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John Mohr

English For Careers

The Language of International Trade in English



Boudewijn Mohr

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Regents Publishing Company, Inc.

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*Published by
Regents Publishing Company, Inc.
2 Park Avenue
New York, N.Y. 10016*

Printed in the United States of America

ISBN 0-88345-305-3

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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 foreign language to the particular language of different professional and vocational fields. The career areas covered are those in which English is widely used throughout the world, such as air travel, computer programming, hospital services, or, in this case, international trade.

This particular book, *The Language of International Trade in English*, serves several purposes. The first is to give the student an introduction in English to international trade. It is not intended to be a detailed training manual but rather an overview of the customs and procedures in the field of international trade.

The book is intended for a student of English at the high intermediate or advanced level who is acquainted with most of the structural patterns of English. Its second purpose is to give the learner practice in mastering vocabulary and in using various structural patterns that may occur in his or her work in the field of international trade. The goal is for the student to improve his or her ability to communicate in English, particularly with others in the field.

Each unit begins with a glossary of special terms in which words and expressions used in international trade are defined. This glossary is followed by a vocabulary practice section, which tests the student's comprehension of the 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 discussion, which 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 exercises for review. Some exercises test the student's ability to recall or identify special vocabulary. Other exercises ask the student to discuss the significance of a particular concept or to review the steps or processes involved in a specific situation. In doing these exercises, the student will again be practicing both the specialized vocational vocabulary and the structural patterns.

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.

BOUDEWIJN MOHR
New York, New York

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UNIT ONE

NATURAL RESOURCES: EXPORTING AND IMPORTING

Special Terms

Commodities: In international trade, the world's natural resources.

Exporting: Sending goods to another country for sale or trade.

Importing: Bringing in goods from another country for sale or trade.

Minerals: Commodities obtained through mining.

Exploration: The search for mineral deposits.

Capital: Money to invest in a project for profit.

Theory of Comparative Advantage: An economic theory stating that if one country can produce a product relatively more efficiently than another country, it is beneficial to both countries for the first country to export that product to the other. It is also called the *comparative cost theory*.

Tariff: A tax on certain imported items. It places a limit on the goods that may be imported into a country.

Quota: The maximum quantity of a certain product that is allowed into a country during a given period of time. A quota is used to limit imports.

Colonialism: The domination of foreign lands by an imperial power.

Cartel: An association of commodity producers designed to limit competition among its members with the objective of increasing profits.

Commodity Futures Trading: The buying and selling of commodities by producers and consumers at today's prices for delivery at a future date when prices will probably have changed.

Vocabulary Practice

1. What are *commodities*?
2. Define *exporting* and *importing*.
3. What is the process of searching for mineral deposits called?
4. What is *capital* used for?
5. Explain the *theory of comparative advantage*. What is another name for it?
6. Define *tariff* and *quota*. What do they have in common?
7. What is *colonialism*?
8. What is a *cartel*? What is a cartel's objective?
9. What is *commodity futures trading*?

Natural Resources: Exporting and Importing

The location of the world's natural resources, also called *commodities*, determines the patterns of world trade. Some regions are abundant in resources; elsewhere, reserves are scarce or nonexistent. As far as the industrialized nations are concerned, the United States and Canada enjoy the most favorable position. They are the dominant *exporters* of grains. The United States and Canada also have vast coal and oil reserves, as well as *nonferrous* metal deposits,

such as copper, zinc, and lead, which these countries export. The United States is also a heavy consumer of natural resources, and it is increasingly reliant on certain *imports*, especially on oil. Japan, a highly industrialized nation, is very dependent and has to import 99 percent of its primary commodities. Western Europe produces nearly all of the grain it needs but lacks other commodities to a great extent. The United States, Canada, Japan, and Western Europe all have to import tropical agricultural products from the developing nations.

There are basically three commodity groups: *minerals*, such as coal, oil, copper, zinc, and bauxite; *tropical agricultural products*, such as cocoa, coffee, sugar, tea, and tobacco, which grow in tropical climates; and *cereals*, such as wheat, maize, and other grains, which grow in colder climates. While world consumption of resources is increasing at a fast pace, world reserves of many commodities are increasing equally fast. The Brookings Institution in Washington, D.C., estimates that iron ore and bauxite reserves have recently doubled. The amount of world reserves has been determined by *exploration*. Although the earth contains extremely large mineral deposits, some of these are not easily accessible. Also, in some cases, the quality of a mineral varies from one place to another. For example, in the nineteenth century half of the world's copper ore came from Cornwall, England, and had a 13 percent metal content. Today copper ore mined in the United States has less than a 1 percent metal content. But over the last seventy years, improved technology in exploration, production, and transportation now makes mining of such ores with low-metal content a worthwhile venture.

