

Учебное издание

INTERNATIONAL RELATIONS. PART 2

Международные отношения

В 2 частях

Часть 2

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UNIT I

INTERNATIONAL BUSINESS

STARTING-UP

International business is a term used to collectively describe all commercial transactions that take place between two or more nations. It refers to all those business activities which involve cross border transactions of goods, services and resources between two or more nations. Transactions of economic resources include capital, skills and people for international production of physical goods and services such as finance, banking, insurance, construction etc. Studying international business is important because most companies are either international or compete with international companies. Modes of operation may differ from those used domestically, and the best way of conducting business may differ by country.

As you increase your knowledge of international business, you will add dozens of words to your vocabulary. We will employ the definitions which are generally accepted by businesspeople. Although we primarily use the terms *global*, *multinational*, and *international* firms or companies, at times we may use *multinational enterprise (MNE)* interchangeably with *international company (IC)* inasmuch as both terms are employed in the literature and in practice.

READING

1 HISTORY OF INTERNATIONAL BUSINESS

PRE-READING

A Before reading the text make sure you know the meanings of the following words and word-combinations:

a merchant, a branch, to invest, to assemble, to fail, overseas, to purchase, an operation, to worsen, to assume primacy, a shipping root, an adjustment mechanism.

B Complete the following sentences with one of the words from **A** or its derivative in the appropriate form.

- 1) The bank has all over the country.
- 2) When a company, it goes into liquidation.
- 3) Many countries need in education.
- 4) The lines appeared at the plant decades ago.
- 5) The firm's banking overseas are huge.
- 6) This is the first time the company into movie production.
- 7) Manufacturing of the company are very large.
- 8) A country's commercial ships and people working on them are called navy.
- 9) World ills such as poverty and pollution recently.

C Answer the following questions before reading:

- 1) Is international business a new phenomenon?
- 2) When do you think international business started developing?
- 3) Does international business mean only trade or does it include other types of economic activity?
- 4) Do people all over the world support international business?

History of International Business

READING

Read the text containing some information on the history of international business and then do the tasks that follow.

While international business as a discipline is relatively new, international business as a business practice is not. Well before the time of Christ, Phoenician and Greek merchants were sending representatives abroad to sell their goods. In 1600 the British East India Company, a newly formed trading firm, established foreign branches throughout Asia. At about the same time, a number of Dutch companies, which were organized in 1590 to open shipping routes to the East, joined together to form the Dutch East India Company and also opened branch offices in Asia. American colonial traders began operating in a similar fashion in the 1700s.

Early examples of American foreign direct investment are the English plants set up by Colt Fire Arms and Ford (vulcanized rubber), which were established before the Civil War. Both operations failed, however, after only a few years.

The first successful American venture into foreign production was the factory built in Scotland by Singer Sewing Machine in 1868. By 1880, Singer had become a worldwide organization with an outstanding foreign sales organization and several overseas manufacturing plants. Other firms soon followed, and by 1914, at least 37 American companies had production facilities in two or more overseas locations.

General Motors and Chrysler followed soon afterward, so that by the 1920s, all three companies had sizable foreign operations. In the 1920s, all cars sold in Japan were made in the United States by Ford and General Motors and sent to Japan to be assembled locally. Another early overseas investor was General Electric, which, by 1919, had plants in Europe, Latin America, and Asia. Other well-known American firms in Europe at that time were Alcoa, American Tobacco, Armor, Coca-Cola, Eastman Kodak, Gillette, Quaker Oats, Western Electric, and Westinghouse.

Although American firms were by far the largest foreign investors, European companies were also moving overseas. Friedrich Bayer purchased an interest in a New York plant in 1865, two years after setting up his plant in Germany. Then, because of high import duties in his overseas markets, he proceeded to establish plants in Russia (1876), France (1882), and Belgium (1908). Bayer, now one of the three largest chemical companies in the world (\$25 billion in sales), has operations in 70 countries. Its annual sales in the United States alone are over \$4 billion. Interestingly, Bayer, after many years of trying, was able recently to buy the over-the-counter drug division of Eastman Kodak, present manufacturer and owner of the brand name Bayer aspirin.

Although international firms existed well before World War I, they have only recently become the object of much discussion and investigation, especially concerning the increasing globalization of their production and markets.

At the start of the twenty-first century, international aspects of economics remain as important and controversial as ever. In the last decade alone, major currency and financial crises have rocked industrializing countries from East Asia to Latin America; countries in Europe have given up their national currencies in favor of a common currency, the euro; and growing trade and financial linkages between industrial and developing countries have sparked debate and even open protest inspired by claims that economic “globalization” has worsened worldwide ills ranging from poverty to pollution. Although the United States is more self-sufficient than nations with smaller economies, problems of international economic policy have assumed primacy and now occupy a prominent place on newspapers’ front pages.

Recent general developments in the world economy raise concerns that have preoccupied international economists for more than two centuries, such as the nature of the international adjustment mechanism and the merits of free trade compared with protection.

As always in international economics, however, the interplay of events and ideas has led to new modes of analysis. Three notable examples of recent progress are the asset market approach to exchange rates; new theories of foreign trade based on increasing returns and market structure rather than comparative advantage; and the analysis of international capital flows, which has been central both in refining the concept of “external balance” and in examining the determinants of developing country borrowing and default.

(adapted from [3, pp. 9-11])

POST-READING: *Translate the following into*

Russian or Azerbaijani:

to send representatives abroad; a newly formed trading firm; to establish foreign branches; to open shipping routes; to open branch offices; foreign direct investment; overseas locations; sizable foreign operations; to assemble locally; to move overseas; to purchase an interest in a plant; high import duties; an object of much discussion and investigation; to remain as important and controversial as ever; to rock industrializing countries; to give up

national currencies in favor of a common currency; growing trade and financial linkages; to spark debate and open protest; to raise concerns; the nature of the international adjustment mechanism; the merits of free trade; the interplay of events and ideas; notable examples of recent progress.

Translate the following sentences into Russian or Azerbaijani

- 1) While international business as a discipline is relatively new, international business as a business practice is not.
- 2) By 1914, at least 37 American companies had production facilities in two or more overseas locations. General Motors and Chrysler followed soon afterward, so that by the 1920s, all three companies had sizable foreign operations.
- 3) Although American firms were by far the largest foreign investors, European companies were also moving overseas.
- 4) Because of high import duties in overseas markets, Bayer proceeded to establish plants in Russia, France and Belgium.
- 5) Although international firms existed well before World War I, they have only recently become the object of much discussion and investigation.
- 6) As always in international economics, however, the interplay of events and ideas has led to new modes of analysis.

C Complete the following sentences with the correct form of the verb given in brackets.

- 1) In 1600 the British East India Company, a newly trading firm, established foreign branches throughout Asia. (*form*)
- 2) American colonial traders began branch offices in Asia in the 1700s. (*open*)
- 3) The English plants by Ford before the Civil War were early examples of American foreign direct investment. (*establish*)
- 4) In the 1920s, all cars in Japan were made in the United States by Ford and General Motors. (*sell*)
- 5) The cars were sent to Japan locally. (*assemble*)

- 6) European companies also overseas. (*move*)
- 7) An interest in a New York plant by Friedrich Bayer in 1865. (*purchase*)
- 8) Bayer did it two years after his plant in Germany. (*set up*)
- 9) American companies had plants in two or more overseas locations. (*manufacture*)
- 10) trade and financial linkages between industrial and developing countries have sparked debate and open protest. (*grow*)
- 11) Economic “globalization” has worsened worldwide ills from poverty to pollution. (*range*)
- 12) The nature of the international adjustment mechanism and the merits of free trade with protection have preoccupied international economists for more than two centuries. (*compare*)

D *Answer the following questions:*

- 1) When did the early international business start?
- 2) Which countries were the first to start international business?
- 3) Why did the Dutch companies join together in 1590?
- 4) What was the first successful American venture into foreign production?
- 5) What were other important American overseas investors?
- 6) What European investors have a large number of operations abroad?
- 7) Have all the problems of international economics been solved so far?
- 8) How has the financial crisis rocked the countries of the world?
- 9) What kinds of concerns has the recent financial crisis raised?
- 10) Which new modes of analysis are examples of recent progress in international relations?

E *Make a summary of the text.*

2 ECONOMIC DEVELOPMENT

PRE-READING

A *Before reading the text make sure you know the meanings of the following words and word-combinations:*

to encounter, with respect to, well-being, caution, to share, national income, a yardstick, purchasing power, output, to provide insight to, to occur, life expectancy, adult literacy, GDP/capita, to adjust for, to rank as.

B *Which of the words in A are similar in meaning to the following ones?*

an index, welfare, care, to give understanding of, to face, to come to one's mind, buying capacity, to be considered as, with regard to.

C *Which of the words from A are opposite in meaning to the following ones?*

nutrition, literacy, employment, equality, a possibility, comfort, a balance, an increase, to understand, legal, poverty, an income, useful.

D *Answer the following questions before reading:*

- 1) In what situations can the information about a country's level of development be important?
- 2) What information would you choose to measure a country's level of development?

READING

Read the text and then do the tasks that follow.

Economic Development

When businesspeople move from domestic to international business, they encounter markets with far greater differences in levels of economic development than those in which they have been working. It is important to understand this because a nation's level of economic development affects all aspects of business –

marketing, production, and finance. Although nations vary greatly with respect to economic development levels, they are commonly grouped into the categories of developed, newly industrializing, developing, or less developed.

Although GNP/capita is widely used to compare countries with respect to the well-being of their citizens and for market or investment potential, businesspeople must use it with caution. They still would not obtain a true picture of the relative strengths of markets by comparing GNP/capita alone. GNP/capita is a means, which says that every inhabitant receives an equal share of the national income. This is untrue, especially in developing nations, where the national income is much less evenly divided than it is in developed countries. Thus, businesspeople who conclude from a low GNP/capita that a nation is too poor to buy their products will certainly miss some good markets.

The dissatisfaction with GNP/capita as an indicator of a nation's level of living (it is an index of production, not consumption) has led to various attempts to create indexes by combining variables such as the consumption of steel, concrete, newsprint, and electricity with the ownership of automobiles, telephones, TVs, and radios. Although GNP/capita is an imperfect yardstick for comparing the purchasing power and market size of nations, it does serve as a rough indicator of whether a country is in the developed or developing category. This is valuable because it gives a set of common Third World characteristics that provide some insight to the approximately 140 nations belonging to the Third World of developing nations. Until the 1970s, economists generally considered economic growth synonymous with economic development. A nation was considered to be developing economically if its real output per capita as measured by GNP/capita was increasing over time. However, the realization that economic growth does not necessarily imply development – because the benefits of this growth so often have occurred to only a few – has led to the widespread adoption of a new, more comprehensive definition of economic development.

The *human-needs approach* defines economic development as the reduction of poverty, unemployment, and inequality in the distribution of income. The definition of poverty also has been broadened. Instead of being defined in terms of income, as is

common in developed countries, a reduction in poverty has come to mean less illiteracy, less malnutrition, less disease and early death, and a shift from agricultural to industrial production.

Because of the increased emphasis on human welfare and the lack of a clear link between income growth and human progress, the United Nations Development Program has devised a Human Development Index (HDI) based on three essential elements of human life: a long and healthy life, the ability to acquire knowledge, and access to resources needed for a decent standard of living. These elements are measured by life expectancy, adult literacy, and GDP/capita, adjusted for differences in purchasing power. In its latest report, the program ranked Japan as the most developed with respect to social progress (HDI = 0.983); the United States ranked sixth (HDI = 0.976), below Japan, Canada, Norway, Switzerland, and Sweden. The primary reason for this ranking was the lower American adult literacy rate.

The inclusion of noneconomic variables has made it impossible to formulate a widely accepted general theory of development. Instead of pursuing a general theory, development economists are concentrating on specific problem areas, such as population growth, income distribution, unemployment, transfer of technology, the role of government in the process, and investment in human versus physical capital.

(adapted from [3, pp. 96-98])

POST-READING

Translate the following into Russian or Azeri:

to move from domestic to international business; to affect all aspects of business; to compare countries with respect to the well-being of their citizens; to receive an equal share of the national income; to be evenly divided; to conclude from a low GNP/capita; an imperfect yardstick for comparing the purchasing power; benefits of growth; to occur to only a few; a widespread adoption of a definition; reduction of poverty, unemployment, and inequality illiteracy, malnutrition and disease; an early death; essential elements of human life; a long and healthy life; an ability to acquire knowledge; an access to resources; a decent standard of living; to adjust for differences; to pursue a general theory.

B *Translate the following sentences into Russian or Azeri*

- 1) Businesspeople still would not obtain a true picture of the relative strengths of markets by comparing GNP/capita alone.
- 2) Although GNP/capita is an imperfect yardstick for comparing the purchasing power and market size of nations, it does serve as a rough indicator of whether a country is in the developed or developing category.
- 3) However, the realization that economic growth does not necessarily imply development – because the benefits of this growth so often have occurred to only a few – has led to the widespread adoption of a new, more comprehensive definition of economic development.
- 4) Instead of being defined in terms of income, as is common in developed countries, a reduction in poverty has come to mean less illiteracy, less malnutrition, less disease and early death, and a shift from agricultural to industrial production.

