Peter K. Oppenheim

English For Careers

The Language of International Finance in English: Money and Banking

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FOREWORD

This book is one of a series of texts called *English for Careers.* The series is intended to introduce students of English as a second language to the particular language of different professional and vocational fields. The career areas that are covered are those in which English is widely used throughout the world, such as air travel, computer programming, hospital services, the military, and so on.

This particular book, *The Language of International Finance: Money and Banking,* serves several purposes. English, of course, has been the traditional language of international business. This is a result of the dominant role played first by England and subsequently by the United States. Many of the customs and procedures of finance and trade, now widely accepted around the world, evolved from British law. Therefore, it is essential for anyone involved in this field to be familiar with not only the language, but also with these accepted customs and procedures.

From the point of view of teaching English as a foreign language, these books are intended for a student at the high intermediate or advanced level. The student who uses these books should be acquainted with most of the structural patterns of English. His or her principal goals as a learner should be mastering vocabulary, using the various structural patterns in a normal mixture, and improving his or her ability to communicate in English.

These books address themselves to all of these needs. Each unit begins with a glossary of special terms in which words and expressions used in the vocational area being discussed are defined. This glossary is followed by a vocabulary study which tests the student's comprehension of the special terms and gives practice in their use. In the reading selection that follows, these terms are used again within a contextual frame of reference. Each reading passage is followed by questions for comprehension and discussion. They give the student the opportunity to use in a communicative situation both the vocabulary items and structural patterns that have occurred in the reading.

Each unit ends with an exercise or exercises, some of which pose problems that might occur if the student were working in a particular job. He or she might, for instance, be asked to fill out forms that are used on the job; or he or she might have to make up short dialogues that involve human problems and situations that arise in connection with the job. In doing these exercises, he or she will also be practicing both the specialized vocational vocabulary and other new words, as well as the structural patterns that are used with them.

A great deal of successful language learning comes from experiences in which the learning is largely unconscious. In offering these books, it is hoped that the student's interest in the career information presented will increase his or her ability to communicate more easily in English.

PETER K. OPPENHEIM
San Francisco, California

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UNIT ONE
THE INTERNATIONAL FINANCIAL WORLD

Special Terms

Barter: The trade of goods without exchange of money.

Balance of Payments: The difference between a nation's total payments to, and receipts from, foreign nations during a specific period.

Balance of Trade: The difference between the value of imports and exports, including in some instances the related freight and insurance premiums.

Capital: Funds invested by individual or corporate shareholders to establish an enterprise.

Exports: Goods and services that a nation sells to other nations.

Foreign Trade: The exchange of goods and services between nations.

Imports: Goods and services that a nation buys from other nations.

Investments: The flow of funds, usually for a long term, to build assets in the expectation of an eventual profit.

Invisible Trade: The trading of services between nations.

Quota: A restriction on the quantity of trade. It can pertain to exports as well as imports.

Reserves: National fund of gold and foreign currencies acquired in the past and held for future needs.

Tariff: A tax on imported goods.

Visible Trade: The import and export of goods between nations.

Vocabulary Practice

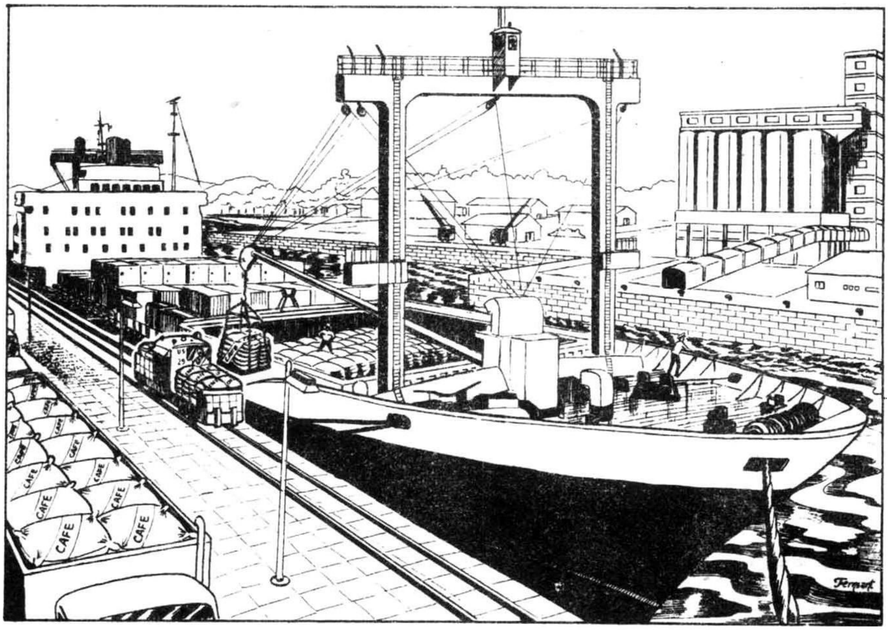
1. What is an *import*?
2. What is an *export*?
3. "One nation's imports are another nation's exports." Why?
4. What is the difference between a *quota* and a *tariff*?
5. What is *visible trade*?
6. How does *invisible trade* differ from *visible trade*?
7. What is *barter*?
8. What is an *investment*?
9. What is the exchange of goods between nations called?
10. Is *visible trade* identical to *foreign trade*?
11. Define *capital*.
12. What are *reserves*?
13. What is *balance of trade*? When does a nation have a favorable balance of trade?
14. Define *balance of payments*.

