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Кафедра іноземних мов

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Передмова

Метою «Методичних вказівок» є формування впродовж 72 годин аудиторних занять у студентів (вхідний рівень володіння мовою – B1) вмінь та навичок читання за тематикою спеціальності *«Менеджмент зовнішньоекономічної діяльності»* на II курсі спеціальності *«Менеджмент»* (вихідний рівень володіння мовою – B2). За рахунок тренування і виконання *читання текстів і завдань* студенти зможуть досягти практичного володіння англійською мовою за фахом.

Практичне володіння іноземною мовою в рамках даного курсу припускає наявність таких умінь, які дають можливість: вільно читати оригінальну літературу іноземною мовою у відповідній галузі знань; оформляти витягнуту з іноземних джерел інформацію у вигляді перекладу або резюме; робити повідомлення і доповіді іноземною мовою на теми, пов'язані з науковою роботою майбутнього фахівця; вести бесіду за фахом.

Кожний урок складається з тексту і вправи, яка розрахована на удосконалення навичок активізації словарного і граматичного мінімуму професійного спрямування.

«Методичні вказівки» забезпечують підготовку до усного спілкування англійською мовою для спеціальних цілей, а саме – оволодіння лексичними, граматичними і стилістичними навичками, а також умінням читати, переписуватися, перекладати, конспектувати, згортати і розгортати усну і письмову англомовну інформацію наукового функціонального стилю, що передбачено вимогами Програми вивчення іноземних мов у нефілологічному Вузі.

LESSON 1

International marketing

Read the text:

Marketing abroad is not a recent phenomenon. In fact, well-established trade routes existed three or four thousand years before the birth of Christ. Modern international marketing, however, can arguably be traced to the 1920s, when liberal international trading was halted by worldwide isolationism and increased barriers to trade. The United States furthered this trend by passing the Smoot-Hawley Tariff Act of 1930, raising the average U.S. tariff on imported goods from 33 to 53 cents. Other countries throughout the world imposed similar tariffs in response to the United States' actions, and by 1932 the volume of world trade fell by more than 40 percent. These protectionist activities continued throughout the 1930s, and the Great Depression, to which many say protectionism substantially contributed, was deeper and more widespread than any other depression in modern history. Furthermore, according to the **United Nations,** this protectionism undermined the standard of living of people all over the world and set the stage for the extreme military buildup that led to World War II.

International marketing occurs when a business directs its products and services toward consumers in more than one country. While the overall concept of marketing is the same worldwide, the environment within which the marketing plan is implemented can be drastically different. Common marketing concerns—such as input costs, price, advertising, and distribution—are likely to differ dramatically in the countries in which a firm elects to market. Furthermore, many elements outside the control of managers, both at home and abroad, are likely to have a large impact on business decisions. The key to successful international marketing is the ability to adapt, manage, and coordinate a marketing plan in an unfamiliar and often unstable foreign environment.

Businesses choose to explore foreign markets for a host of sound reasons. Commonly, firms initially explore foreign markets in response to unsolicited orders from consumers in those markets. In the absence of these orders, companies often begin to export to: establish a business that will absorb overhead costs at home; seek new markets when the domestic market is saturated; and to make quick profits. Marketing abroad can also spread corporate risk and minimize the impact of undesirable domestic situations, such as **recessions.**

While companies choosing to market internationally do not share an overall profile, they seem to have two specific characteristics in common. First, the products that they market abroad, usually patented, have high earnings potential in foreign markets; in other words, the international sale of these products should eventually generate a substantial percentage of the products' total revenue. Also, these products usually have a price or cost advantage over similar products or have some other attribute making them novel and more desirable to end users abroad. Second, the management of companies marketing internationally must be ready to make a commitment to these markets. They must be willing to educate themselves thoroughly on the particular countries they choose to enter and must understand the potential benefits and risks of a decision to market abroad.

Answer the questions:

1. When were well-established trade routes created?

2. When did modern international marketing appear?

3.When does international marketing occur?

4.What is the key to successful international marketing?