C *Complete the following sentences with the correct form of the verb given in brackets.*

- 1) When the businesspeople moved from domestic to international business, they encountered markets with far greater differences in levels of economic development than those in which they (*work*)
- 2) Nations vary greatly with respect to economic development, thus they into several categories so far. (*group*)
- 3) If businesspeople concluded from a low GNP/capita that a nation was too poor to buy their products they some good markets. (*miss*)
- 4) A nation was considered to be developing economically if its real output per capita over time. (*increase*)
- 5) Economic growth does not necessarily imply development. The benefits of this growth to only a few in most developed countries. (*occur*)
- 6) The United Nations Development Program a Human Development Index based on three essential elements of human life. (*devise*)

- 7) In the latest UN report, Japan as the most developed with respect to social progress. (*rank*)
- 8) Now development economists on specific problem areas, such as population growth, income distribution, unemployment and others. (*concentrate*)

D Complete the following sentences with the appropriate prepositions.

- 1) There are differences levels of economic development of countries.
- 2) Although nations vary greatly respect economic development levels, they are commonly grouped only into four categories.
- 3) A true picture of the relative strengths of markets wouldn't be obtained comparing GNP/capita alone.
- 4) A set of common characteristics provides insight the approximately 140 nations belonging the Third World of developing nations.
- 5) the 1970s, economists generally considered economic growth synonymous economic development.
- 6) A nation was considered to be developing economically if its real output per capita as measured GNP/capita was increasing time.
- 7) The primary reason ranking the US only the sixth on the list of developed nations was the lower American adult literacy rate.
- 8) Instead being defined terms of income, a reduction poverty has come to mean less illiteracy, less malnutrition, less disease and early death.

E Answer the following questions:

- 1) Which aspects of business does a nation's level of economic development affect?
- 2) What indicator is widely used to compare countries' well-being?
- 3) Why should businesspeople use GNP/capita with caution?

- 4) What other index is used to obtain a true picture of markets?
- 5) Why is GNP/capita still a valuable yardstick in classifying nations?
- 6) What is the difference between the terms 'economic development' and 'economic growth'?
- 7) How does the human-needs approach define economic development?
- 8) What index did the United Nations Development Program devise?

F Make a summary of the text.

UNIT II

INTERNATIONAL CORPORATIONS

STARTING-UP

The Global and the Multinational Corporations seem to be similar, but the concepts of the global corporation and the multinational are dissimilar. The multinational firm sells to several countries, but adjusts its products, manufacturing processes, and business strategies to local conditions. The global firm also sells to several countries, but does so with the same products, same manufacturing processes and a single business strategy. Management regards the entire world as a single market. There are some types of international corporations having different organizational design. Most of international companies strive to become global. There is strong competition among them. Many global companies have instituted formal worldwide strategic planning to identify opportunities and threats, formulate strategies to handle them, and stipulate the means to finance those strategies.

All corporations need labor to meet business needs. And while meeting these needs they should consider the interests of society.

READING

1 ORGANIZATION DESIGN OF INTERNATIONAL CORPORATIONS

PRE-READING

A Before reading the text make sure you know the meanings of the following words and word-combinations:

a Chief Executive Officer (CEO), to contrast with, to confront, to run counter to, to be faced with, to be typified by, to retain, to nullify, embryonic, to disband.

B Which of the words and word-combinations from **A** are similar in meaning to the following ones?

to split up, to be consistent with, to oppose to, a General Manager, to conflict with/to be opposite to something, to invalidate, something just beginning to develop, to keep/not to let leave.

C Complete the following sentences with one of the words or word-combinations from **A** in the appropriate form.

- 1) It's not unusual for rock bands and pop groups after a few years together.
- 2) Workers with the threat of losing their jobs.
- 3) The most senior manager in a company who has more authority than anyone else is
- 4) The trade agreement once the company was sold.
- 5) The government's actions to their election promises.
- 6) The economy of the country is very poor, it is just
- 7) They are trying to recruit and skilled staff.
- 8) Vertical integration is by one firm engaged in different parts of production.

D Answer the following questions before reading:

- 1) What types of national companies can you name?
- 2) What do you know about the types of international corporations?
- 3) What types of company structure do you know?
- 4) Is the structure of international corporations different from the one of national companies?

READING

Read the text containing some information on the types and structure of international businesses and then do the tasks that follow.

Organization Design of International Corporations

In microeconomics and management, the term “vertical integration” describes a style of management control. Vertically

integrated companies in a supply chain are united through a common owner. Usually each member of the supply chain produces a different product or market-specific service, and the products combine to satisfy a common need. It is contrasted with horizontal integration. Vertical integration is one method of avoiding the hold-up problem.

Nineteenth century steel industrialist Andrew Carnegie introduced the idea of vertical integration. This led other businesspeople to use the system to promote better financial growth and efficiency in their companies and businesses. Vertical integration is the degree to which a firm owns its upstream suppliers and its downstream buyers. Contrary to horizontal integration, which is a consolidation of many firms that handle the same part of the production process, vertical integration is typified by one firm engaged in different parts of production (e.g. growing raw materials, manufacturing, transporting, marketing, and/or retailing).

A horizontal corporation is characterized by lateral decision processes, horizontal networks, and a strong corporate-wide business philosophy. A virtual corporation is a temporary group of independent companies, including manufacturers, marketers, suppliers, customers, and competitors, connected by a computer network for the purpose of designing, manufacturing, and marketing a product. A virtual corporation enables companies to come together quickly to take advantage of a specific marketing opportunity. Because each member concentrates on what it does best, a virtual corporation can have capabilities superior to those of any member. Once the opportunity ends, the virtual corporation normally will disband.

CEOs are changing the organizational forms of their companies so that their firms will act more quickly, reduce costs, and improve the quality of product offerings. In designing the organizational structure, management is faced with two concerns: (1) finding the most effective way to departmentalize to take advantage of the efficiencies gained from the specialization of labor and (2) coordinating the firm's activities to enable it to meet its overall objectives. As all managers know, these two concerns

run counter to each other; that is, the gain from the increased specialization of labor may sometimes be nullified by the increased costs of greater coordination. It is the constant search for an optimum balance between them that causes firms to make frequent changes in their organizational structures. Changes in strategy may require changes in the organization, but the reverse is also true. For instance, a new CEO may join the firm, or an important customer may change its method of operating, perhaps adopting a synchronous production process. Planning and organizing are so closely related that normally the structure of the organization is treated by management as an integral part of the planning process.

Companies do not continually reorganize their operations. Each has retained for years a simple structure built around an international division – a form of organization that many management theorists regard as embryonic, appropriate only for companies in the earliest stages of worldwide growth. IBM and Ford are two global firms that had international divisions for years after most had abandoned the international structure. New CEOs, however, have reorganized their companies, eliminating the international division. IBM created a single, worldwide sales and services organization and organized it by industry and technology specifications. Ford has begun a major realignment that will result in a single set of global processes and systems in product development, manufacturing, supply, and sales activities.

As their overseas operations increased in importance and scope, most management felt the need to eliminate international divisions and establish worldwide organizations based on *product*, *region*, or *function*. Companies may have an international division, be organized by product, function, or region, or have a mixture of them (hybrid form).

Global Corporate Form based on *Product* is a return to pre-export department times in that the domestic product division has been given responsibility for global line and staff operations. In the present-day global form, product divisions are responsible for the worldwide operations.

Global Corporate Form based on *Geographical Region* is used by firms in which geographic regions are the primary basis for division to put the responsibility for all activities under area managers who report directly to the chief executive officer. This kind of organization simplifies the task of directing worldwide operations, because every country in the world is clearly under the control of someone who is in contact with headquarters. This organizational type is used for both multinational and global companies. Global companies that use it consider the division in which the home country is located as just another division.

To attain a balance between product and regional expertise, some companies' management has tried a matrix form of organization. Its disadvantages, however, have caused many companies to put a matrix overlay over the traditional product, regional, or functional form instead of using the matrix.

Management who changed to these types of organizations felt they would be more capable of developing competitive strategies to confront the new global competition, obtain lower production costs by promoting worldwide product standardization and manufacturing rationalization, and enhance technology transfer and the allocation of company resources.

(adapted from [3, pp. 683-691])

POST-READING

A Translate the following into Russian:

a style of management control; a supply chain; to satisfy a common need; to be contrasted with horizontal integration; a method of avoiding the hold-up problem; to promote better financial growth; to own upstream suppliers and downstream buyers; to handle the same part of the production process; lateral decision processes; horizontal networks; to improve the quality of product offerings; to be faced with concerns; to meet one's overall objectives; to run counter to each other; to be treated as an integral part of the planning process; to increase in importance and scope; to attain a balance between product and regional expertise; to confront the new global competition.

B *Translate the following sentences into Russian paying attention to the underlined parts.*

- 1) Contrary to horizontal integration, which is a consolidation of many firms that handle the same part of the production process, vertical integration is typified by one firm engaged in different parts of production.
- 2) Because each member in a virtual corporation concentrates on what it does best, it can have capabilities superior to those of any member.
- 3) Once the opportunity ends, the virtual corporation normally will disband.
- 4) The two concerns run counter to each other; that is, the gain from the increased specialization of labor may sometimes be nullified by the increased costs of greater coordination.
- 5) It is the constant search for an optimum balance between them that causes firms to make frequent changes in their organizational structures.
- 6) Changes in strategy may require changes in the organization, but the reverse is also true.
- 7) Global Corporate Form based on Product is a return to pre-export department times in that the domestic product division has been given responsibility for global line and staff operations.
- 8) The disadvantages of matrix form of organization, however, have caused many companies to put a matrix overlay over the traditional product, regional, or functional form instead of using the matrix.

C *Complete the following sentences with the correct prepositions.*

- 1) Vertically integrated companies a supply chain are united a common owner.
- 2) Vertical integration is contrasted horizontal integration.
- 3) Vertical integration is the degree which a firm owns its upstream suppliers and its downstream buyers.

- 4) Contrary horizontal integration, vertical integration is typified one firm engaged different parts of production.
- 5) designing the organizational structure, management is faced two concerns.
- 6) Ford has begun a major realignment that will result a single set of global processes and systems product development, manufacturing, supply, and sales activities.
- 7) Management who changed these types of organizations felt they would be more capable developing competitive strategies.

D *Answer the following questions:*

- 1) What are the characteristics of a horizontal corporation?
- 2) What kind of integration is called ‘vertical’?
- 3) What is typical of a virtual corporation? What is its goal?
- 4) Who introduced the idea of vertical integration?
- 5) Why do companies change their organization design?
- 6) What design is more common for global corporations?
- 7) Do corporations have international divisions nowadays?
- 8) Why is it important for a corporation to formulate its strategies?
- 9) What is the difference between hierarchical and matrix management?

E *Make a summary of the text.*

2 INTERNATIONAL CORPORATIONS’ ACTIVITIES

PRE-READING

A *Before reading the text make sure you know the meanings of the following words and word-combinations:*

to strive, strategic, an environment, a mission statement, vision, just-in-time production, synchronous production, to put into effect, balanced / unbalanced production, total quality management, to schedule, to focus on something, a bottleneck.

B Which of the words from A are similar in meaning to the following ones?

to try hard, to concentrate on, well-adjusted, to carry out, an ecosystem, to program/to plan.

C Complete the following sentences with one of the words from A or its derivative in the appropriate form.

- 1) Women for more freedom.
- 2) We to be accurate, but some mistakes are inevitable.
- 3) We need to create a safe working for all employees.
- 4) The next stage was a It caused the entire process to slow down.
- 5) Attention recently on the dangers of nuclear reactors.
- 6) was designed to improve the performance of organizational processes in business and industry.
- 7) and asynchronous transmissions are two different methods of transmission synchronization.
- 8) She was responsible for the firm's planning.
- 9) A diet contains lots of fruit and green vegetables.
- 10) They another meeting in a month time.
- 11) The city council is putting the law into
- 12) In this competitive a business needs to be flexible.
- 13) Tackling these challenges will require real
- 14) is an inventory strategy that strives to improve a business's return on investment by reducing in-progress inventory and associated carrying costs.
- 15) The statement should guide the actions of the organization.
- 16) He is a good day-to-day manager but he lacks

E Answer the following questions before reading:

- 1) Do you think corporations should be involved in strategic planning? Why?
- 2) What do you know about Japanese corporations and goods they produce?
- 3) What do you think about the professional qualities of corporations' management? What should it be like?

READING

Read the text and then do the tasks that follow.

International Corporations' Activities

Many Japanese firms are striving to become global companies, so they formulate global strategies. There are some benefits of global strategic planning. Global strategic planning provides a formal structure in which managers analyze the company's external environment, analyze the company's internal environment, define the company's business and mission, set corporate objectives, quantify goals, formulate strategies, and make tactical plans. The planning staff assists the operating managers by providing information on the environments.

Statements of the corporate business, vision, and mission communicate to the firm's stakeholders what the company is and where it is going. A firm's objectives direct its course of action, and its strategies enable management to reach its objectives. According to a survey of 9,000 managers, the most commonly used tool is the mission statement, followed by the customer satisfaction survey.

