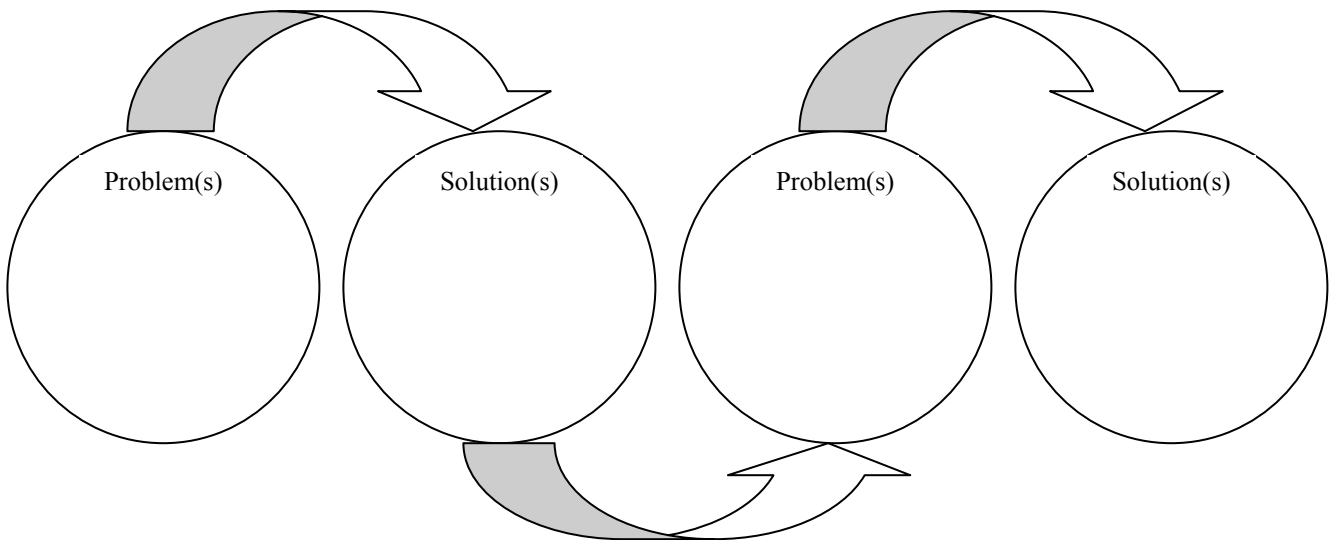
Miss a shipping date out of southern China, and another vessel is leaving soon, often within 24 hours. And it's a direct shot to Los Angeles or Rotterdam, Netherlands.

"I'll be happy to go," Hsu said.

CASE STUDY #1

1. Is this case study an example of international trade or international finance? Why?

2. What political, social, and/or economic problems arise from this case study? For whom? Fill out the problem-solution spiral below to show these problems and write a brief explanation below.



CASE STUDY #2**Directions:**

- Read through the case study.
- Complete the accompanying worksheet.

“Tsunami-wracked Nations Get Debt Relief” (excerpted) Associated Press, January 12, 2005

Rich creditor nations offered Wednesday to let tsunami-hit countries halt [stop] repayments on billions of dollars of debt, possibly for as long as a year, the chairman of the Paris Club said.

Jean-Pierre Jouyet said the group of 19 wealthy nations [the Paris Club] — including the United States — would allow any country directly affected by the Dec. 26 Indian Ocean earthquake and tsunami to halt debt repayments if they wanted to.

Only Sri Lanka, Indonesia and the Seychelles have expressed an interest so far, he said. French Finance Minister Herve Gaymard said earlier that Thailand does not want to take advantage of the offer because of fears it could affect its credit rating.

The moratorium [stopping of repayment] could last up to a year, depending on the results of assessments [evaluations] to be carried out by the International Monetary Fund, Jouyet said.

The five countries affected most by the tsunami — Indonesia, Sri Lanka, Thailand, India and the Maldives — pay \$23.1 billion each year in public debt to foreign governments, the IMF and the World Bank. When debt service [loan payments] to other creditors [lenders], such as commercial banks, is added, they pay \$45 billion annually [each year].

CASE STUDY #2

1. Is this case study an example of international trade or international finance? Why?

2. What political, social, and/or economic problems arise from this case study? For whom? Fill out the problem-solution spiral below to show these problems and write a brief explanation below.