5.What can marketing abroad do?

Decide if the following sentences are True or False:

1.Marketing abroad is not a recent phenomenon.

2.In fact, well-established trade routes did not exist three or four thousand years before the birth of Christ.

3.International marketing occurs when a business directs its products and services toward consumers in more than one country.

4.Businesses do not choose to explore foreign markets for a host of sound reasons.

5.While companies choosing to market internationally share an overall profile, they seem to have two specific characteristics in common.

Compose the story on one of the following topics:

1.The history of marketing.

2.The key concept of international marketing.

LESSON 2

International marketing (part 2)

Read the text:

There are four general ways to develop markets on foreign soil. They are: exporting products and services from the country of origin; entering into joint venture arrangements with one or more foreign companies; licensing patent rights, trademark rights, etc. to companies abroad; and establishing manufacturing plants in foreign countries. A company can commit itself to one or more of the above arrangements at any time during its efforts to develop foreign markets. Each method has distinct advantages and disadvantages and, thus, no single method is best in all instances.

Companies taking their first steps internationally often begin by exporting products manufactured domestically. Since the risks of financial losses can be minimized, exporting is the easiest and most frequently used method of entering international markets. Achieving export sales can be accomplished in numerous ways. Sales can be made directly, via mail order, or through offices established abroad. Companies can also undertake indirect exporting, which involves selling to domestic intermediaries who locate specific markets for the firm's products or services. While having numerous benefits, exporting can place constraints on marketing strategies. The exporter often knows little about typical consumer-use patterns or, if using an intermediary, may have little influence over product pricing.

International licensing occurs when a country grants the right to manufacture and distribute a product or service under the licenser's trade name in a specified country or market. Common examples are granting foreign firms rights to technology, trademarks, and patents. Although large companies often grant licenses, this practice is most frequently used by small and medium-sized companies. Often seen as a supplement to manufacturing and exporting activities, licensing may be the least profitable way of entering a market. It can be advantageous, however, because it allows domestic firms to avoid certain obstacles. To illustrate, companies can use licenses when their own money is scarce, when foreign import restrictions forbid other ways of entering a market, or when a host country is apprehensive about foreign ownership.

Two particular types of licensing are franchising and management contracts. Similar to franchising domestically, world franchising occurs most often in fast foods, soft drinks, hotels, and car rentals. The major benefit of this type of license is the ability to standardize foreign operations with minimal investment. A second type of licensing arrangement is referred to as a management contract, often resulting from external pressures from a host government. This contract can occur when the host government nationalizes strategic industries for political or economic purposes. Rather than banish the company completely, the country hires the foreign owner to manage the firm and to give technical and managerial knowledge to the local population.

A third way to enter a foreign market is through a joint venture arrangement, whereby a company trying to enter a foreign market forms a partnership with one or more companies already established in the host country. Often, the local firm provides expertise on the intended market, while the multinational firm is better able to accomplish general management and marketing tasks. Use of this method of international investing has accelerated dramatically in the past 20 years. The biggest incentive to entering this type of arrangement is that it reduces the company's risk by the amount of investment made by the host-country partner. Other potential advantages to a joint venture arrangement are that: (1) it may allow firms with insufficient capital to expand internationally; (2) it may allow the marketer to use the partner's preexisting distribution channels; and (3) it may let the marketer take advantage of special skills possessed by the host country partner. While this method of market entry often results in the loss of total control over business operations, it is the only method of foreign investment that some host governments (especially less developed countries) will allow.

A company can also expand abroad by setting up manufacturing operations in a foreign country. This method is optimal when the foreign demand for a product justifies the costly investment required. Other benefits to manufacturing abroad can be the avoidance of high import taxes, the reduction of transportation costs, the use of cheap labor, and better access to raw materials. When a company chooses to manufacture abroad, the markets of the host country are serviced by that particular manufacturing facility. Moreover, often products from the same facility are sent to other countries—even back to the original home country—for distribution.

Answer the questions:

1. What are the ways to develop markets on foreign soil?

2.What is the easiest way to enter international markets?