Organizing normally follows planning because the organization must implement the strategic plan. The planning process itself encompasses an analysis of all the firm's activities.

Although Many Japanese firms, for example, have had foreign factories and sales offices for decades, their product development, marketing, financing, and investment plans have been directed from Japan; they are Japanese multinationals whose management philosophy is decidedly ethnocentric (home country does it better). Why should long-established firms like Toyota, Matsushita, and Hitachi, all of which are convinced of the superiority of the "Japanese way," change their methods of operating which have been so profitable for so long?

The main reason is that their overseas manufacturing operations are becoming so large and diversified that they are beyond effective centralized control from the home offices. Governments, especially those of EU members, are enacting stricter local-content laws requiring local manufacture, not just assembly. NEC, for example, has formulated a new global strategy

of manufacturing in “optimum locations.” A network of regional manufacturing operations now does work for each other, with or without support from NEC plants in Japan. Matsushita is rearranging its 69 overseas plants in a “global localization” plan to supply four “major poles” – North America, Europe, Japan, and the rest of Asia. It now has regional headquarters for each area. To get the latest technology needed to remain competitive worldwide, Japanese companies have established research centers in the United States and Europe. These too are becoming difficult to manage from Japan.

For many Japanese companies accustomed to strict control from headquarters, it is going to be difficult to give responsibility and authority to distant operations and leave it to their local managers to adjust to the cultures, tastes, and business practices of their markets. Also, they are not particularly skilled in dealing with minorities (which they don’t have at home), as their records in the United States and other countries show. They have the same problem with unions as well.

The role model for many of the Japanese companies trying to become global is IBM. They are impressed by the more than 30 research facilities IBM has around the world. Of course, IBM’s global success is not due solely to a worldwide network of research centers. One of the ingredients of its success is that IBM-Germany is a true German company, as IBM-Japan is a Japanese company.

Each division generally has regional experts; so this organizational form avoids the duplication of product experts common in the company with an international division, it creates a duplication of area experts. Occasionally, to eliminate placing regional specialists in each product division, management will have a group of managerial specialists in an international division who advise the product divisions but have no authority over them.

Japanese manufacturers realized that because of the limited size of Japan’s economy and its lack of natural resources, they would have to export to grow. To do so, they would have to be competitive with other nations, which meant improving their product quality and lowering their costs. To achieve these goals, they created a production system, just-in-time, based primarily on American production concepts.

JIT requires coordinated management of materials, people, and suppliers. JIT's goal is to eliminate inventories, reduce process and setup times, and use participative management to ensure worker input and loyalty to the firm. JIT includes total quality management (TQM), of which continuous improvement is an integral part. But JIT is restricted to repetitive operations. It is a balanced system, so if one operation stops, the whole production line stops. But it is difficult to achieve a balanced system. In addition, JIT makes no allowances for contingencies. A sudden breakdown will stop the entire production system. Finally, it is a slow process to put JIT into effect.

The goal of synchronous production is unbalanced production scheduling rather than the balanced scheduling of JIT; attention is focused on the bottleneck of the production system, and scheduling for the entire operation is controlled by the output of the bottle neck operation.

(adapted from [3, pp. 683-685])

POST-READING

A *Translate the following into Russian:*

to strive to become a global company; benefits of global strategic planning; to define the company's mission; to set corporate objectives; to quantify goals; to communicate to the firm's stakeholders; to direct the course of action; a customer satisfaction survey; to implement a strategic plan; long-established firms; to be beyond effective centralized control from the home offices; to enact strict local-content laws; to be accustomed to strict control from headquarters; to eliminate inventories; to reduce process and setup times; to be restricted to repetitive operations; to make no allowances for contingencies; to be focused on the bottleneck of the production system.

B *Translate the following sentences into Russian paying attention to the underlined parts.*

- 1) According to a survey of 9,000 managers, the most commonly used tool is the mission statement, followed by the customer satisfaction survey.

- 2) Why should long-established firms like Toyota, Matsushita, and Hitachi, all of which are convinced of the superiority of the “Japanese way,” change their methods of operating which have been so profitable for so long?
- 3) The main reason is that their overseas manufacturing operations are becoming so large and diversified that they are beyond effective centralized control from the home offices.
- 4) This organizational form avoids the duplication of product experts common in the company with an international division. It creates a duplication of area experts.
- 5) The goal of synchronous production is unbalanced production scheduling rather than the balanced scheduling of JIT, attention is focused on the bottleneck of the production.

C *Complete the following sentences using the information from the text.*

- 1) Global strategic planning provides a formal structure in which managers
- 2) Statements of the corporate business, vision, and mission communicate to the firm’s stakeholders what
- 3) Organizing normally follows planning because
- 4) Now Japanese corporations have regional for each area.
- 5) A group of managerial specialists in an international division advise the product divisions but have no
- 6) To be competitive with other nations meant improving and lowering
- 7) To achieve these goals, they created a production system, based primarily on American production concepts.
- 8) JIT’s goal is to eliminate inventories, reduce process and setup times, and use participative management to ensure
- 9) JIT includes total quality management of which continuous improvement is
- 10) It is a balanced system, so if one operation stops, the whole
- 11) Synchronous production is based on unbalanced production scheduling where attention is focused on of the production system.

D *Answer the following questions:*

- 1) Why do international companies formulate global strategies?
- 2) What does global strategic planning comprise?
- 3) What do statements of the corporate business, vision, and mission communicate to the firm's stakeholders?
- 4) What are some other tools the companies use?
- 5) Why do well-established firms have to change their methods?
- 6) Why is IBM the role model for many of the Japanese companies trying to become global?
- 7) What are the advantages of using a just-in-time production system?
- 8) What is total quality management?
- 9) What are the disadvantages of JIT?
- 10) What advantages does synchronous production have over JIT?

E *Make a summary of the text.*

3 INTERNATIONAL COMPANIES' COMPETITION AND LABOR MARKET

PRE-READING

A *Before reading the text make sure you know the meanings the following words and word-combinations:*

to compete, a concern, a triad, predictable, to emerge, a trade flow, division of labor, labor costs, wages, to bargain, profitability, favorable, to call the tunes, an obstacle, a sparsely populated country.

B *Which of the words from A are similar in meaning to the following ones?*

anxiety, to contest, beneficial, foreseeable, to exercise authority, to arise, earnings, to negotiate, productivity, a problem.

C *Complete the following sentences with one of the words from A or its derivative in the appropriate form.*

- 1) Most of the films we've seen have had one thing in common – plots.

- 2) A group of three may be called a
- 3) In Africa some regions are populated.
- 4) Global gives an advantage of an extensive network of international branches.
- 5) There is growing about the safety of mobile phones.
- 6) After hours of negotiating, a was finally reached.
- 7) is specialization in the production process or in specific tasks.
- 8) Selling off assets should return the company to
- 9) The company is working in that country under conditions.
- 10) The monopoly calls in the industry.

D *Answer the following questions before reading:*

- 1) What countries or regions are strong competitors in the world?
- 2) Are labor costs the same in different regions?
- 3) How do labor costs influence corporations?

READING

Read the text and then do the tasks that follow.

International Companies' Competition and Labor Market

There is strong competition among the United States, the European Union, the Asian NIEs and NICs, and Japan. In the 1980s, there was great concern in the United States and Europe over the ability of these nations to compete in world markets. Recently, the strong yen has caused the same uneasiness in Japan. Nations, of course, do not compete against each other; their companies do. However, because most economic and social conditions, as well as political actions, affect the ability of all of a nation's firms to compete in world markets, it is convenient to speak of national (macro) competitiveness.

International business is not merely a passive victim of political forces. It can be a powerful force in the world political arena. For an international firm to compete in world markets, it must be present in at least two and preferably all three parts of a triad composed of the United States, Japan, and what is now the

European Union. Note that the triad includes nearly all of the world's developed countries, which are not only much larger markets (80 percent of the world's GNP) than are the developing nations, but also have business climates (political, financial, and legal forces) that are more favorable to business and are predictable.

Recently, another group of countries has emerged to become a fourth important region, with a combined GDP of \$1 billion. This group includes the newly industrialized economies (NIEs) in East Asia, consisting of the "Asian tigers" (the South Korea, Taiwan, Hong Kong, and Singapore), and the two newly industrializing countries (NICs), Malaysia and Thailand.

Although it is true that Japan has invested heavily in the Asian Pacific nations and thus is well represented in that region, it is too simplistic to think of Japan and the Asian NIEs as one trading bloc. In fact, the method of considering only two groups in the Pacific as being in competition is not completely adequate. There are extremely strong trade flows among the Asian NIEs themselves and between these nations and members of the Association of South East Asian Nations (ASEAN). For example, Asian NIEs export more to other Asian NIEs and ASEAN nations than they export to Japan. Firms from Asian NIEs are also important investors in ASEAN members. In addition, a division of labor no longer exists just between Japan and the Asian countries or Japan and the ASEAN nations. Significant differences in labor costs have also developed among the Asian NICs and NIEs and between the Asian NIEs and the ASEAN nations. Rising labor costs in South Korea, for example, have forced some manufacturers to move to countries with lower labor costs, such as Indonesia.

A South Korean company produces shoes under contract for Nike, L.A. Gear, and Reebok in its Indonesian plant. The owners used to make the shoes in Korea, but they moved the plant to Indonesia when Korean wages rose to \$800 per month compared to the \$40 per month being paid in China and Indonesia – about what the Koreans earned in the 1970s.

Nike, which has no production facilities of its own, pays the manufacturer \$5.60 per pair for the shoes that the company retails for prices ranging from \$50 to \$175. Indonesian factory workers receive 15 cents an hour. Interestingly, only New Balance, Saucony, and Van produce athletic shoes in the United States.

The quality, quantity, and composition of the available labor force are considerations of great importance to an employer. This is particularly true if the employer is required to be efficient, competitive, and profitable. There are government-owned plants whose objectives are to provide employment or essential services, with profitability and competitiveness being secondary.

Labor quality refers to the attitudes, education, and skills of available employees. Labor quantity refers to the number of available employees with the skills required to meet an employer's business needs. Circumstances can arise in which there are too many available workers, which can be good or bad for the business.

If there are more qualified people than a company can economically employ, its bargaining position is strengthened and it can choose the best employees at relatively low wages. On the other hand, high unemployment can cause social and political unrest, which is usually not favorable to profitable business.

Many of the labor conditions in an area are determined by the social, cultural, religious, attitudinal, and other forces. Other determinants of labor conditions are political and legal forces.

Management of private business in capitalist societies has been thought of as representing the shareholders/owners and bondholders/lenders putting up the money that enabled the business to start and run. The shareholders and bondholders could call the tunes. But some new and different music is now being heard by management in several countries where labor is getting seats on boards of directors.

Classical economists assumed the immobility of labor, one of the factors of production. Undoubtedly, labor is imperfectly mobile; leaving aside political and economic obstacles, more complications are involved in moving people than in moving capital or most goods.

But however imperfect it may be, labor mobility does exist. At least 60 million people left Europe to work and live overseas

between 1850 and 1970. Between the end of World War II and the mid-1970s, some 30 million workers from southern Europe and North Africa flew into eight northern European countries where they were needed because of the economic boom enjoyed there. This movement is slowing or even reversing now.

Another huge worker migration began during the 1970s as the sparsely populated, and newly very rich, Arab OPEC countries needed labor not only in their oil fields but also for numerous construction projects they undertook and services they required. Countries supplying most of these workers were Egypt, Algeria, Morocco, Pakistan, and India.

There are probably 11 million Mexicans at work in the United States, most illegally, and the number is growing. In addition, there are many Cubans, Haitians, Central Americans, Southeast Asians, and others in the U.S. work force. The cause of such migrations is typically a combination of problems, economic or political, at their sources, and perceived opportunities at their destinations.

(adapted from [3, pp. 378-379])

POST-READING

A *Translate the following into Russian:*

to be a passive victim of political forces; to be a powerful force in the world political arena; to have favorable business climates; with a combined GDP of \$1 billion; to retail for prices ranging from \$50 to \$175; the quality, quantity, and composition of the available labor force; to provide employment or essential services; to strengthen bargaining position; to cause social and political unrest; to be determined by the social, cultural, religious, attitudinal, and other forces; shareholders/owners; to assume the immobility of labor; to leave aside political and economic obstacles; to flow into other countries; to enjoy an economic boom.

B *Translate the following sentences into Russian:*

- 1) Because most economic and social conditions, as well as political actions, affect the ability of all of a nation's firms to compete in world markets, it is convenient to speak of national (macro) competitiveness.

- 2) For an international firm to compete in world markets, it must be present in at least two and preferably all three parts of a triad composed of the United States, Japan, and what is now the European Union.
- 3) Recently, another group of countries has emerged to become a fourth important region, with a combined GDP of \$1 billion.
- 4) Although Japan has invested heavily in the Asian Pacific nations and thus is well represented in that region, it is too simplistic to think of Japan and the Asian NIEs as one trading bloc.
- 5) Labor quantity refers to the number of available employees with the skills required to meet an employer's business needs.
- 6) Management of private business in capitalist societies has been thought of as representing the shareholders/owners and bondholders/lenders putting up the money that enabled the business to start and run.

C Complete the following sentences with the correct conjunctions.