A great part of the world's reserves may still be unknown because they are inaccessible. However, new ways to discover and *exploit* these reserves may yet be found.

Efforts to conserve the environment sometimes clash with the advancement of technology. Environmentalists in the United States want to outlaw strip mining of coal, a technique whereby land is scraped from above in order to find coal. At least they want to force the mining companies to restore the scarred earth to its natural state after the searches for coal have been made.

Increased technology sometimes decreases the demand for natural resources. The need for metals has been relieved by the development of plastics and synthetic fibers. Solar energy may

World "Proved" Oil Reserves at End 1975

Country Area	Thousand Million Tonnes	Share of Total	Thousand Million Barrels
U.S.A.	5.1	5.6%	38.9
Canada	1.1	1.2%	8.2
Total North America	6.2	6.8%	47.1
Latin America	5.0	5.5%	35.4
Total Western Hemisphere	11.2	12.3%	82.5
Western Europe	3.4	3.8%	25.6
Middle East	50.1	55.5%	368.3
Africa	8.7	9.6%	65.1
U.S.S.R.	11.0	12.1%	80.4
Eastern Europe	0.4	0.5%	3.0
China	2.7	3.0%	20.0
Other Eastern Hemisphere	2.9	3.2%	21.2
Total Eastern Hemisphere	19.2	21.3%	143.6
World	90.4	100.0%	666.1
World (Excl. U.S.S.R., E. Europe & China)	76.3	84.4%	563.2

Source of data

U.S.A. American Petroleum Institute.

Canada Canadian Petroleum Association.

All other areas. Estimates published by the "Oil & Gas Journal"
(Worldwide Oil issue 29th December, 1975)

Notes

1. Proved reserves are generally taken to be the volume of oil remaining in the ground which geological and engineering information indicate with reasonable certainty to be recoverable in the future from known reservoirs under existing economic and operating conditions. Probable and possible reserves are not included.

2. The recovery factor, i.e. the relationship between proved reserves and total oil in place, varies according to local conditions and can vary in time with economic and technological changes.

3. For the U.S.A. and Canada the data include oil which it is estimated can be recovered from proved natural gas reserves.

4. The data exclude the oil content of shales and tar sands.



Courtesy Colombia Information Service

Coffee, a tropical agricultural product, is Colombia's chief export. Because the coffee tree may bear both ripe and unripe berries at the same time, they must be harvested by hand.

eventually lessen our dependence on oil. Increased recycling of paper, metals, and other reusable materials will further reduce our demands for primary commodities. However, an offsetting factor to these new developments is the growth of the world's population, which puts an even greater demand on natural resources.

Tropical agricultural products differ from minerals in the sense that they are *renewable*, that is, new crops can be harvested on the same land. Technology is not very advanced in many developing nations where tropical crops are grown, so production is very dependent on manual labor. This is not a constraint, since these countries are densely populated. However, the lack of *capital* (money to invest) may be a problem. It takes five years for coffee trees to reach their peak of production and seven years for rubber trees. Sugar processing facilities are expensive to build. Also, many

developing nations resist foreign investment in their industries, thereby restricting the growth of production.

The availability of grain supplies depends on two factors: population growth and increased production. For the past twenty years world grain production has grown 3 percent annually. In the same period world population has grown by 2 percent. But by the year 2000, six billion people are expected to live on earth, and grain production will have to expand greatly. The industrialized countries achieved their production growth without expansion of agricultural acreage; in developing countries acreage increased 30 percent. Improved technology and increased cultivation should help alleviate some of the food problems now lying ahead of us. In Latin America, according to a United Nations study, the crop acreage could be quadrupled, and in North America it could be doubled.

International trade, where goods and services move across borders, is often explained by the *theory of comparative advantage*, also called the *comparative cost theory*. This theory was developed by David Ricardo, John Stuart Mill, and other economists in the nineteenth century. The theory emphasizes that different countries or regions have different production possibilities. A tropical climate is better suited for growing bananas than a cold one. A country like Norway could produce bananas in hothouses, but it is cheaper for Norway to import the bananas than to produce them. Thus, climate establishes a trade pattern between a northern and a southern country. In other cases the availability of natural resources may be the trade factor.