3.What are the types of licensing?

4.What does the local firm often provide?

5.What are potential advantages to a joint venture arrangement?

Decide if the following sentences are True or False:

1.There are not four general ways to develop markets on foreign soil.

2.A company can commit itself to one or more of the above arrangements at any time during its efforts to develop foreign markets.

3.Two particular types of licensing are franchising and management contracts.

4.The major benefit of this type of license is not the ability to standardize foreign operations with minimal investment.

5.A company cannot also expand abroad by setting up manufacturing operations in a foreign country.

Compose the story on one of the following topics:

1.Ways of developing markets.

2.Advantages of international investing.

LESSON 3

International marketing (part 3)

Read the text:

Culture is a very important aspect of international marketing because the elements that compose it affect the way consumers think. The language a population speaks, the average level of education, the prevailing religion, and other social conditions affect the priorities the inhabitants have and the way they react to different events.

With this in mind, it is easy to see that managers of firms operating only in the domestic market are often able to react to many market uncertainties correctly and automatically because they intuitively understand the culture and the impact of changing conditions. In foreign markets, however, this is not the case. Because they were not raised in the country in which they are trying to establish a market, managers abroad often do not fully understand the culture and lack the proper frame of reference. Thus, decisions that they would make automatically at home could be dramatically incorrect when operating abroad. Unless special efforts are made to understand the cultural meanings for activities in each foreign market, managers will likely misinterpret the events taking place and risk making the wrong decisions.

This problem is so real that some authorities in international marketing believe that unconscious references to a firm's domestic cultural values contribute to most international business problems. To overcome these potential disastrous decisions, firms must understand the cultural factors existing in both their domestic country and the host country. Business problems and goals must be defined in terms of the host country's culture. Being able to separate home-country norms from those in the host country can be a very challenging task. Often, the influence of one's own culture is underrated.

American multinational corporations have been in the forefront of developing international brands that cut across local cultural differences. Companies such as Coca-Cola, IBM, and McDonald's have created international brands to sell their products to large market segments worldwide. Other American examples of global icons include Intel, MTV, CNN, and Disney. The advertising and marketing campaigns that built these international brands took a universalist approach, built on the American tradition of assimilation. However, as culturally diverse emerging markets become more important to international marketing, campaigns targeted to specific cultures will appear more frequently.

Answer the questions:

1. What can affect the priorities of the inhabitants?

2. Can the managers react automatically in foreign markets?

3. What difficulties do the managers face?

4. Who has been in the forefront of developing international brands?

5. What helped to build the international brands?

Decide if the following sentences are True or False:

1. Culture is a very important aspect of international marketing because the elements that compose it don`t affect the way consumers think.

2. The language a population speaks, the average level of education, the prevailing religion, and other social conditions affect the priorities the inhabitants have and the way they react to different events.

3. With this in mind, it is not easy to see that managers of firms operating only in the domestic market are often able to react to many market uncertainties correctly and automatically because they intuitively understand the culture and the impact of changing conditions.

4. This problem is so real that some authorities in international marketing believe that unconscious references to a firm's domestic cultural values contribute to most international business problems.

5. American multinational corporations have been in the forefront of developing international brands that cut across local cultural differences.

Compose the story on the following topic:

1.Difficulties of international management.

LESSON 4

Business planning

Read the text:

Business planning is a management-directed process of identifying long-term goals for a business or business segment, and formulating realistic strategies for reaching those goals. Through planning, management decides what objectives to pursue during a future period, and what actions to undertake to achieve those objectives. Plans may be broad and encompass the entire enterprise, like a plan to double corporate profits, or they may concentrate on certain functional domains, such as information technology planning. Business planning may also entail developing contingency plans of what to do if some goals prove unattainable along the way or of how the business would survive a crisis, e.g., data center failure, natural disaster, and so forth.

Successful business planning requires concentrated time and effort in a systematic approach to answer three basic questions:

Where is the business enterprise today?

Where does management want to be in the future?

How can the business accomplish this?