- 1) most economic and social conditions, as well as political actions, affect the ability of all of a nation's firms to compete in world markets, it is convenient to speak of national (macro) competitiveness.
- 2) it is true that Japan has invested heavily in the Asian Pacific nations and is well represented in that region, it is too simplistic to think of Japan and the Asian NIEs as one trading bloc.
- 3) Nike has no production facilities of its own, pays the manufacturer \$5.60 per pair for the shoes that the company retails.
- 4) There are government-owned plants objectives are to provide employment or essential services, with profitability and competitiveness being secondary.

D Answer the following questions:

- 1) What countries or regions are included in the triad?
- 2) What is the development stage of these countries/regions?

- 3) What group of countries has emerged to become a fourth important region?
- 4) Why does a division of labor no longer exist between Japan and the Asian countries?
- 5) Why did a South Korean company producing shoes under contract for Nike move the plant to Indonesia?
- 6) Why are the quality, quantity, and composition of the available labor force considerations of great importance to an employer?
- 7) Is a company's bargaining position strengthened or weakened if there are more qualified people than a company can economically employ?
- 8) What forces determine labor conditions?
- 9) Which countries supply most of the work force?

E Make a summary of the text.

READING AND DISCUSSION

READING

Read the text and then do the tasks that follow.

4 CRITICAL ANALYSIS OF CSR

Corporate Social Responsibility (CSR) is incorporated into the strategic planning process of many multinational organizations. The reasons behind social responsibility towards human and environmental responsibility are subject to much debate and criticism.

Some critics argue that corporations are fundamentally entities responsible for generating a product and/or service to gain profits to satisfy shareholders. Milton Friedman and others argue that there is no place for social responsibility as a business function. These critics point to the rule of corporate law that prohibits a corporation's directors from any activity that would reduce profits.

Other critics argue that the practice cherry-picks the good activities a company is involved in and ignores the others, thus "green-washing" their image as a socially or environmentally responsible company. Still other critics argue that it inhibits free

markets or seeks to pre-empt the role of governments in controlling the socially or environmentally damaging effects of corporations' pursuit of self-interest.

Some critics believe that CSR programs are often undertaken in an effort to distract the public from the ethical questions posed by their core operations. Examples of companies that have been accused of this motivation include British American Tobacco (BAT), which produces major CSR reports, and the petroleum giant BP, which is well-known for its high-profile advertising campaigns on environmental aspects of its operations.

Some CSR critics argue that the only reason why corporations are involved in social projects is for the commercial benefit they see in raising their reputation with the public or with government. They suggest a number of reasons why self-interested corporations, solely seeking to maximize profits, are unable to advance the interests of society as a whole. They point to examples where companies have spent a lot of time promoting CSR policies and commitment to sustainable development on the one hand, whilst damaging revelations about business practices on the other.

For example, the McDonald's Corporation has been criticized by CSR campaigners for unethical business practices and was the subject of the case which upheld claims regarding mistreatment of workers, misleading advertising, and unnecessary cruelty to animals. Similarly Shell was involved in 2004 in a scandal over the misreporting of its oil reserves which seriously damaged its reputation and led to charges of hypocrisy. Since this has happened, the Shell Foundation has become involved in many projects across the world, including a partnership with Marks and Spencer (UK) in three flower and fruit growing communities across Africa.

These critics generally suggest that stronger government and international regulation, rather than voluntary measures, are necessary to ensure that companies behave in a socially responsible manner.

(http://en.wikipedia.org/wiki/Critical_analysis)

POST-READING

A *Say if the following statements are true or false. Correct the ones that are false.*

- 1) CSR programs are often undertaken in an effort to distract the public from the ethical questions posed by companies' operations.
- 2) British American Tobacco (BAT), which produces major CSR reports, and the petroleum giant BP, which is well-known for its high-profile advertising campaigns on environmental aspects of its operations are sincere supporters of environment protection.
- 3) The McDonald's Corporation has been notorious for unethical business practices, mistreatment of workers, misleading advertising, and unnecessary cruelty to animals.
- 4) The Shell Foundation was involved in 2004 in a scandal over the misreporting of its oil reserves which seriously damaged its reputation and led to charges of hypocrisy.
- 5) Since that time the Shell Foundation has not become involved in any community-based development projects across the world.
- 6) Voluntary measures are quite enough to ensure that companies behave in a socially responsible manner.

B *Agree or disagree with the following statements:*

- 1) There is a strong business case for CSR, in that corporations benefit in multiple ways by operating with a perspective broader and longer than their own immediate, short-term profits.
- 2) CSR distracts from the fundamental economic role of businesses.
- 3) CSR is nothing more than superficial window-dressing.
- 4) CSR is an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations.

C *Discuss the following:*

- 1) Why do many worldwide firms find it necessary to institute global strategic planning?
- 2) You are the CEO of the Jones Petrochemical company and have just finished studying next year's plans of your foreign

subsidiaries. You are pleased that the Israeli plan is so optimistic because that subsidiary contributes heavily to your company's income. But OPEC is meeting next month. Should you ask your planning committee, which meets tomorrow, to construct some scenarios? If so, about what?

- 3) The planning perspective should be benefit oriented rather than solution oriented. Please explain the meaning of this statement.
- 4) Your matrix organization isn't working; decisions are taking too long, and it seems to you that, instead of best solutions, you're getting compromises. What can you, the CEO, do?
- 5) It is obvious that in formulating new strategies, management may uncover a need to change its organization. Can you give some situations where the reverse may be true?

UNIT III

INTERNATIONAL TRADE

STARTING-UP

In industries where there are economies of scale, both the variety of goods that a country can produce and the scale of its production are constrained by the size of the market. Trade increases market size. By trading with each other, and therefore forming an integrated world market that is bigger than any individual national market, nations are able to loosen these constraints. Each country can specialize in producing a narrower range of products than it would in the absence of trade; yet by buying goods that it does not make from other countries, each nation can simultaneously increase the variety of goods available to its consumers. As a result, trade offers an opportunity for mutual gain even when countries do not differ in their resources or technology. Suppose, for example, that there are two countries, each with an annual market for 1 million automobiles. By trading with each other, these countries can create a combined market of 2 million autos. In this combined market, more varieties of automobiles can be produced, at lower average costs, than in either market alone.

READING

1 INTERNATIONAL TRADE

PRE-READING

A Before reading the text make sure you know the meanings the following words and word-combinations:

a boundary, to be on the rise, to have an impact, crucial, a revenue, to impose additional costs, factors of production, a substitute, labor-intensive goods, mutually beneficial, paramount, to coincide, to result in, to embody.

B Complete the following sentences with one of the words from A or its derivative in the appropriate form.

- 1) The money is for the research.
- 2) Internet shopping has begun to have a serious on traditional bookshops.
- 3) We think of a whenever we think of an entity demarcated from its surroundings.
- 4) Consumers often forget the costs associated with home ownership.
- 5) Food allergies have been on the for a few decades.
- 6) Goods that rely mostly on the efforts of the workers are called goods.
- 7) The magazine has been losing advertising for months.
- 8) The requirements for production, called of production, are represented as capital, labor and land.
- 9) The freedoms were in the treaty.
- 10) Passenger safety is of importance.
- 11) Our views on this issue with those of the government.
- 12) The negotiations in a mutually beneficial agreement.

C Answer the following questions before reading:

- 1) What are the benefits of international trade?
- 2) Is international trade on the rise nowadays?
- 3) Why is international trade important for your country?

READING

Read the text and then do the tasks that follow.

International Trade

International trade is the exchange of capital, goods and services across international boundaries or territories. In most countries, it represents a significant share of GDP. While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries. Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. International trade is a major source of economic revenue for any nation that is considered a world power. Without international trade, nations would be limited to the goods and services produced within their own borders.

International trade is in principle not different from domestic trade as the motivation and the behavior of parties involved in a trade does not change fundamentally depending on whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade. The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or a different culture.

Another difference between domestic and international trade is that factors of production such as capital and labor are typically more mobile within a country than across countries. Thus international trade is mostly restricted to trade in goods and services, and only to a lesser extent to trade in capital, labor or other factors of production.

Then trade in goods and services can serve as a substitute for trade in factors of production. Instead of importing the factor of production a country can import goods that make intensive use of the factor of production and are thus embodying the respective factor. An example is the import of labor-intensive goods by the United States from China. Instead of importing Chinese labor the United States is importing goods from China that were produced with Chinese labor.

International trade is also a branch of economics, which, together with international finance, forms the larger branch of international economics. Traditionally trade was regulated through bilateral treaties between two nations. For centuries under the belief in Mercantilism most nations had high tariffs and many restrictions on international trade. In the 19th century, especially in Britain, a belief in free trade became paramount. This belief became the dominant thinking among western nations since then despite the acknowledgement that adoption of the policy coincided with the general decline of Great Britain. In the years since the Second World War, controversial multilateral treaties like the GATT and World Trade Organization have attempted to create a globally regulated trade structure. These trade agreements have often resulted in protest and discontent with claims of unfair trade that is not mutually beneficial.

(http://en.wikipedia.org/wiki/International_trade)

POST-READING

A *Translate the following into Russian:*

the exchange of capital, goods and services; a significant share of GDP; to have a major impact on the international trade system; to be crucial to the continuance of globalization; a major source of economic revenue; to be limited to the goods and services; to produce within one's borders; the motivation and the behavior of parties involved in a trade; to impose additional costs; costs associated with country differences; to be restricted to trade in goods and services; to embody the respective factor; to be regulated through bilateral treaties; to create a globally regulated trade structure; to result in protest and discontent.

B *Translate the following sentences into Russian paying attention to the underlined parts.*

- 1) While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries.
- 2) Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system.

- 3) Without international trade, nations would be limited to the goods and services produced within their own borders.
- 4) International trade is in principle not different from domestic trade as the motivation and the behavior of parties involved in a trade does not change fundamentally depending on whether trade is across a border or not.
- 5) Instead of importing the factor of production a country can import goods that make intensive use of the factor of production and are thus embodying the respective factor.

C Complete the following sentences with the correct prepositions.

- 1) International trade is the exchange of capital, goods and services international boundaries or territories.
- 2) international trade has been present much of history, its economic, social, and political importance has been the rise in recent centuries.
- 3) Outsourcing has an impact the international trade system.
- 4) Increasing international trade is crucial the continuance of globalization.
- 5) International trade is principle not different domestic trade.
- 6) The motivation and the behavior of parties involved a trade does not change fundamentally depending whether trade is a border or not.
- 7) Trade goods and services can serve as a substitute trade factors of production.

D Complete the following sentences choosing the appropriate verb.

- 1) A border typically *eliminates* / *imposes* additional costs such as tariffs, time costs due to border delays and costs associated with country differences.
- 2) A country can *import* / *export* goods that make intensive use of the factor of production.
- 3) Traditionally trade was *authorized* / *regulated* through bilateral treaties between two nations.

- 4) Adoption of the free trade policy *coincided / preceded* with the general decline of Great Britain.
- 5) The GATT and World Trade Organization have attempted to *create / to ruin* a globally regulated trade structure.

E *Answer the following questions:*

- 1) What is the definition of international trade?
- 2) Does international trade represent a significant share of GDP in most countries?
- 3) Is the international trade volume rising or falling?
- 4) What economic phenomena, processes and events have an impact on international trade?
- 5) How does international trade influence economic revenue of nations?
- 6) What would our economy be like without international trade?
- 7) What are the differences between domestic and international trade?
- 8) How is international trade regulated?

F *Make a summary of the text.*

2 MONOPOLISTIC COMPETITION AND TRADE

PRE-READING

A *Before reading the text make sure you know the meanings of the following words and word-combinations:*

a portfolio investment, a direct investment, free trade, a trade-off, direct/indirect exporting, a sales company, a strategic alliance.

B *Complete the following sentences with one of the word-combinations from A.*

- 1) All the investments that a company makes are called investment.
- 2) Investment into an industry in a foreign country is called direct investment.
- 3) A system of international trade in which companies do not have to pay high taxes on the goods bought from or sold in other countries is called trade.

- 4) Many firms are forming strategic with competing companies, suppliers, and customers to gain access to new products, technology and markets.
- 5) The trade between scale and variety of products is an important factor of monopolistic competition.
- 6) The company that specializes in selling goods is called a company.
- 7) If a company sells its goods to a foreign company it is called exporting.

C *Answer the following questions before reading:*

- 1) Why do countries compete in international trade?
- 2) Why is the size of the market very important?
- 3) What countries does the Republic of Belarus trade with?

READING

Read the text and then do the tasks that follow.

Monopolistic Competition and Trade

Trade improves the trade off between scale and variety that individual nations face. A larger market leads to both a lower average price and the availability of a greater variety of goods. Applying this to international trade means that trade creates a world market larger than any of the national markets that comprise it. Integrating markets through international trade therefore has the same effects as growth of a market within a single country. The number of firms in a monopolistically competitive industry and the prices they charge are affected by the size of the market. In larger markets there usually will be both more firms and more sales per firm; consumers in a large market will be offered both lower prices and a greater variety of products than consumers in small markets.