The theory of comparative cost points out that trade between countries can be profitable for all, even if one of the countries can produce every commodity more cheaply. As long as there are minor, *relative* differences in the efficiency of producing a commodity, even the poor country can have a comparative advantage in producing it. The paradox is best illustrated by this traditional example: the best lawyer in town is also the best typist in town. Since this lawyer cannot afford to give up precious time from legal affairs, a typist is hired who may be less efficient than the lawyer in both legal and typing matters. But the typist's *comparative disadvantage* is least in typing. Therefore, the typist has a *relative comparative advantage* in typing.

The same holds true for countries. Paul Samuelson, a well-

known United States economist, gives this example: the United States is relatively more efficient than Europe in producing food (using only one-third of the labor that Europe does) and in producing clothing (using only one-half the labor). Thus, while the United States has an *absolute advantage* in both forms of production, its efficiency in food production is greater. It has a comparative disadvantage in clothing. Consequently, a great deal of clothing is exported from Europe to the United States. To conclude, the theory of comparative advantage states that if each country specializes in products in which it has a comparative advantage (greatest relative efficiency), trade between these countries will be mutually profitable.

Comparative advantage has led countries to specialize in particular products and to mass-produce. Sometimes this goes one step further. Italy gained a comparative advantage over many countries in mass-producing wine. France, self-supporting in wine, presently imports large quantities of Italian wine, which is cheaper. In turn, a large portion of the French wine production is exported.

It is generally assumed, as the famous economist David Ricardo stated in the last century, that international trade is beneficial for all participants. However, governments can often take protectionist measures. For example, they can impose tariffs and quotas on imported items. A *tariff* is a tax on imported items, computed as a percentage of the import value. An import *quota* is the maximum quantity of a product allowed into a country during a given period of time. These measures are meant to protect domestic industry so that imported goods will not be sold cheaper than home-produced ones. At the same time, countries attempt to achieve equilibrium in the balance of payments, which will be discussed in Unit Two.

International trade can also be limited due to the high cost of transporting bulky or perishable goods. Even if the United States had a comparative advantage over Jordan in producing lampposts, transportation expenses would prevent exporting them to that country. Similarly, if Holland had a comparative advantage over Brazil in producing tomatoes, transportation costs would make these perishable goods too expensive to sell.

World trade patterns can change and have changed dramatically in some cases. Japan, a closed society for many centuries, was opened up to trade at the end of the nineteenth century. Gradually, Japan gained a comparative advantage in many in-

dustries because its labor costs were lower than in the West. Although Japan has to import raw materials, it exports the finished products.

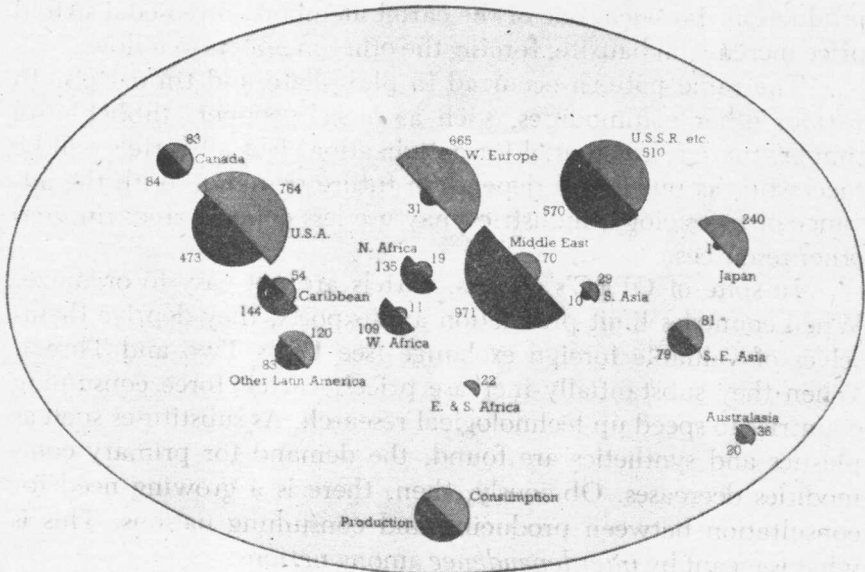
Changes in climate also affect trade patterns. The Sahara desert, for example, creeps southward at a rate of thirty miles annually. If no irrigation is provided, countries in the sub-Sahara belt will eventually be deprived of their tropical agricultural production, and their exports will eventually cease.

Colonialism has been a great stimulus to world trade. Centuries ago merchants sailed the oceans searching for sources of spices and silk. At first they had no intention of becoming rulers of foreign lands. However, the merchants gradually grew more powerful and their governments became involved in faraway lands.