In answering the first question management assesses the present situation and its implications for future developments. Through planning, management concerns itself with the future implications of current decisions it is about to make, and considers how these decisions limit the scope of future actions. The second question anticipates future profitability and market conditions, and leads management to determine pragmatic objectives and goals. Finally, management outlines a course of action and analyzes the financial implications of those actions. Often management will specify measurable outcomes along the way that will demonstrate whether the business is progressing toward the goals as planned. From an array of alternatives, management distills a broad set of interrelated choices to form its long-term strategy. It is in the annual budgeting process that management develops detailed, short-term plans that guide the day-to-day activities meant to attain the objectives and goals.

Effective planning enables management to craft its own future, at least to some degree, rather than merely reacting to external events without a coherent motivating force for corporate actions. Management sets objectives and charts a course of action so as to be proactive rather than reactive to the dynamics of the business environment. The assumption, of course, is that through its continuous guidance management can enhance the future state of the business.

Planning provides a means for actively involving personnel from all areas of the business enterprise in the management of the organization. Company-wide participation improves the quality of the plans.

Employee involvement enhances their overall understanding of the organization's objectives and goals. The employees' knowledge of the broad plan and awareness of the expected outcomes for their responsibility centers minimizes friction between departments, sections, and individuals. Involvement in planning fosters a greater personal commitment to the plan and to the organization. These positive attitudes improve overall organizational morale and loyalty.

Answer the questions:

1.What is business planning?

2.What may business planning entail?

3.What does business planning require to answer the main questions?

4.What does planning enable?

5.What does employee involvement enhance?

Decide if the following sentences are True or False:

1.Business planning is a management-directed process of identifying long-term goals for a business or business segment, and formulating realistic strategies for reaching those goals.

2.Plans may not be broad and encompass the entire enterprise, like a plan to double corporate profits.

3.Business planning may also entail developing contingency plans of what to do if some goals prove unattainable along the way or of how the business would survive a crisis, e.g., data center failure, natural disaster, and so forth.

4. Management sets objectives and charts a course of action so as to be proactive rather than reactive to the dynamics of the business environment.

5.Employee involvement enhances their overall understanding of the organization's objectives and goals.

Compose the story on one of the following topics:

1.What is business planning?

2.The functions of business planning.

LESSON 5

Management of foreign economic activity

Read the text:

There are three approaches to international management: ethnocentric, polycentric, and geocentric. Each has its advantages and disadvantages. None of these theories can be successful, however, unless managers understand completely the nuances involved in their applications.

The ethnocentric approach is one in which management uses the same style and practices that work in their own headquarters or home country. Such an approach may leave managers open to devastating mistakes, because what works in the United States, for example, may not necessarily work in Japan. There are many cases in which companies made grievous errors when they attempted to transfer their management styles to foreign countries. For example, Procter & Gamble Co. lost $25 million in Japan between 1973 and 1986 because its managers would not listen to Japanese advisors. The company ran ads for its Camay soap in which a Japanese man meeting a Japanese woman for the first time compared her skin to that of a porcelain doll. That would never happen in Japan, which is exactly what an advertising adviser told Procter & Gamble's managers. Procter & Gamble, however, ignored the advice. They assumed that if a similar ad worked well in the United States and other countries (which it did), it would also be successful in Japan, but it was not. In fact, the ad infuriated the Japanese people, who refused to buy Camay. The Procter & Gamble executives learned a lesson, but at a high cost.

In contrast to ethnocentric management is the polycentric management theory. In this approach, management staffs its workforce in foreign countries with as many local people as possible. The theory is simple: local people know best the host country's culture, language, and work ethic. Thus, they are the ideal candidates for management. This approach works well in some countries. However, in countries without well-developed economies, it may not be the best approach because the workers may not always have the necessary business acumen or management skills.

The third style of international management is the geocentric approach. This theory holds that the best individuals, regardless country origin, should be placed in management positions. This philosophy maintains that business problems are the same regardless of where in the world they occur. Therefore, competent managers who are able to apply logic and common sense to resolve them will be successful; specific cultural knowledge is not necessary. This is the most difficult of the three approaches to apply, since managers must be able to understand the local and global ramifications of the business.