The integrated market supports more firms, each producing at a larger scale and selling at a lower price than either national market did on its own. Clearly everyone is better off as a result of integration. In the larger market, consumers have a wider range of choice, yet each firm produces more and is therefore able to offer its product at a lower price. To realize these gains from integration, the countries must engage in international trade.

To achieve economies of scale, each firm must concentrate its production in one country – either Home or Foreign. Yet it must sell its output to customers in both markets. So each product will be produced in only one country and exported to the other.

If manufacturing consumer goods is a monopolistically competitive industry, Home and Foreign will produce differentiated products. As a result, even if Home is a net exporter of manufactured goods, it will import as well as export manufactures, giving rise to intraindustry trade.

About one-fourth of world trade consists of intraindustry trade, that is, two-way exchanges of goods within standard industrial classifications. Intraindustry trade plays a particularly large role in the trade in manufactured goods among advanced industrial nations, which accounts for most of world trade. Over time, the industrial countries have become increasingly similar in their levels of technology and in the availability of capital and skilled labor. Since the major trading nations have become similar in technology and resources, there is often no clear comparative advantage within an industry, and much of international trade therefore takes the form of two-way exchanges within industries – probably driven in large part by economies of scale – rather than interindustry specialization driven by comparative advantage.

The volume of international trade in goods and services measured in current dollars has greatly increased, the percentage of total exports of all the categories of developed nations to other developed nations declining with the exception of Canada's. Most of Canada's exports to DCs go to the United States, and they have been increasing since the U.S.-Canada Free Trade Agreement went into effect. Developing nations are selling more to each other.

The analysis of trade statistics is useful to anyone starting to search outside the home market for new trade opportunities. Studying the general growth and direction of trade and analyzing the major trading partners will give an idea as to where the trading activity is.

Foreign direct investment (FDI) has also grown rapidly and now totals almost \$2 trillion. The American FDI is almost double that of Japan, the next largest foreign investor, which is closely

followed by that of the United Kingdom. The direction of foreign direct investment follows the direction of international trade; that is, developed nations invest in each other just as they trade with each other.

Companies from just five nations (the United Kingdom, Japan, the Netherlands, Germany, and Canada) own over 75 percent of the total FDI. Japanese firms now own slightly more in the United States than do English firms.

Companies enter foreign markets (exporting to and manufacturing in) to increase sales and profits and to protect markets, sales, and profits. Foreign firms often buy American firms to acquire technology and marketing know-how. Foreign investment also enables a company to diversify geographically.

One must be careful in using GNP blindly as a basis for comparing nations' economies. First, the reliability of the data is questionable. Second, the World Bank and other international agencies convert national currencies to dollars, the unit that usually appears in their statistics. Official exchange rates do not reflect the relative domestic purchasing powers of currencies. To overcome this deficiency, the agencies use exchange rates based on purchasing power parity of the currencies.

(http://en.wikipedia.org/wiki/International_trade)

POST-READING

A Translate the following into Russian:

to improve the trade off between scale and variety; the availability of a greater variety of goods to charge prices; to produce at a larger scale; to be better off as a result of integration; to have a wider range of choice; to realize the gains from integration; to engage in international trade; to achieve economies of scale; to export manufactures; to give rise to intraindustry trade; to account for most of world trade; two-way exchanges within industries; the volume of international trade; to go into effect; to search outside the home market for new trade opportunities; major trading partners; to increase sales and profits; to acquire technology and marketing know-how; the reliability of the data; to reflect the relative domestic purchasing powers of currencies; to overcome the deficiency.

B Translate the following sentences into Russian paying attention to the underlined parts.

- 1) The integrated market supports more firms, each producing at a larger scale and selling at a lower price than either national market did on its own.
- 2) Even if Home is a net exporter of manufactured goods, it will import as well as export manufactures, giving rise to intraindustry trade.
- 3) Intraindustry trade plays a particularly large role in the trade in manufactured goods among advanced industrial nations, which accounts for most of world trade.
- 4) The volume of international trade in goods and services measured in current dollars has greatly increased, the percentage of total exports of all the categories of developed nations to other developed nations declining with the exception of Canada's.

C Complete the following sentences with the appropriate prepositions.

- 1) The integrated market supports more firms, each producing a larger scale and selling a lower price than either national market did its own.
- 2) To realize the gains integration, the countries must engage international trade.
- 3) About one-fourth of world trade consists intraindustry trade, that is, two-way exchanges goods standard industrial classifications.
- 4) The analysis of trade statistics is useful anyone starting to search the home market new trade opportunities.

D Complete the following sentences with one the verbs from brackets in the correct form.

- 1) A larger market to both a lower average price and the availability of a greater variety of goods. (*follow, lead, result in*)

- 2) Trade creates a world market larger than any of the national markets that it. (*consist, include, comprise*)
- 3) The prices the firms charge by the size of the market. (*affect, measure, assess*)
- 4) Consumers in a large market will both lower prices and a greater variety of products than consumers in small markets. (*suggest, offer, propose*)
- 5) To realize the gains from integration, the countries must in international trade. (*start, enter, engage*)
- 6) Much of international trade takes the form of two-way exchanges within industries – probably in large part by economies of scale. (*drive, use, consist*)
- 7) the general growth and direction of trade and analyzing the major trading partners will give an idea as to where the trading activity is. (*find, study, look*)
- 8) Companies foreign markets (exporting to and manufacturing in) to increase sales and profits. (*come, go, enter*)
- 9) Foreign firms often buy American firms technology and marketing know-how. (*make, acquire, sell*)

E *Answer the following questions:*

- 1) What are the advantages for a country to have a larger market?
- 2) What are the benefits of the world trade?
- 3) Why are consumers better off as a result of market integration?
- 4) What is intraindustry trade and why is it very important?
- 5) What countries are the largest foreign investors?
- 6) Why do companies enter foreign markets?
- 7) Why should one be careful in using GNP blindly as a basis for comparing nations' economies?

F *Make a summary of the text.*

3 INTERNATIONAL MARKET ENTRY METHODS

PRE-READING

A Before reading the text make sure you know the meanings of the following words and word-combinations:

to be involved in, an alliance, an entity, to gain access, to merge, to acquire, a subsidiary, to undertake, to furnish assistance, an expertise.

B Complete the following sentences with one of the words or word-combinations from A in the appropriate form.

- 1) Different companies may be in foreign trade.
- 2) A separate unit that is complete and has its own character is defined as
- 3) Independent companies are encouraged to form strategic to help them compete.
- 4) The company is keen to develop its own in the area of computer programming.
- 5) The government to tackle unemployment as a priority.
- 6) A company that is owned by a larger company is called its
- 7) He has plans to his own company with another media giant.
- 8) Their evidence the police with a vital clue.

C Which of the words from A are similar in meaning to the following ones?

to take on, know-how, to gain, an affiliate, to be engaged in, to combine, a coalition, to have an opportunity to enter something, to help, a unit.

D Answer the following questions before reading:

- 1) Does exporting mean only selling goods to a foreign country?
- 2) What other ways of exporting can you name?

READING

Read the text and then do the tasks that follow.

International Market Entry Methods

The two basic methods of entering foreign markets are through exporting to or manufacturing in them. Exporting may be either directly or indirectly. A firm may become involved in foreign production through various methods: wholly owned subsidiaries, joint ventures, licensing, franchising, and contract manufacturing.

Many firms are forming strategic alliances with competing companies, suppliers, and customers to gain access to new products, technology and markets and to share resources, costs, and risks. Strategic alliances take many forms, including licensing, mergers, joint ventures, and joint research and development contracts.

Wholly Owned Subsidiary. The company that wishes to own a foreign subsidiary outright may start from the ground by building a new plant, acquire a concern, or purchase its distributor, thus obtaining the distribution network. Sometimes it is not possible to have a wholly owned subsidiary because the host government may not permit it, the firm may lack either capital or expertise to undertake the investment alone, or there may be tax and other advantages that favor a joint venture.

Merger. When two firms working in the same area are individually too small to compete with the mighty rival in the market they may merge to become competitive.

Joint Venture. A joint venture may be a corporate entity formed by an international company and local owners, a corporate entity formed by two international companies for the purpose of doing business in a third market, a corporate entity formed by a government agency (usually in the country of investment) and an international firm, or a cooperative undertaking between two or more firms of a limited-duration project. Large construction jobs such as a dam or an airport are frequently handled by this last form. When the government of a host country requires companies to have some local participation, foreign firms must engage in a joint venture with local owners to do business in that country. In

some situations, however, a foreign firm will seek local partners even when there is no local requirement to do so. A joint venture is a cooperative effort among two or more organizations who share a common interest in a business enterprise.

Licensing. Frequently, worldwide companies are called on to furnish technical assistance to firms that have sufficient capital and management strength. By means of a licensing agreement, one firm (the licensor) will grant to another firm (the licensee) the right to use any kind of expertise, such as manufacturing processes, marketing procedures, and trademarks for one or more of the licensor's products. Licensing became popular when strict patent laws were enforced. Foreign firms preferred to obtain licenses instead of making illegal copies.

Franchising. Some firms go overseas with a new kind of licensing – franchising. It permits the franchisee to sell products or services under highly publicized brand name and a well-proven set of procedures with a carefully developed and controlled marketing strategy. The most numerous among them are fast-food operations like McDonald's and hotels like Hilton, business services like Manpower, soft drinks like Coca-Cola and others.

Contract manufacturing. The firm may contract with a local manufacturer to produce goods for it according to its specifications and the firm's sales organization markets these products under its own brand name. The second way is to subcontract assembly work or the production of parts to independent companies overseas.

All of the mentioned above alternatives of entering a foreign market may be used in forming *strategic alliances* with competitors, suppliers and customers. Their aim is to achieve faster market entry and start-up, to gain access to new products, technologies and markets, and to share costs, resources, and risks.

(adapted from [3, pp. 58-67])

POST-READING

A Translate the following into Russian:

a wholly owned subsidiary; a joint venture; licensing; franchising; contract manufacturing; to gain access to new products; to share resources, costs, and risks; to start from the ground; to acquire

a concern; to purchase a distributor; to obtain a distribution network; to lack either capital or expertise; to compete with the mighty rival; to merge to become competitive; a corporate entity; to share a common interest; to furnish technical assistance to firms; to have sufficient capital and management strength; to grant a right; to enforce patent laws; to contract with a local manufacturer to produce goods according to specifications; to market products under one's own brand name; to achieve faster market entry.

B *Translate the following sentences into Russian paying attention to the underlined parts.*

- 1) The company that wishes to own a foreign subsidiary outright may start from the ground by building a new plant, acquire a going concern, or purchase its distributor, thus obtaining the distribution network.
- 2) When two firms working in the same area are individually too small to compete with the mighty rival in the market they may merge to become competitive.
- 3) By means of a licensing agreement, one firm (the licensor) will grant to another firm (the licensee) the right to use any kind of expertise, such as manufacturing processes, marketing procedures, and trademarks for one or more of the licensor's products.
- 4) Franchising permits the franchisee to sell products or services under highly publicized brand name and a well-proven set of procedures with a carefully developed and controlled marketing strategy.
- 5) The second way of contract manufacturing is to subcontract assembly work or the production of parts to independent companies overseas.

C *Complete the following sentences using the information from the text.*

- 1) The two basic methods of entering foreign markets are
- 2) Many firms are forming strategic alliances with competing companies, suppliers, and customers to gain

- 3) If the firm lacks either capital or expertise to undertake the investment alone, it can't
- 4) When two firms working in the same area are individually too small to compete with the mighty rival in the market they may merge
- 5) When the government of a host country requires companies to have some local participation, foreign firms must engage in
- 6) A joint venture is a cooperative effort among two or more organizations who
- 7) By means of a licensing agreement, one firm will grant to another firm the right
- 8) A new kind of licensing – franchising – permits the franchisee to sell products or services under highly publicized
- 9) Contract manufacturing means that a firm may contract with a local manufacturer to produce goods for it according to

D *Explain the meanings of the following terms:*

- 1) wholly owned subsidiaries, 2) joint ventures,
- 3) licensing, 4) franchising, 5) contract manufacturing.

4 INTERNATIONAL TRADE BARRIERS

PRE-READING

A *Before reading the text make sure you know the meanings of the following words and word-combinations:*

to retaliate, dumping, to impose import duties, tariff / nontariff barriers, a quota, a restraint, an orderly arrangement, participation, an administrative procedure, health and safety standards, an infant industry, to master something, to meet / accomplish objectives, to disrupt, to force somebody out of business, to levy duties/taxes, to raise revenue, to assume importance.

B *Complete the following sentences with one of the words or word-combinations from A in the correct form.*

- 1) They say they will by halting British imports.
- 2) The government restrictions on trade with foreign companies.

- 3) The Prime Minister's in the economic summit is seen as vital to its success.
- 4) Lewis the art of giving nothing away in interviews.
- 5) The protesters tried the meeting.
- 6) They have threatened against the US for the bombing raid.
- 7) His job was to achieve the release of the hostages, an objective he successfully

C Answer the following questions before reading:

- 1) Why do countries trade?
- 2) Why do countries restrict trade?
- 3) What do you know about the restrictions on foreign trade in your country?

READING

Read the text and then do the tasks that follow.