The International Financial World

Economic activity began with the caveman, who was economically self-sufficient. He did his own hunting, found his own shelter, and provided for his own needs. As primitive populations grew and developed, the principle of division of labor evolved. One person was more able to perform some activity than another, and therefore each person concentrated on what he did best. While one hunted, another fished. The hunter then traded his surplus to the fisherman, and thus each benefitted from the variety of diet.

In today's complex economic world, neither individuals nor nations are self-sufficient. Nations have utilized different economic resources; people have developed different skills. This is the foundation of world trade and economic activity. As a result of this trade and activity, international finance and banking have evolved.

For example, the United States is a major consumer of coffee, yet it does not have the climate to grow any of its own. Consequently, the United States must import coffee from countries (such as Brazil, Colombia, and Guatemala) that grow coffee efficiently. On the other hand, the United States has large industrial plants capable of producing a variety of goods, such as chemicals and airplanes, which



Coffee bags are unloaded after an ocean shipment. By custom, each bag weighs 60 Kilos (132 pounds). Note that the coffee is stored in the hold of the vessel to protect it during the voyage.

can be sold to nations that need them. If nations traded item for item, such as one automobile for 10,000 bags of coffee, foreign trade would be extremely cumbersome and restrictive. But instead of *barter*, which is the trade of goods without an exchange of money, the United States receives money in payment for what it sells. It pays for Brazilian coffee with dollars, which Brazil can then use to buy wool from Australia, which in turn can buy textiles from Great Britain, which can then buy tobacco from the United States.

Foreign trade, the exchange of goods between nations, takes place for many reasons. The first, as mentioned above, is that no nation has *all* of the commodities that it needs. Raw materials are scattered around the world. Large deposits of copper are mined in Peru and Zaire, diamonds are mined in South Africa, and petroleum is recovered in the Middle East. Countries that do not have these resources within their own boundaries must buy from countries that export them.

Foreign trade also occurs because a country often does not have *enough* of a particular item to meet its needs. Although the United States is a major producer of sugar, it consumes more than it can produce internally and thus must import sugar.

Third, one nation can sell some items at a lower cost than other countries. Japan has been able to export large quantities of radios and television sets because it can produce them more efficiently than other countries. It is cheaper for the United States to buy these from Japan than to produce them domestically. According to economic theory, Japan should produce and export those items from which it derives a comparative advantage. It should also buy and import what it needs from those countries that have a comparative advantage in the desired items.

Finally, foreign trade takes place because of innovation or style. Even though the United States produces more automobiles than any other country, it still imports large quantities of autos from Germany, Japan, and Sweden, primarily because there is a market for them in the United States.

For most nations, *exports* and *imports* are the most important international activity. When nations export more than they import, they are said to have a *favorable balance of trade*. When they import more than they export, an *unfavorable balance of trade* exists. Nations try to maintain a favorable balance of trade, which assures them of the means to buy necessary imports. Some nations, such as Great Britain

Foreign-made automobiles are unloaded in the United States.
(Courtesy Volkswagen of America, Inc.)

in the nineteenth century, based their entire economy on the concept of importing raw materials, processing them into manufactured goods, and then exporting the finished goods. The subsequent profits enabled these nations to import the food they needed.

In addition to *visible trade*, which involves the import and export of goods and merchandise, there is also *invisible trade*, which involves the exchange of services between nations.

As an example of invisible trade, Brazilian coffee is usually transported by ocean vessels because these steamships are the cheapest method of transportation. Nations such as Greece and Norway and the colony of Hong Kong have large maritime fleets, which can provide this transportation service. When an exporter arranges for this kind of transportation, he rents space in the cargo compartment of a ship for one voyage.