The Boeing Corporation provides evidence that the geocentric approach can be successful. When sales of its 737 plane dropped precipitously in the early 1970s, Boeing's senior management asked a group of engineers to bolster sales of the plane. Management indicated that if they were unable to increase sales, production would be discontinued. The engineers seized the opportunity. Their first step was to examine foreign markets for the aircraft. They recognized that what attracted buyers in the United States may not necessarily lure foreign buyers. So, they visited different countries to determine which characteristics might be useful to incorporate into the redesign of the 737. They found many differences in flight operations. For example, many foreign airports, especially those in developing countries, had shorter runways than those in the United States. Moreover, many were constructed of softer materials than concrete, the standard material used in the United States. As a result of their study, the engineers redesigned the plane's wings to allow for shorter landings on asphalt runways and altered the engines so takeoffs would be quicker. Finally, they designed new landing gears and switched to low-pressure tires. Shortly after they made the changes, 737 sales rose dramatically, and so did sales of Boeing's other models. In fact, the 737 eventually became the largest selling commercial jet in aviation history. The key to the engineers' success lay in their ability to think globally and assess the business environment in different parts of the world.

Answer the questions:

1.How many approaches to international management are there?

2.What is ethnocentric approach?

3.What is polycentric approach?

4.What is geocentric approach?

5.What were the steps to increase the sales done by the Boeing Corporation?

Decide if the following sentences are True or False:

1.There are four approaches to international management.

2.None of these theories can be successful, however, unless managers understand completely the nuances involved in their applications.

3.The theory is simple: local people know best the host country's culture, language, and work ethic.

4. The philosophy of the third theory does not maintain that business problems are the same regardless of where in the world they occur.

5. The Boeing Corporation provides evidence that the geocentric approach can be successful.

Compose the story on one of the following topics:

1.Approaches to international management.

2.What is known about the Boeing Corporation?

LESSON 6

Management of foreign economic activity (part 2)

Read the text:

Managers must be trained in facets of international business that are not normally the concern of domestic managers. On a broad scale, these issues include a knowledge of other countries' infrastructures, business practices, and foreign trade dynamics. In addition, international managers must be knowledgeable about international exchange rates and the legal-political and sociocultural traits of other countries.

BRIBERY AND RELATED PRACTICES**.** For example, there is the issue of ethics in international operations. Managers must know when they are confronted with the subtleties of legal and illegal payments, for instance. In some countries, bribes in the form of money or valuables given to influential people are common. So is extortion, or payments made to protect a business against some threatened action, such as the cancellation of a franchise. In such cases, international managers may be torn between U.S. law and foreign culture. However, there is an American law that provides guidance in such cases. The U.S. Foreign Corrupt Practices Act prohibits most types of questionable payments involving American companies operating in other countries. The law in itself, however, does not make the international manager's job any easier when U.S. legislation and foreign cultures clash. Therefore, international managers are often faced with ethical dilemmas not common to their domestic counterparts. The solutions to these dilemmas can have a major impact on companies' operations and individual managers' careers—which is just one of the disadvantages of an international manager's job.

POLITICAL CLIMATE**.** Politics are also an important aspect of the international manager's job. International managers must be able to assess political risks inherent in particular countries. Developed countries tend to be relatively stable from a political and an economic standpoint, while less developed countries may be more susceptible to political strife. Governments may come and go or may decide to nationalize companies. Such was the case in the 1960s when Chile's President Eduardo Frei "Chileanized" the country's copper mines. Many American companies lost their holdings, although they were compensated for their losses. International managers must also be prepared for similar events, such as expropriation. Expropriation is not unheard of for American industries. For example, Iran seized an estimated $5 billion worth of American companies' holdings in 1979. The companies involved included Xerox Corp., R.J. Reynolds, and United Technologies. Events such as this mandate that international managers learn about the legal-political element of foreign business affairs. Their knowledge in this area must also include such things as tariffs, import quotas, and administrative protections (a type of trade barriers in the form of various rules and regulations that make it more difficult for foreign firms to conduct business in a particular country).