International Trade Barriers

International trade theory clearly shows that nations will attain a higher level of living by specializing in goods for which they possess a comparative advantage and importing those for which they have comparative disadvantage. Generally, trade restrictions that stop this free flow of goods will harm a nation's welfare. If this is true, why is every nation in the world surrounded by trade restrictions?

Special interest groups demand protection for defense industries and new firms. Others want fair competition. Companies will also demand that their government retaliate against dumping and subsidies offered by their competitors in other countries. In response to demands for protection, governments impose import duties (tariff barriers) and nontariff barriers, such as quotas, export restraints, and orderly marketing arrangements, and non-quantitative nontariff barriers, such as direct government participation in trade, customs and other administrative procedures, and standards for health, safety, and product quality.

Advocates for the protection of an infant industry may claim that in the long run, the industry will have a comparative advantage, but its firms need protection from imports until the labor force is trained, production techniques are mastered, and they achieve economies of scale. When these objectives are met, import protection will no longer be necessary. Without the protection a firm will not be able to survive because lower-cost imports from more mature foreign competitors will lower its price in the local market. The infant-industry argument is readily accepted by the governments of most developing nations. However, some of the larger developing nations have been reducing their protection to force these companies to lower their prices and become more competitive in world markets.

Representatives of an industry whose exports have had import restrictions placed on them by another country may request their government to retaliate with similar restrictions. Retaliation will also be made for dumping – selling a product abroad for less than the cost of production, the price in the home market, or the price to third countries. A foreign manufacturer may take this action because it wishes to sell excess production without disrupting prices in its domestic market, or it may have lowered the export price to force all domestic producers in the importing nation out of business. The exporter expects to raise prices in the market once that objective is accomplished. That is dumping. Most governments retaliate when dumping injures local industry. The EU, for example, levied dumping duties ranging from 23 to 43 percent on Japanese computer printers when investigators found that they were priced 20 percent lower in the EU than in Japan.

Tariffs, or import duties, are taxes levied on imported goods primarily for the purpose of raising their selling price in the importing nation's market to reduce competition for domestic producers. A few smaller nations also use them to raise revenue on both imports and exports. Export of commodities such as coffee and copper are commonly taxed in developing nations.

Nontariff barriers are all forms of discrimination against imports other than the import duties. As nations have reduced duties, nontariff barriers have assumed greater importance. Quotas are numerical limits for a specific kind of good that a country will

permit to be imported without restriction during a specified period. Once the specified amount has been imported, further importation for the rest of the period is prohibited. China is notorious for overshipping, that is, sending goods after the quota is filled.

Orderly marketing arrangements are formal agreements between exporting and importing countries that stipulate the import or export quotas each nation will have for a good. They result from negotiations between exporting and importing countries.

A study of non-quantitative nontariff barriers revealed over 800 distinct forms, which may be classified under three major headings: 1) direct government participation in trade, 2) customs and other administrative procedures, and 3) standards.

Governments are changing from using an import substitution strategy to one of export promotion to become less dependent of developed nations. Also, governments are opening their borders to imports to force local producers to raise quality and improve prices so they can enter world markets. Managers of foreign-owned affiliates can be expected to export even though the multinational may prefer to keep exporting and the profits for the home office.

(adapted from [3, pp. 84-96])

POST-READING

A Translate the following into Russian:

to attain a higher level of living; to specialize in goods for which the nation possesses a comparative advantage; trade restrictions that stop the free flow of goods; to retaliate against dumping and subsidies; to impose import duties; standards for health, safety, and product quality; in the long run; to train the labor force; to master production techniques; to achieve economies of scale; to sell excess production; to disrupt prices in the domestic market; to force domestic producers out of business; to injure local industry; to levy dumping duties; to raise revenue; to be notorious for something; to stipulate quotas; to result from negotiations.

B *Translate the following sentences into Russian paying attention to the use of modal verbs.*

- 1) Advocates for the protection of an infant industry may claim that in the long run, the industry will have a comparative advantage, but its firms need protection from imports until the labor force is trained, production techniques are mastered, and they achieve economies of scale.
- 2) Without the protection a firm will not be able to survive because lower-cost imports from more mature foreign competitors will lower its price in the local market.
- 3) Representatives of an industry whose exports have had import restrictions placed on them by another country may request their government to retaliate with similar restrictions.
- 4) A foreign manufacturer may take this action because it wishes to sell excess production without disrupting prices in its domestic market, or it may have lowered the export price to force all domestic producers in the importing nation out of business.
- 5) Governments are opening their borders to imports to force local producers to raise quality and improve prices so they can enter world markets.
- 6) Managers of foreign-owned affiliates can be expected to export even though the multinational may prefer to keep exporting and the profits for the home office.

C *Explain the meanings of the following in English:*

comparative advantage; trade restrictions; dumping; subsidies; import duties; tariff barriers; nontariff barriers; quotas; export restraints; orderly marketing arrangements; non-quantitative nontariff barriers; direct government participation in trade; customs; administrative procedures; standards for health, safety, and product quality; infant industry; the labor force; production techniques; economies of scale; import protection; infant-industry; fair trade.

D Complete the following sentences choosing the appropriate active or passive form of the verb.

- 1) Nations *attain* / *are attained* a higher level of living by specializing in goods for which they possess a comparative advantage.
- 2) Trade restrictions that stop this free flow of goods *will harm* / *will be harmed* a nation's welfare.
- 3) Every nation in the world *surrounds* / *is surrounded* by trade restrictions.
- 4) Dumping and subsidies *retaliate* / *are retaliated* by governments.
- 5) These actions *take* / *are taken* by a foreign manufacturer because he wishes to sell excess production.
- 6) When the objectives *meet* / *are met*, import protection will no longer be necessary.
- 7) Local industry may *injure* / *be injured* by dumping.
- 8) The EU *levied* / *was levied* dumping duties on Japanese computer printers.
- 9) Investigators found that the computer printers *priced* / *were priced* 20 percent lower in the EU than in Japan.
- 10) Taxes are levied on imported goods primarily for the purpose of their selling price *raising* / *being raised*.
- 11) A few smaller nations also use them *to raise* / *to be raised* revenue on both imports and exports.
- 12) Export of commodities such as coffee and copper *tax* / *are taxed* in developing nations.

E Answer the following questions:

- 1) Why do nations export and import goods?
- 2) What are the basic reasons for trade restrictions?
- 3) What are the types of trade barriers?
- 4) Why do infant industries need protection?
- 5) Why do governments retaliate against dumping?
- 6) What is the purpose of levying import duties or tariffs?
- 7) Why do nontariff barriers assume greater importance?
- 8) Why are import or export quotas stipulated by governments?
- 9) What kind of agreements are orderly marketing arrangements?
- 10) How are governments changing their import/export strategy?

F Give examples of a country's retaliation against dumping.

G Make a summary of the text.

READING AND DISCUSSION

5 FREE TRADE ZONES

PRE-READING

A Explain the meanings of the following terms:

a labor intensive industry; a capital intensive industry; an export-oriented industry; negligence; bargaining table; environmental abuses.

B Answer the following questions:

- 1) What do you know about free trade zones in your country?
- 2) What was the purpose of their setting up?
- 3) Have they succeeded in carrying out their task?

READING

Read the text and then do the tasks that follow.

Free Trade Zones

A free trade zone (FTZ) or export processing zone (EPZ) is one or more special areas of a country where some normal trade barriers such as tariffs and quotas are eliminated and bureaucratic requirements are lowered in hopes of attracting new business and foreign investments. Free trade zones can be defined as labor intensive manufacturing centers that involve the import of raw materials or components and the export of factory products.

Most FTZs are located in developing countries. Bureaucracy is typically minimized by outsourcing it to the FTZ operator and corporations setting up in the zone may be given tax breaks as an additional incentive. Usually, these zones are set up in underdeveloped parts of the host country, the rationale being that the zones will attract employers and thus reduce poverty and unemployment and stimulate the area's economy. These zones are often used by multinational corporations to set up factories to produce goods (such as clothing or shoes).

The basic objectives of EPZs are to enhance foreign exchange earnings, develop export-oriented industries and to generate employment opportunities.

The creation of special free trade zones is criticized for encouraging businesses to set up operations under the influence of often corrupt governments, and giving foreign corporations more economic liberty than is given indigenous employers who face large and sometimes heavy “regulatory” problems in developing nations. However, many countries are increasingly allowing local entrepreneurs to locate inside FTZs in order to access export-based incentives. Because the multinational corporation is able to choose between a wide range of underdeveloped or depressed nations in setting up overseas factories, bidding wars erupt between competing governments.

Often the government pays part of the initial cost of factory setup, loosens environmental protections and rules regarding negligence and the treatment of workers, and promises not to ask payment of taxes for the next few years. When the taxation-free years are over the corporation which set up the factory is often able to set up operations elsewhere for less expense. It gives the corporation power to bring the host government to the bargaining table with more demands in order for it to continue operations in the country. If human rights, labor or environmental abuses are challenged, subcontracted local entities may face consequences.

(http://en.wikipedia.org/wiki/Free_trade_zone)

POST-READING

A Say if the following statements are true or false. Correct the ones you consider false.

- 1) A free trade zone is one or more special areas of a country where some trade barriers such as tariffs and quotas are eliminated.
- 2) Bureaucratic requirements stay the same as they are in the other parts of the country.
- 3) Free trade zones are labor intensive manufacturing centers.
- 4) FTZs import raw materials or components but they don't export their products.
- 5) Most FTZs are located in developed countries.
- 6) Corporations setting up in the zone are given tax breaks.

- 7) The zones are set up to attract employers and thus reduce poverty and unemployment and stimulate the area's economy.
- 8) FTZs develop import-oriented industries.
- 9) The government where the zone is being set up tightens environmental protections and rules regarding negligence and the treatment of workers.
- 10) Bidding wars are common between competing nations that try to get the opportunity of setting up the zone in their country.
- 11) When the taxation-free years are over the corporation is often able to set up operations elsewhere for less expense.
- 12) If the host country doesn't meet the demands of the corporation at the bargaining table, the corporation continues operations in the country.

B *Speak on the following:*

- 1) The goals of free trade zones;
- 2) The advantages of setting up free trade zones;
- 3) The disadvantages of free trade zones;
- 4) Government regulation in free trade zones;
- 5) Location of free trade zones in the world;
- 6) Free trade zones in the Republic of Belarus.

C *Discuss the following:*

- 1) The greater part of international trade consists of an exchange of raw materials from developing nations for the manufactured goods from developed nations. Is it true or false? Explain your point of view.
- 2) How can a firm protect its domestic market by investing abroad?
- 3) Under what conditions might a company prefer a joint venture to a wholly owned subsidiary when making a foreign investment?
- 4) Why would a foreign partner in a joint venture wish to have a management contract with a local partner?
- 5) It seems that free, unrestricted international trade, in which each nation produces and exports products for which it has a comparative advantage, will enable everyone to have a higher level of living. Why, then, does every country have import duty restrictions?

UNIT IV

INTERNATIONAL ECONOMIC AND FINANCIAL ORGANIZATIONS

STARTING-UP

The process of integration continuing in the world comprises regional and global economic integration.

Examples of successful regional economic integration are the European Union, the European Economic Area, the Association of Southeast Asian Nations, African Trade Agreements, the North American Free Trade Agreement, and the Free Trade Agreement of the Americas, OPEC and others, each important in its area and for companies doing business there.

Global economic and financial organizations that influence the whole world include the International Monetary Fund, The World Trade Organization, the World Bank, and other important international institutions and financial markets.

1 REGIONAL ECONOMIC INTEGRATION

PRE-READING

A Before reading the text make sure you know the meanings of the following words and word-combinations:

a community, to generate, to harmonize, a customs union, irreversible, to come to terms, common, to maintain a policy, to adopt, to abolish.

B Complete the following sentences with one of the words from A or its derivative in the appropriate form.

- 1) A group of people living in the same locality and under the same government is called
- 2) The new car factory will a lot of jobs in the area.
- 3) She will never with her son's death.
- 4) The UK wants an international agreement topractices throughout the EU.
- 5) The damage to the environment is

- 6) The US actually doesa strong dollar policy.
- 7) is a trade agreement by which a group of countries charges a common set of tariffs to the rest of the world while granting free trade among themselves.
- 8) Staff should be in dealing with complaints.

C Answer the following questions before reading:

- 1) What does the word “integration” mean to you?
- 2) What examples of regional integration come to your mind?

READING

Read the text and then do the tasks that follow.

Regional Economic Integration

The European Union is an example of successful regional economic integration. It is a political and economic community of twenty-seven member states, located primarily in Europe. It was established in 1993 by the Treaty of Maastricht, adding new areas of policy to the existing European Community. With almost 500 million citizens, the EU combined generates an estimated 30% share of the world's nominal gross domestic product.

The EU has developed a single market through a standardized system of laws which apply in all member states, guaranteeing the freedom of movement of people, goods, services and capital. It maintains a common trade policy, agricultural and fisheries policies, and a regional development policy. Fifteen member states have adopted a common currency, the euro.

The EU has developed a role in foreign policy, representing its members in the World Trade Organization, at G8 summits and at the United Nations. It has developed a role in justice and home affairs, including the abolition of passport control between many member states under the Schengen Agreement.