The prudent exporter purchases insurance for his cargo's voyage. While at sea, a cargo is vulnerable to many dangers, the most obvious being that the ship may sink. In this event, the exporter who has purchased insurance is reimbursed. Otherwise, he may suffer a complete loss. There is also the danger of damage to the cargo from a collapsed or leaky pipe, which could diminish the cargo's value. Thus,

Interior of Lloyd's of London, which is an association of individual insurance underwriters who provide insurance for a premium.
(Courtesy Lloyd's of London)

insurance is another service in which some nations specialize. Great Britain, because of the development of Lloyd's of London, is a leading exporter of this service, earning fees for insuring other nations' foreign trade.

Some nations possess little in the way of exportable commodities or manufactured goods, but they have a mild and sunny climate. During the winter, the Bahamas attract large numbers of tourists, particularly from the northeastern United States, who spend money for hotel accommodations, meals, taxis, and so on. Tourism, therefore, is another form of invisible trade.

In the past twenty-five years, a tremendous demand has grown for the construction of large-scale development projects around the world, including dams, highway networks, and so on. The technical skills to build these projects are purchased when a nation hires engineers and construction supervisors, usually from another country.

The commissions and salaries that are paid to these people represent another form of invisible trade.

The United States has been described as a nation of immigrants. Many Americans send money back to families and relatives in the "old country." In the past fifteen years, millions of workers from the countries of southern Europe have gone to work in Germany, Switzerland, France, the Benelux nations, and Scandinavia. The workers send money home to support their families. These are called *immigrant remittances*. They are an extremely important kind of invisible trade for some countries, both as imports and exports.

Invisible trade can be as important to some nations as the export of raw materials or commodities is to others. In both cases, the nations earn money to buy necessities.

The different kinds of trade that nations engage in are varied and complex, a mixture of visible and invisible trade. Most nations are more dependent on exports than on any other activity. The earnings from exports pay for the imports that they need and want. A nation's *balance of payments* is a record of these complex transactions. By reflecting all of these transactions in monetary terms, a nation is able to combine the income it receives, for example, from exports, tourist expenditures, and immigrant remittances. This combined income is then spent on such items as manufactured goods from other countries, travel for its citizens to other countries, and the hiring of construction engineers.

The two most important categories in any nation's balance of payments are its visible and invisible trade. A third very important category is *investments*.

Investments are the means by which nations utilize the *capital* of other nations to build factories and develop mines for their own industrial base. The railroads of the United States and South America were built by British capital. This capital paid for the costs of construction, including materials and the wages of the workers, and the locomotives and freight cars. More recently, American, Japanese, and European corporations have provided funds to explore for oil and to build new automobile, steel, and chemical plants around the world.

Investment can have a crucial impact on a nation's balance of payments. When an investment is made, capital enters a country, enabling it to import manufactured materials to build a new manufacturing plant and to pay workers to build it. Once the plant is operative, it provides both jobs and taxes for the host country and, in time, produces new manufactured goods for export. In this way, investment acts as a catalyst in economic growth for the developed countries of North America, Europe, and Asia, as well as for developing countries throughout the world.

In subsequent years, an investment should yield a profit. *Dividends,* sums of money paid to shareholders of a corporation out of earnings, can then be remitted to the investing country. From the perspective of the balance of payments, in the year the investment is made, the host country credits income to its balance of payments, and the investing country records a debit. This is reversed in the following years. The dividends then represent an expense for the host country and income for the investing country.

After calculating all of the entries in its balance of payments, a nation has either a net inflow or a net outflow of money. It should be noted that the statistics used in determining a deficit (shortage) or surplus (excess) are inexact; information is reported by a variety of sources, and there are bound to be mistakes and omissions. The statistical difference between these sources is balanced by an entry entitled "Net Errors and Omissions." The final result is either an increase or a decrease in the nation's *reserves.*

These reserves may be compared to an individual's savings. For a nation, they are maintained in holdings of gold and official deposits in foreign currencies, such as U.S. dollars, pounds sterling, deutsche marks, and so on. A deficit in the balance of payments can be accommodated by drawing on (removing some of) the reserves, that is, the previous savings. But if a nation's balance of payments continues in deficit for some time, then the reserves will be insufficient to cover further withdrawals, and additional measures must be taken.

The most direct means of correcting a deficit in the balance of payments and having an immediate impact is by reducing imports. This can be accomplished by imposing *tariffs* (taxes), *quotas* (import restrictions), or both. If successful, the cost of imports rises in the local market, and the imported goods are comparatively more expensive to the consumer than the locally made goods. When a quota is imposed, the quantity previously imported and paid for is reduced.