CULTURAL SENSITIVITY. Equally important to the international manager are sociocultural elements. These include the attitudes, values, norms, beliefs, behaviors, and demographic trends of the host country. Learning these things frequently requires a good deal of self-awareness in order to recognize and control culturally specific behaviors in one's self and in others. International managers must know how to relate to and motivate foreign workers, since motivational techniques differ among countries. They must also understand how work roles and attitudes differ. For instance, the boundaries and responsibilities of occupations sometimes have subtle differences across cultures, even if they have equivalent names and educational requirements. Managers must be attuned to such cultural nuances in order to function effectively. Moreover, managers must keep perspective on cultural differences once they are identified and not subscribe to the fallacy that all people in a foreign culture think and act alike.

Answer the questions:

1.In what facets must international manager be trained very well?

2.What ethical dilemmas can international manager be faced with?

3.What is the difference in the sphere of political climate between developed countries and developing ones?

4.What are the examples of expropriation?

5.What do sociocultural elements include?

Decide if the following sentences are True or False:

1.Managers must be trained in facets of international business that are normally the concern of domestic managers.

2.Managers must know when they are confronted with the subtleties of legal and illegal payments.

3.Politics are also an important aspect of the international manager's job.

4. Equally important to the international manager are sociocultural elements.

5. The boundaries and responsibilities of occupations sometimes do not have subtle differences across cultures, even if they have equivalent names and educational requirements.

Compose the story on one of the following topics:

1.The training of international manager.

2.Cultural sensitivity.

LESSON 7

Management of foreign economic activity (part 3)

Read the text:

The Dutch social scientist Geert Hofstede divided sociocultural elements into four categories: (1) power distance, (2) uncertainty avoidance, (3) individualism-collectivism, and (4) masculinity-femininity. International managers must understand all four elements in order to succeed. Power distance is a cultural dimension that involves the degree to which individuals in a society accept differences in the distribution of power as reasonable and normal. Uncertainty avoidance involves the extent to which members of a society feel uncomfortable with and try to avoid situations that they see as unstructured, unclear, or unpredictable. Individualism-collectivism involves the degree to which individuals concern themselves with their own interests and those of their immediate families as opposed to the interests of a larger group. Finally, masculinity-femininity is the extent to which a society emphasizes traditional male values, e.g., assertiveness, competitiveness, and material success, rather than traditional female values, such as passivity, cooperation, and feelings. All of these dimensions can have a significant impact on a manager's success in an international business environment. The inability to understand the concepts Hofstede outlined can hinder managers' capacity to manage—and their companies' chances of surviving in the international arena.

INTERNATIONAL MANAGEMENT STRATEGY Equally important is the manager's ability to choose the right strategy and organization applicable to individual companies operating in the international business arena. There are four strategies involved in international management. They include globalization, rationalization, national responsiveness, and the multifocal approach. Whether or not these strategies are implemented depends on a company's size and the number of countries in which it operates. For example, a small export company is not likely to employ a rationalization program. On the other hand, an MNC might utilize all four strategies. Globalization involves the development of relatively standardized products with worldwide appeal. Rationalization is the process of assigning activities to those parts of the organization best suited to produce specific goods or desired results, regardless of where they are located. National responsiveness allows subsidiaries latitude in adapting products and services to conform to the special needs and political realities of the countries in which they operate. Finally, the multifocal approach tries to achieve the advantages of globalization while attempting to be responsive to important national needs. Competent international managers must be able to analyze the business and political environments endemic to the countries in which they are operating and adapt the strategies, either individually or in combination, that best suit their needs.
INTERNATIONAL ORGANIZATION Companies operating internationally tend to use the same types of organization they do domestically. They may operate functionally (by task), geographically (by country or region), or by product. Or, they may combine organizational strategies. Again, international managers will make those determinations based on their companies' products or services. Regardless of organizational strategy, international managers must pay particular attention to human resources issues, since there are vast cultural differences among citizens of different countries.
THE FUTURE OF INTERNATIONAL MANAGEMENT Individuals searching for careers in the field of international management will find numerous opportunities available to them. The field is becoming a specialty of its own. Virtually every management textbook being used in business curricula today has at least one chapter devoted entirely to international management. Colleges and universities are offering degrees ranging from associates to Ph.D.s in the field. As more and more companies enter the international business arena, the number of management opportunities will grow.