EU operation is a hybrid of intergovernmentalism and supranationalism. In certain areas it depends upon agreement between the member states. However, it also has supranational bodies, able to make decisions without the agreement of members.

Among other things, the EU is working to harmonize laws dealing with taxes, patents, labor conditions, competition, insurance, banking, and capital markets. Besides the harmonization of differing national laws, the EU has now gone a step beyond that – to lawmaking. This is occurring in such fields as company law, antitrust, consumer and environmental protection.

There were skeptics whether the EU would succeed. But real progress has been made, and much of it is irreversible. Companies are merging, buying competitors, or creating joint ventures in order to be large enough to compete effectively in the vastly enlarged market. The European Monetary System, which many observers left for dead after large currency value adjustments, is operating. There may not be a United States of Europe in the near future, or ever, but much unification has been achieved. Moreover, efforts toward more unification and harmonization are continuing. Some current EU members want a “wider” organization and would admit any European democracy that met certain criteria such as stable prices, sound public finances and monetary conditions, and a sustainable balance of payments. The EU is an enhanced and growing power with which Japan, the United States, and the rest of the world must come to terms.

The success of the EU has led nations to form a number of other groupings with similar, but usually more limited, objectives. None of those groupings has come as close to being a true common market as has the EU; however, some have become customs unions and others free trade areas.

There are other examples of regional economic integration, such as the European Economic Area, the Association of Southeast Asian Nations, African Trade Agreements, the North American Free Trade Agreement, and the Free Trade Agreement of the Americas, OPEC, each important in its area and for companies doing business there. [15]

POST-READING

A Translate the following into Russian:

to add new areas of policy; a share of the world's nominal gross domestic product; to apply in all member states; to maintain

a common trade policy; to adopt a common currency; to abolish passport control; to harmonize laws; a vastly enlarged market; to meet certain criteria; a sustainable balance of payments; an enhanced and growing power; to come to terms with somebody.

B *Translate the following sentences into Russian paying attention to the underlined parts.*

- 1) There were skeptics whether the EU would succeed.
- 2) Companies are merging, buying competitors, or creating joint ventures in order to be large enough to compete effectively in the vastly enlarged market.
- 3) The European Monetary System, which many observers left for dead after large currency value adjustments, is operating.
- 4) Following the collapse of the Bretton Woods' system, the EEC countries agreed to maintain stable exchange rates by preventing exchange fluctuations of more than 2.25%.
- 5) For EMS to work, European countries had to surrender monetary sovereignty to the EMS.

C *Complete the following sentences with the appropriate prepositions.*

- 1) Mention only a few areas will illustrate the extent the EU's influence business.
- 2) other things, the EU is working to harmonize laws dealing taxes, patents, labor conditions, competition, insurance, banking, and capital markets.
- 3) Besides the harmonization differing national laws, the EU has now gone a step that – lawmaking.
- 4) Efforts more unification and harmonization are continuing.
- 5) The EU is an enhanced and growing power which Japan, the United States, and the rest of the world must come terms.

D *Answer the following questions:*

- 1) What integration tasks does the European Union carry out?
- 2) Does the EU harmonize only national laws or does it make laws?

- 3) Has the EU succeeded in implementing its tasks?
- 4) Are there other groupings in Europe with similar objectives?
- 5) What does the Convention of EFTA provide for?
- 6) What other examples of regional economic integration in the world can you give?

E Make a summary of the text.

2 THE INTERNATIONAL MONETARY FUND

PRE-READING

A Before reading the text make sure you know the meanings of the following words and word-combinations:

to oversee, to foster, a last resort, to undergo changes, relevance, a linkage, to attain, to serve a purpose, gold supplies, a framework, dissemination, a superset, the Articles of Agreement.

B Which of the words from A are similar in meaning to the following ones?

to experience, importance, to promote, to control, a connection, to reach, a structure, propagation, a code.

C Complete the following sentences with one of the words from A or its derivative in the appropriate form.

- 1) A New Orleans federal judge will several hundred civil lawsuits stemming from the Gulf of Mexico oil spill.
- 2) The founding document of an entity is called
- 3) This approach will an understanding of environmental issues.
- 4) The purpose clouds is that they facilitate rain and snow, reflect light and can hold heat.
- 5) The course covers four areas of to modern life.
- 6) A free market economy operates within a of minimal state intervention.
- 7) To make some information or knowledge available to a lot of people means to them.
- 8) The Prime Minister of Israel said that the action against Gaza aid ship was ordered as

- 9) She emergency surgery for suspected appendicitis.
- 10) We haven't found a between the two attacks.
- 11) A set that contains one or more other sets is a

E Answer the following questions before reading:

- 1) What are the main objectives of the International Monetary Fund activities?
- 2) Do you think the IMF is the necessity for the world economy?

READING

Read the text and then do the tasks that follow.

The International Monetary Fund

The International Monetary Fund (IMF) is an international organization that oversees the global financial system by following the macroeconomic policies of its member countries, in particular those with an impact on exchange rates and the balance of payments.

A country's BOP is a very important indicator of what may happen to the country's economy, including what the government may cause to happen. If the BOP is in deficit, inflation is often the cause, and a company doing business there must adjust its pricing, inventory, accounting, and other practices to inflationary conditions. The government may take measures to deal with inflation and the deficit. These may be so-called market measures, such as deflating the economy or devaluing the currency, or nonmarket measures, such as currency controls, tariffs, or quotas. One task assumed by the IMF was assistance to member-countries having difficulty keeping their balance of payments (BOP) out of deficit. It also offers financial and technical assistance to its members, making it an international lender of last resort. Its headquarters are located in Washington, D.C., USA.

The International Monetary Fund was created, with a goal to stabilize exchange rates and supervise the reconstruction of the world's international payment system. Countries contributed to a pool which could be borrowed from, on a temporary basis, by countries with payment imbalances.

The IMF describes itself as “an organization of 185 countries working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty”. With the exception of North Korea, Cuba, Andorra, Monaco, Liechtenstein, Tuvalu, and Nauru, all UN member states participate directly in the IMF. Most are represented by other member states on a 24-member Executive Board but all member countries belong to the IMF’s Board of Governors.

The International Monetary Fund was formally created in July 1944 during the United Nations Monetary and Financial Conference. The representatives of 45 governments met in the Mount Washington Hotel in the area of Bretton Woods, New Hampshire, United States of America, with the delegates to the conference agreeing on a framework for international economic cooperation. The IMF was formally organized on December 27, 1945, when the first 29 countries signed its Articles of Agreement. The statutory purposes of the IMF today are the same as when they were formulated in 1944.

In the decades since World War II, apart from rising prosperity, the world economy and monetary system have undergone major changes that have increased the importance and relevance of the purposes served by the IMF, but that has also required the IMF to adapt and reform. Rapid advances in technology and communications have contributed to the increasing international integration of markets and to closer linkages among national economies. As a result, financial crises, when they erupt, now tend to spread more rapidly among countries.

The IMF’s influence in the global economy steadily increased as it accumulated members. The number of IMF member countries has more than quadrupled from the 44 states involved in its establishment, reflecting in particular the attainment of political independence by many developing countries. The expansion of the IMF’s membership, together with the changes in the world economy, has required the IMF to adapt in a variety of ways to continue serving its purposes effectively.

The International Monetary Fund’s executive board approved a broad financial plan that could lead to the eventual sale of a little

over 400 tons of its substantial gold supplies. IMF Managing Director welcomed the board's decision to propose a new framework for the fund, designed to close a projected \$400 million budget deficit over the next few years. In 1995, the International Monetary Fund began work on data dissemination standards with the view of guiding IMF member countries to disseminate their economic and financial data to the public. The system is aimed primarily at statisticians and aims to improve many aspects of statistical systems in a country. It is also part of the World Bank Millennium Development Goals and Poverty Reduction Strategic Papers.

The IMF established a system and standard to guide members in the dissemination to the public of their economic and financial data. Currently there are two such systems: General Data Dissemination System and its superset Special Data Dissemination System for those member countries having or seeking access to international capital markets.

(http://en.wikipedia.org/wiki/International_Monetary_Fund)

POST-READING

A Translate the following into Russian:

to oversee the global financial system; to follow the macroeconomic policies of member countries; an impact on exchange rates and the balance of payments; to offer financial and technical assistance; an international lender of last resort; to supervise the reconstruction of the world's international payment system; to contribute to a pool which could be borrowed from; to foster global monetary cooperation; to promote high employment and sustainable economic growth; erupting crises; to tend to spread more rapidly among countries.

B Translate the following sentences into Russian paying attention to the underlined parts.

- 1) The International Monetary Fund is an international organization that oversees the global financial system by following the macroeconomic policies of its member countries, in particular those with an impact on exchange rates and the balance of payments.

- 2) The IMF offers financial and technical assistance to its members, making it an international lender of last resort.
- 3) The International Monetary Fund was created, with a goal to stabilize exchange rates and supervise the reconstruction of the world's international payment system.
- 4) Countries contributed to a pool which could be borrowed from, on a temporary basis, by countries with payment imbalances.
- 5) In the decades since World War II, apart from rising prosperity, the world economy and monetary system have undergone major changes that have increased the importance and relevance of the purposes served by the IMF.
- 6) The International Monetary Fund works on data dissemination standards with the view of guiding IMF member countries to disseminate their economic and financial data to the public.

C Complete the following sentences choosing the correct verb form.

- 1) The International Monetary Fund is an international organization *overseeing / to oversee* the global financial system.
- 2) It offers financial and technical assistance to its members, *making / to make* it an international lender of last resort.
- 3) The International Monetary Fund was created, with a goal *stabilizing / to stabilize* exchange rates. Countries contributed to a pool which could *borrow / be borrowed* from, on a temporary basis, by countries with payment imbalances.
- 4) The IMF *formally organized / was formally organized* on December 27, 1945, when the first 29 countries *signed/were signed* its Articles of Agreement.
- 5) Major changes have increased the importance and relevance of the purposes *serving / served* by the IMF. But that has also required the IMF *adapting and reforming / to adapt and reform*.
- 6) As a result, financial crises, when they erupt, now tend *spreading / to spread* more rapidly among countries.

D Complete the following sentences choosing the appropriate information from the text.

- 1) The International Monetary Fund was formally created in July 1944 during
- 2) The IMF was formally organized on December 27, 1945, when the first 29 countries signed its
- 3) The International Monetary Fund is an international organization that oversees the global financial system by following
- 4) The International Monetary Fund was created, with a goal to stabilize exchange rates and supervise the reconstruction
- 5) Countries contributed to a pool which could be borrowed from by countries
- 6) The statutory purposes of the IMF today are the same as when
- 7) Rapid advances in technology and communications have contributed to the increasing international and to closer linkages among national economies.

E Make a summary of the text.

3 THE WORLD BANK

PRE-READING

A Before reading the text make sure you know the meanings of the following words and word-combinations:

to focus efforts, borrowing, low interest loans, low income countries, to develop an environment for investment, a key factor, to combat, to obtain funding, to generate income, to replenish, to disburse finance, to distribute grants.

B Match the words and their explanations.

- | | |
|--------------------------|---|
| the Marshall Plan | to pay money quickly from a large amount collected for a purpose; |
| quick disbursing finance | to make something full again; |

to replenish

a program of loans and other economic assistance provided by the US government to help western countries rebuild after World War II.

C Complete the following sentences with one of the words from *A* or its derivative in the appropriate form.

- 1) The cost of has risen again.
- 2) The is officially called The European Recovery Program.
- 3) Qualifying for a can be quite difficult.
- 4) The financial and banking sectors are required to secure an attractive for investment.
- 5) Strategic planning success comes from success factors.
- 6) Successful grant seeking is one of the ways to
- 7) Investment loans are meant to support economic and social development projects and development policy loans provide quick to support country's policy.

D Answer the following questions before reading:

- 1) What purpose does the World Bank serve?
- 2) What countries does it render financial assistance to?

READING

Read the text and then do the tasks that follow.

The World Bank

The World Bank is one of the two Bretton Woods institutions which were created in 1944 to rebuild a war-torn Europe. Later, largely due to the contributions of the Marshall Plan, the World Bank was forced to find a new area in which to focus its efforts. Subsequently, it began attempting to rebuild the infrastructure of Europe's former colonies. Since then it has made a variety of changes regarding its focus and goals.

Today the focus is on the achievement of the Millennium Development Goals (MDGs), goals calling for the elimination of poverty and the implementation of sustainable development. The

Bank lends primarily to “middle-income countries” at interest rates which reflect a small mark-up over its own (AAA-rated) borrowings from capital markets; while it provides low or no interest loans and grants to low income countries with little or no access to international credit markets.

The Bank’s mission is to aid developing countries and their inhabitants achieve development and the reduction of poverty, including achievement of the MDGs, by helping countries develop an environment for investment, jobs and sustainable growth, thus promoting economical growth and through investment in and empowerment of the poor to enable them to participate in development. The World Bank sees the five key factors necessary for economic growth and the creation of a business environment as:

1. Build capacity – strengthening governments and educating government officials,
2. Infrastructure creation – implementation of legal and judicial systems for the encouragement of business, the protection of individual and property rights and the honoring of contracts,
3. Development of Financial Systems – the establishment of strong systems capable of supporting endeavors from micro credit to the financing of larger corporate ventures,
4. Combating corruption – support for countries’ efforts at eradicating corruption,
5. Research, Consultancy and Training – the World Bank provides platform for research on development issues, consultancy and conduct training programs.