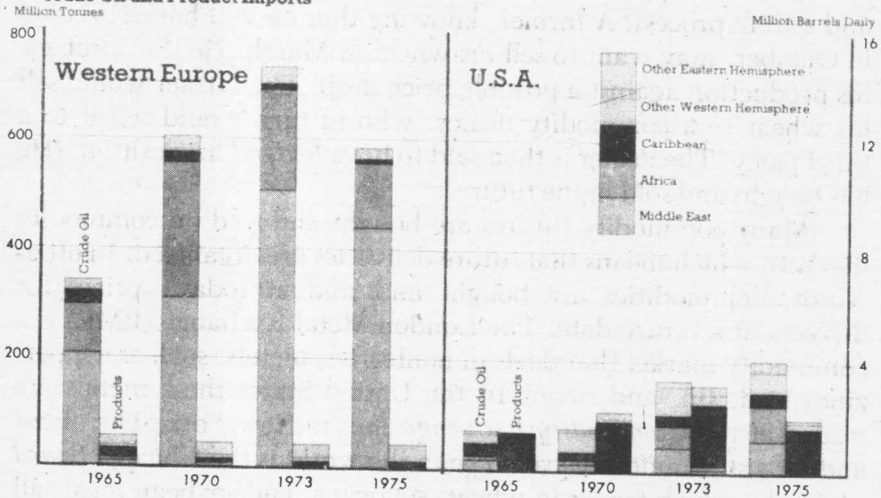
During colonial periods some industrialization was introduced: railroads, ports, and roads were built. Some natives were educated under a system which stressed European values and lifestyles, and together with their colonial masters, they became an elite group of merchants and entrepreneurs. But the large rural areas of the colonies never took part in the economic change. Now that many former colonies are independent, the new politicians, who were part of the former elite, face a dilemma. On one hand, they see the need for the technology and capital funds of the former colonial powers; on the other hand, they are reluctant to assume the financial or political obligations that this collaboration may bring.

Many developing nations, rich in minerals and tropical agricultural products, now try to increase their earnings from these commodities by forming *cartels*, which are producers' associations. They attempt to increase prices by controlling supply. This is achieved by limiting production or by imposing an *embargo*, which is a suspension of exports. The best-known and most successful cartel is the Organization of Petroleum Exporting Countries (OPEC), a group of twelve leading oil exporters from the Middle East, Nigeria, Venezuela, and Indonesia.

In 1974 OPEC quadrupled its prices, significantly decreased production, and established a temporary embargo on exports to the United States and the Netherlands for political reasons. As a result, the Western industrialized nations undertook steps to limit oil consumption. Though oil prices increased further in 1975 and 1976, de-



Crude Oil and Product Imports



The world supply and demand for oil at the end of 1975.

mand did not grow as fast as had been predicted, due to new energy plans that the Western nations made.

Other commodity cartels have followed OPEC's example. The seven leading bauxite exporters formed the International Bauxite Association (IBA). Bauxite is the major raw material in aluminum

production. Jamaica, one of the cartel members, imposed a sixfold price increase on bauxite, forcing the other members to follow.

The same pattern occurred in phosphate and tin cartels. In various other commodities, such as nickel, copper, rubber, and timber, there is a potential for cartelization. Not all cartels will be successful, as much will depend on future demand. With the advance of technology, industries may use less copper, zinc, tin, and other resources.

In spite of OPEC's success, cartels are not easy to organize. When countries limit production and exports, they deprive themselves of valuable foreign exchange (see Units Two and Three). When they substantially increase prices, cartels force consuming countries to speed up technological research. As substitutes such as plastics and synthetics are found, the demand for primary commodities decreases. Obviously, then, there is a growing need for consultation between producing and consuming nations. This is what is meant by *interdependence* among nations.

Commodity futures trading is an important part of the buying and selling process. A farmer, knowing that he will harvest a crop in October, may want to sell his wheat in March. He thus protects his production against a possible price drop. The farmer would sell his wheat to a commodity dealer, who in turn would sell it to a third party. The dealer is then said to have *hedged* his position. (He has bought and sold in the future.)

Many commodity futures are bought and sold on commodity markets, which means that future deliveries are organized. In other words, commodities are bought and sold at today's prices for delivery at a future date. The London Metal Exchange (LME) is a commodity market that deals in nonferrous metals, such as copper, zinc, lead, tin, and silver. In the United States these metals are traded at the *Commodity Exchange Inc.* in New York. The oldest and largest commodity exchange in the world is the *Chicago Board of Trade*, which trades in wheat, soybeans, and soybean meal, all commodities in which the United States is the world's number one producer. Today's international trade could not exist without these and other small commodity exchanges.