Answer the questions:

1.How many categories can sociocultural elements be divided into?

2.What must international manager understand perfectly?

3.How many strategies are there in international management?

4.How many companies operate? Enumerate these strategies.

5.What is the future of international management?

Decide if the following sentences are True or False:

1.International managers must understand all four elements in order to succeed.

2. Uncertainty avoidance does not involve the extent to which members of a society feel uncomfortable with and try to avoid situations that they see as unstructured, unclear, or unpredictable.

3. Individualism-collectivism involves the degree to which individuals concern themselves with their own interests and those of their immediate families as opposed to the interests of a larger group.

4. Equally important is the manager's ability to choose the right strategy and organization applicable to individual companies operating in the international business arena.

5. Companies operating internationally tend to use the same types of organization they do domestically.

Compose the story on one of the following topics:
1.Categories of sociocultural elements.

2.The future of the international management.

LESSON 8

Banking

Read the text:

A bank is an institution that provides financial services to consumers, businesses, and governments. One major type of bank is the commercial bank, which has fewer restrictions on its services than other types of banks. Commercial banks profit by taking deposits from customers, for which the banks typically pay a relatively low rate of interest, and lending the deposits at a higher rate of interest to borrowers. These borrowers may be individuals purchasing homes, cars, and other items or they may be businesses financing working capital needs, equipment purchases, etc. Banks may also generate revenue from services such as asset management, investment sales, and mortgage loan maintenance.

According to the Federal Deposit Insurance Corporation, which monitors all federally insured banks, in 1998 there were 8,774 U.S. commercial banks with more than 60,000 branches. An additional 1,687 savings institutions were in operation that year. The number of separate banks has dwindled considerably in the wake of mergers and consolidation in the U.S. banking sector; in 1998 alone the number of banks fell by 4 percent. Such consolidation has made banking in the United States more profitable, with industrywide profits setting new records throughout the 1990s. In 1998 bank profits totaled nearly $62 billion, up 4.5 percent from 1997. Within the commercial banks, some 6,100 bank holding companies, which often own multiple banks, controlled 94 percent of all federally insured commercial bank assets. As of 1998 the U.S. banking sector reported $6.5 trillion in assets and $4.4 trillion in deposits. Accounting for inflation, this level represented a 26 percent increase in assets since 1992.

In addition to commercial banks, major types of banks include savings banks, trust companies, and **central banks,** which are described below.

Savings banks, along with savings and loan associations (S&Ls), are similar to commercial banks but are geared toward serving individuals rather than businesses. They take deposits primarily from individuals, and their investment activity is limited by the federal government to specific noncommercial investments, such as home mortgage loans. In 1997 there were 1,178 savings banks and just 579 savings and loan associations. The number of S&Ls declined precipitously following the insolvency crisis of the late 1980s and early 1990s; however, as late as 1992 there were more savings and loan associations than ordinary savings banks.

Trust companies act as trustees, managing assets that they transfer between two parties according to the wishes of the trustor. Trust services are frequently offered by departments of commercial banks.

Central banks are usually government-controlled institutions that serve regulatory and monetary management roles. Among other activities, central banks may issue their nation's currency, help to determine **interest rates,** collect and disburse government resources, and issue and redeem government debt.