In either case, the net effect is the reduction of the nation's outflow of money. Other measures may limit invisible-trade expenditures. For example, citizens may be prohibited from taking more than a specified amount of money with them when they travel abroad.

STANDARD PRESENTATION, 1969–73

(In millions of SDRs)

	1969r		1970r		1971r		1972r		1973	
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
A. Goods, Services, and Unrequited Transfers	**540**	—	2,189	—	—	1,155	—	5,327	**6,391**	—
Goods and services	**57,581**	**53,932**	65,268	59,674	**68,585**	65,937	**70,839**	72,487	**91,499**	**81,675**
1. Merchandise f.o.b.	36,411	35,586	41,943	39,626	42,729	45,255	44,892	51,023	58,925	58,302
2. Nonmonetary gold	—	218	—	158	—	196	—	304	—	259
3. Freight[1]	879	1,430	1,107	1,577	1,074	1,816	1,084	1,983	1,254	2,138
4. Other transportation	2,223	2,105	2,550	2,454	2,821	2,552	2,830	2,694	3,172	2,774
5. Travel	2,043	3,373	2,331	3,980	2,446	4,311	2,503	4,554	2,751	4,524
6. Investment income	10,878	4,894	11,788	5,490	12,987	5,307	13,760	5,885	18,555	8,080
6.1. On direct investment	*7,678*	*848*	*8,278*	*875*	*9,542*	*1,119*	*10,542*	*1,090*	*14,723*	*1,540*
6.2. Other private	*2,267*	*3,269*	*2,597*	*3,591*	*2,556*	*2,344*	*2,484*	*2,323*	*3,137*	*3,322*
6.3. Government interest	*933*	*777*	*913*	*1,024*	*889*	*1,844*	*734*	*2,472*	*695*	*3,218*
7. Other government	2,322	5,440	2,342	5,442	2,893	5,409	2,034	4,926	2,977	4,417
7.1. U.S. military agencies	*1,512*	*4,856*	*1,478*	*4,855*	*1,912*	*4,819*	*1,063*	*4,383*	*1,967*	*3,883*
7.2. Other	*810*	*584*	*864*	*587*	*981*	*590*	*971*	*543*	*1,010*	*534*
8. Other private	2,825	886	3,207	947	3,635	1,091	3,736	1,118	3,865	1,181
8.1. Nonmerchandise insurance	*43*	*191*	*77*	*204*	*104*	*254*	*146*	*240*	*143*	*245*
8.2. Other	*2,782*	*695*	*3,130*	*743*	*3,531*	*837*	*3,590*	*878*	*3,722*	*936*
Unrequited transfers	**401**	**3,510**	**402**	3,807	**422**	**4,225**	**530**	**4,209**	**544**	3,977
9. Private	399	1,322	401	1,461	421	1,484	421	1,390	443	1,488
10. Government	2	2,188	1	2,346	1	2,741	109	2,819	101	2,489
B. Capital (excluding reserves and related items)	4,005	—	—	**12,437**	—	**19,537**	—	**3,216**	—	**9,174**
Nonmonetary sectors	—	**4,243**	—	**5,253**	—	**9,616**	—	**4,498**	—	**7,757**
11. Direct investment	—	4,612	—	5,894	—	7,717	—	6,593	—	8,059
11.1. In United States	*1,263*	—	*1,464*	—	*383*	—	*810*	—	*2,913*	—
11.2. Abroad	—	*5,875*	—	*7,358*	—	*8,100*	—	*7,403*	—	*10,972*
12. Other private long-term	1,913	—	1,774	—	1,539	—	3,863	—	2,609	—
12.1. Liabilities	*3,831*	—	*3,302*	—	*2,673*	—	*4,698*	—	*3,666*	—
12.2. New issues and redemptions of foreign securities	*478*	*1,667*	*434*	*1,456*	*480*	*1,562*	*513*	*1,533*	*378*	*1,149*
12.3. Transactions in outstanding foreign securities	—	*305*	*80*	—	*116*	—	*418*	—	*105*	—
12.4. Other assets	—	*424*	—	*586*	—	*168*	—	*233*	—	*391*
13. Other private short-term	389	—	892	—	—	1,076	—	543	—	1,011
13.1. Liabilities	*91*	—	*902*	—	—	*15*	*203*	—	*751*	—
13.2. Assets	*298*	—	—	*10*	—	*1,061*	—	*746*	—	*1,762*
14. Other local government	...		...		...		...		...	
15. Other central government	—	1,933	—	2,025	—	2,362	—	1,225	—	1,296
15.1. Liabilities	*568*	—	—	*389*	...	*662*	*794*	—	*659*	—
15.2. Capital subscriptions	—	*480*	—	*340*	—	*38*	—	*805*	—	*36*
15.3. Loans extended	*1,190*	*3,300*	*1,713*	*2,993*	*2,090*	*3,934*	*1,889*	*3,256*	*2,160*	*3,583*
15.4. Other assets	*89*	—	—	*16*	*182*	—	*153*	—	—	*496*
Monetary sectors	**8,248**	—	—	**7,184**	—	**9,921**	**1,282**	—	—	**1,417**
16. Private institutions	8,248	—	—	7,184	—	9,921	1,282	—	—	1,417
16.1. Liquid liabilities to commercial banks abroad	*9,166*	—	—	*6,508*	—	*6,908*	*3,423*	—	*2,385*	—
16.2. Other liquid liabilities	—	*508*	*268*	—	*217*	—	*951*	—	*1,045*	—
16.3. Long-term liabilities to private foreigners	*160*	—	*23*	—	—	*250*	*137*	—	*216*	—
16.4. Long-term claims	*297*	—	*155*	—	—	*612*	—	*1,204*	—	*758*
16.5. Short-term claims	—	*867*	—	*1,122*	—	*2,368*	—	*2,025*	—	*4,305*
17. Central institutions	—	—	—	—	—	—	—	—	—	—
C. Allocation of SDRs (item 18)	—	—	**867**	—	**717**	—	**710**	—	—	—
D. Reserves and Related Items	—	**2,739**	**9,839**	—	**29,754**	—	**9,497**	—	**4,855**	—
19. Liabilities	—	1,552	7,362	—	27,405	—	9,464	—	4,673	—
19.1. Use of Fund credit	—	—	—	—	—	—	—	—	—	—
19.2. Gold deposit liabilities to IMF	—	*11*	—	*453*	—	*22*	—	*544*	—	—
19.3. Liquid liabilities to foreign official sectors	—	*543*	*8,090*	—	*27,637*	—	*9,466*	—	*4,088*	—
19.4. Other liabilities to foreign official sectors	—	*998*	—	*275*	—	*210*	*542*	—	*585*	—
20. Assets	—	1,187	2,477	—	2,349	—	33	—	182	—
20.1. Monetary gold	—	*967*	*787*	—	*866*	—	*547*	—	—	—
20.2. SDRs	—	—	—	*851*	—	*249*	—	*703*	*8*	—
20.3. Reserve position in the Fund	—	*1,034*	*389*	—	*1,351*	—	*157*	—	—	*29*
20.4. Foreign exchange	*814*	—	*2,152*	—	*381*	—	*32*	—	*203*	—
Net errors and omissions	—	**1,806**	—	**458**	—	**9,779**	—	**1,664**	—	**2,072**