The Bank obtains funding for its operations primarily through the sale of AAA-rated bonds in the world’s financial markets. Its income is generated from its lending activities. The Bank obtains the majority of its funds from forty donor countries who replenish the bank’s funds every three years, and from loan repayments, which then become available for re-lending.

The Bank offers two basic types of loans: investment loans and development policy loans. The former are made for the support of economic and social development projects, whereas the latter provide quick disbursing finance to support countries’ policy and institutional reforms. The Bank also distributes grants for the facilitation of development projects through the encouragement of

innovation, cooperation between organizations and the participation of local stakeholders in a number of important projects.

(http://en.wikipedia.org/wiki/The_World_Bank)

POST-READING

A Translate the following into Russian:

due to the contributions of the Marshall Plan; to rebuild the infrastructure; the implementation of sustainable development; to lend to middle-income countries; to reflect a small mark-up over its own borrowings from capital markets; to provide low or no interest loans and grants; to develop an environment for investment, jobs and sustainable growth; empowerment of the poor; to build capacity; property rights; the honoring of contract; to support endeavors; to combat/eradicate corruption; to provide platform for research on development issues; to replenish the bank's funds.

B Translate the following sentences into Russian paying attention to the underlined parts.

- 1) The World Bank is one of the two Bretton Woods institutions which were created in 1944 to rebuild a war-torn Europe.
- 2) Later, largely due to the contributions of the Marshall Plan, the World Bank was forced to find a new area in which to focus its efforts.
- 3) The Bank lends primarily to “middle-income countries” at interest rates which reflect a small mark-up over its own (AAA-rated) borrowings from capital markets; while it provides low or no interest loans and grants to low income countries with little or no access to international credit markets.
- 4) The Bank obtains the majority of its funds from forty donor countries who replenish the bank's funds every three years, and from loan repayments, which then become available for re-lending.
- 5) The Bank distributes grants for the facilitation of development projects through the encouragement of innovation, cooperation between organizations and the participation of local stakeholders in a number of important projects.

C Complete the following sentences choosing the appropriate information from the text.

- 1) The World Bank was created in 1944 to rebuild
- 2) Later the Bank began attempting to rebuild the infrastructure of
- 3) Today the focus is on the goals calling for the elimination of poverty and the implementation
- 4) The Bank's mission is to aid developing countries and their inhabitants
- 5) The Bank helps countries develop an environment for investment, jobs and sustainable growth, thus promoting
- 6) The Bank obtains funding for its operations primary
- 7) The Bank offers two basic types of loans:

D Answer the following questions:

- 1) Where and when was the World Bank created?
- 2) What were the Bank's objectives in the beginning?
- 3) How did its functions change?
- 4) What is the mission of the Bank now?
- 5) What five factors does the World Bank see as key factors necessary for economic growth?
- 6) Where does the Bank obtain funding from?
- 7) What types of loans does the Bank offer?

E Make a summary of the text.

4 FINANCIAL MARKETS

PRE-READING

A Before reading the text make sure you know the meanings of the following words and word-combinations:

securities, a stock, a bond, a precious metal, the transfer of risk, a currency market /a foreign exchange market, an intermediary, deposit, commitment, a loan, a transaction, a commodity, a mortgage.

B Match the words and their explanations.

securities	a document given to someone who invests money in a government or company, promising to pay back the money with interest;
a stock	something that can be bought and sold;
a bond	a business deal;
a commodity	a valuable metal such as gold or silver;
a transaction	financial documents proving that somebody is the owner of shares etc.;
a precious metal	one of the equal parts into which the value of a company is divided;
the transfer of risk	a third party;
currency / foreign exchange market	an amount of money borrowed from a bank;
a deposit	an obligation;
a commitment	money borrowed with valuable possession as guarantee;
an intermediary	shifting risk from one party to another;
a loan	a bank account;
a mortgage	a worldwide decentralized financial market for the trading of currencies.

C Answer the following questions before reading:

- 1) What do you think the difference is between the words 'market' and 'financial market'?
- 2) Can you give examples of financial markets?

READING

Read the text and then do the tasks that follow.

Financial Markets

In economics, a financial market is a mechanism that allows people to easily buy and sell financial securities (such as stocks and bonds), commodities (such as precious metals or agricultural goods), and other items of value at low transaction costs and at prices that reflect the efficient market hypothesis. Financial markets have evolved significantly over several hundred years and are undergoing constant innovation to improve liquidity.

Markets work by placing many interested buyers and sellers in one “place”, thus making it easier for them to find each other. An economy which relies primarily on interactions between buyers and sellers to allocate resources is known as a market economy. In finance, financial markets facilitate the raising of capital (in the capital markets), the transfer of risk (in the derivatives markets), international trade (in the currency markets) and are used to match those who want capital to those who have it. Without financial markets, borrowers would have difficulty finding lenders themselves. Intermediaries such as banks help in this process. Banks take deposits from those who have money to save. They can then lend money from this pool of deposited money to those who seek to borrow. Banks popularly lend money in the form of loans and mortgages.

More complex transactions than a simple bank deposit require markets where lenders and their agents can meet borrowers and their agents, and where existing borrowing or lending commitments can be sold on to other parties. A good example of a financial market is a stock exchange. A company can raise money by selling shares to investors and its existing shares can be bought or sold. Many borrowers have difficulty raising money locally. They need to borrow internationally with the aid of Foreign exchange markets.

The foreign exchange (currency or forex or FX) market exists wherever one currency is traded for another. It is the largest financial market in the world, trading between large banks, central

banks, currency speculators, multinational corporations, governments, and other financial markets and institutions. The average daily trade in the global forex and related markets currently is over \$ 3 trillion.

The foreign exchange market is unique because of its trading volumes, the extreme liquidity of the market, the large number of, and variety of, traders in the market, its geographical dispersion, its long trading hours, the variety of factors that affect exchange rates, the low margins of profit compared with other markets of fixed income. As such, it has been referred to as the market closest to the ideal perfect competition.

The growth of foreign exchange trading in recent years has greatly outpaced world trade, even though trade has also expanded. This has been due to the near explosions in international investment and transactions. London, New York, and Tokyo have the biggest currency markets but by no means the only ones. Other important markets are in Los Angeles and San Francisco, Hong Kong, Singapore, Bahrain, Frankfurt, Zurich, and Paris. Trades can be made 24 hours a day at one or more of these markets.

Billions of US dollars are traded around the world in the various currency markets. Smaller, but still large amounts of the other currencies of major market countries are also traded outside the borders of the issuing countries, and all of these currencies are used as countries' national reserve assets as well as in trade, investments and transactions.

(http://en.wikipedia.org/wiki/Financial_markets)

POST-READING

A Translate the following into Russian:

to easily buy and sell financial securities; items of value; low transaction costs; to reflect the efficient market hypothesis; to undergo constant innovation; to improve liquidity; to place interested buyers and sellers in one “place”; to rely on interactions between buyers and sellers; to facilitate the raising of capital; to lend money in the form of loans and mortgages; to trade one currency for another; trading volumes; geographical dispersion; the low margins of profit; the market closest to the ideal perfect

competition; to outpace world trade; the explosions in international investment and transactions; outside the borders of the issuing countries; countries' national reserve assets.

B *Translate the following sentences into Russian paying attention to the underlined parts.*

- 1) In economics, a financial market is a mechanism that allows people to easily buy and sell financial securities (such as stocks and bonds), commodities (such as precious metals or agricultural goods), and other items of value at low transaction costs and at prices that reflect the efficient market hypothesis.
- 2) Markets work by placing many interested buyers and sellers in one "place", thus making it easier for them to find each other.
- 3) An economy which relies primarily on interactions between buyers and sellers to allocate resources is known as a market economy.
- 4) In finance, financial markets facilitate the raising of capital (in the capital markets), the transfer of risk (in the derivatives markets), international trade (in the currency markets) and are used to match those who want capital to those who have it.
- 5) More complex transactions than a simple bank deposit require markets where lenders and their agents can meet borrowers and their agents, and where existing borrowing or lending commitments can be sold on to other parties.

C *Complete the following sentences with the correct form of the verb in brackets.*

- 1) Financial markets significantly over several hundred years. (*evolve*)
- 2) The markets constant innovation to improve liquidity. (*undergo*)
- 3) In finance, financial markets to match those who want capital to those who have it. (*use*)
- 4) Without financial markets, borrowers difficulty finding lenders themselves. (*have*)
- 5) Many borrowers have difficulty money locally. (*raise*)

- 6) The growth of foreign exchange trading in recent years world trade. (*outpace*)
- 7) Billions of US dollars around the world in the various currency markets. (*trade*)

D Give definitions of the following terms:

financial market, financial securities, capital markets, derivatives markets, currency markets, stock exchange, the foreign exchange (FX) market.

E Answer the following questions:

- 1) How do financial markets work?
- 2) What are the functions of financial markets?
- 3) What difficulties would borrowers have without financial markets?
- 4) In what way do banks serve as intermediaries in financial markets?
- 5) Where can borrowing or lending commitments be sold on to other parties?
- 6) What is the largest financial market in the world?
- 7) Why is the foreign exchange market unique?
- 8) Where are important currency markets located?

F Make a summary of the text.

READING AND DISCUSSION

5 THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PRE-READING

Answer the following questions:

- 1) Is there a branch of the International Bank for Reconstruction and Development in your country?
- 2) What do you know about the activities of the bank?

READING

Read the text and then do the tasks that follow.

The International Bank for Reconstruction and Development

The International Bank for Reconstruction and Development (IBRD) is one of five institutions that comprise the World Bank Group. The IBRD is an international organization whose original mission was to finance the reconstruction of nations devastated by World War II. Now, its mission has expanded to fight poverty by means of financing states. Its operation is maintained through payments as regulated by member states. It came into existence on December 27, 1945 following international ratification of the agreements reached at the United Nations Monetary and Financial Conference of July 1 to July 22, 1944 in Bretton Woods, New Hampshire.

The IBRD provides loans to governments and public enterprises, always with a government (or “sovereign”) guarantee of repayment. The lending funds come primarily from the issuing of World Bank bonds on the global capital markets – typically \$12–15 billion per year. These bonds are rated AAA (the highest possible) because they are backed by member states’ share capital, as well as by borrowers’ sovereign guarantees. In addition, loans that are repaid are recycled, or relent. Because of the IBRD’s credit rating, it is able to borrow at relatively low interest rates. As most developing countries have considerably lower credit ratings, the IBRD can lend to countries at interest rates that are usually quite attractive to them, even after adding a small margin (about 1%) to cover administrative overheads.

Commencing operations on June 25, 1946, the bank approved its first loan on May 9, 1947 (\$250 million to France for postwar reconstruction, in real terms the largest loan issued by the Bank to date).

The IBRD was established mainly as a vehicle for reconstruction of Europe and Japan after World War II, with an additional mandate to foster economic growth in developing countries in Africa, Asia and Latin America. Originally the bank focused mainly on large-scale infrastructure projects, building highways, airports, and power plants.

As Japan and its European client countries “graduated” (achieved certain levels of income per capita), the IBRD became focused entirely on developing countries.

(http://en.wikipedia.org/wiki/The_International_Bank_for_Reconstruction_and_Development)

POST-READING

A Say if the following statements are true or false. Correct the ones you consider false.

- 1) The IBRD is an international organization created to finance the reconstruction of nations devastated by World War II.
- 2) The IBRD’s mission has remained the same since its creation.
- 3) The IBRD provides loans to governments and public enterprises without any guarantee of repayment.
- 4) The lending funds come primarily from the issuing of World Bank bonds on the global capital markets.
- 5) The loans that are repaid are recycled, or relent.
- 6) High interest rates can be very attractive to the borrowers.
- 7) The largest loan was issued by the Bank to Belgium for postwar reconstruction.
- 8) The IBRD was established mainly as a vehicle for reconstruction of Africa, Asia and Latin America.
- 9) As Japan and its European client countries achieved certain levels of income per capita, the IBRD became focused entirely on developing countries.

B Discuss the following:

- 1) Even if a company does not consider itself international, it will be affected by inflation and by the government’s methods of combating inflation and a BOP deficit. Is it true or false?
- 2) What are some reasons businesspeople and business students should be aware of the more important international organizations?
- 3) Explain the developments shaping the world monetary system from the end of World War II to the present.
- 4) The major foreign exchange markets of the world are: New York is the largest Ex market, London is the second, and Tokyo is the third. Is it true or false?

- 5) The U.S. dollar is the currency of the United States, but it is also the major reserve asset of other countries. Why is it so?
- 6) The European Monetary System is the effort by the EU to keep the values of their currencies close to an agreed exchange rate. For that to be achieved, countries must accept discipline and uniformity in their economic and political policies. Some countries are reluctant to do that Why?
- 7) The words *tariffs* and *duties* are used interchangeably. These can be high or low, and it is of great importance to business to minimize them. Explain why.

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«Международные отношения»
Учебно-методическое пособие**

В двух частях

Часть 2

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