r Revised.

[1] Merchandise insurance, appropriate to item 3, is omitted.

Balance of Payments table for the United States, 1969–1973.

Capital for investments abroad can be restricted by requiring governmental approval for any new foreign investments. When the United States encountered serious balance of payments problems in the 1960s, the government restricted the loans that United States banks could extend abroad. This was a large item in its balance of payments because of the United States' role in world finance. The government also restricted the amount that United States corporations could invest overseas.

If these measures are insufficient, a country may devalue its currency. This immediately makes imports more expensive and exports more competitive, since the importing country can now pay for the first country's imports with less of their currency than previously. In time, these advantages are eliminated. A nation must at all times combine devaluation with other effective measures to *balance its economy*, resulting in a reasonable level of employment and a low rate of inflation.

Gold, and to a lesser extent silver, have been the traditional reserves. At one time, gold moved freely from country to country, but successive constraints have been imposed in the past fifty years. Today, gold counts as only one form among many in the reserves of a country. A number of countries have an agreement with the Federal Reserve Bank of New York to hold their gold in safekeeping. This makes it possible for these countries to buy gold from or sell gold to other countries by merely moving the gold from one custodian vault to another at the Federal Reserve Bank of New York.

The United States currently values its gold reserve at $42.22 per ounce, while other countries may value theirs at or near the current free market price. Generally, the gold that nations hold as reserves is separate from the gold that is traded in a free market. Today, United States citizens can legally own gold, although very few think it worth the time or trouble. In other countries, such as France and India, there exists a strong tradition of gold ownership.

Because all of these international activities are conducted by companies and individuals, a need for international banking services has developed. Governments regulate and from time to time participate in special situations, but these are exceptions. Outside of the socialist countries, international trade and investment is largely a private business. And although companies in Europe like Renault and British Leyland are government-owned, they are—unlike their communist counterparts—run like private companies.

Discussion

1. Why does foreign trade take place?

2. Why do nations try to maintain a favorable balance of trade?