Most commercial banks operate under corporate holding companies, which may own one or several banks. Because of regulatory constraints, banks that are not associated with holding companies must operate under restrictions that often put them at a disadvantage compared with other financial institutions. Holding companies are often used as vehicles to circumvent legal restrictions and to raise capital by otherwise unavailable means. For instance, many banks can indirectly operate branches in other states by organizing their entity as a holding company. Banks are also able to enter, and often effectively compete in, related industries through holding-company subsidiaries. In addition, holding companies are able to raise capital using methods from which banks are restricted, such as issuing commercial paper. Multibank holding companies may also create various economies of scale related to advertising, bookkeeping, and reporting, among other business functions.

Answer the questions:

1.What may banks generate?

2.What do major types of banks include?

3.How do trust companies act?

4.What may central banks issue?

5.How can banks operate upon their branches in other states?

Decide if the following sentences are True or False:

1. A bank is an institution that provides financial services to consumers, businesses, and governments.

2. Commercial banks profit by taking deposits from customers, for which the banks typically do not pay a relatively low rate of interest, and lending the deposits at a higher rate of interest to borrowers.

3. These borrowers may be groups purchasing homes, cars, and other items or they may be businesses financing working capital needs, equipment purchases, etc.

4. Banks may also generate revenue from services such as asset management, investment sales, and mortgage loan maintenance.

5. Most commercial banks do not operate under corporate holding companies, which may own one or several banks.

Compose the story on one of the following topics:

1.The major types of banks.

2. How can banks operate upon their branches in other states?

LESSON 9

Banking (part 2).

Read the text:

Commercial banking in the United States during the 1970s and through the early 1990s was characterized by (1) a proliferation of competition from other financial service industries, such as mutual funds and leasing companies; (2) the growth of multibank holding companies; and (3) new technology that has changed the way banks conduct business.

The first two developments are closely related. Indeed, as new types of financial institutions have emerged to meet specialized needs, banks have turned to the holding company structure to increase their competitiveness. In addition, a number of laws passed since the 1960s have favored the multibank holding company format. As a result, the U.S. banking industry grew increasingly concentrated in the hands of bank holding companies during the 1990s. The number of independent commercial banks declined by almost a third between 1985 and 1995, dropping below 10,000 for the first time in many decades. The number of banks in operation had peaked in 1984 at 14,496. By 1997, nearly 70 percent of all commercial assets were held by the top 100 banks, well above the 50-60 percent typical between 1970 and 1990.

The trend toward large holding companies provided incentive for commercial banks to offer comprehensive financial service packages, including **financial planning,** investment brokering, and insurance. Nonbanking activities by banks have been tightly regulated since the Depression, but in the 1980s and, especially, the 1990s, lawmakers and regulators alike proved increasingly sympathetic to banks that wished to offer integrated services. The biggest challenge to the historical separation of these activities came with the 1998 merger between Citicorp, then the second-largest U.S. bank, and the Travelers Group, a major insurance carrier and parent of the Salomon Smith Barney brokerage. Under the law at the time, the merged entity, named Citigroup, would have needed to divest its insurance business at minimum, and the size of the brokerage might also have posed a hurdle. But the companies entered the agreement fully expecting the laws would be changed in coming years. One such piece of legislation had already been in the works in the House of Representatives and was passed barely a month after the Citigroup merger; however, the Senate failed to approve a version during that session.

Electronic information technology, the third major factor in the recent evolution of banking, is evidenced most visibly by the proliferation of electronic transactions. Electronic fund transfer systems, **automated teller machines** (ATMs), and computerized home-banking services all combined to transform the way banks conduct business. By 1998, there were upwards of 190,000 ATMs operating in the United States, and that figure represented a 13 percent increase from the previous year. Such technological developments have reduced labor demands and intensified the trend toward larger and more centralized banking organizations. They have also diminished the role that banks have traditionally played as personal financial service organizations. Finally, electronic systems have made possible, on a national and even global scale, banking systems with nearly instant information access.

Answer the questions:

1.What was commercial banking characterized by?

2.Why did the number of independent commercial banks decline?

3.What offers comprehensive financial service packages?

4.What did the companies expect?

5.What transformed the way banks conduct business?

Decide if the following sentences are True or False:

1. As new types of financial institutions have emerged to meet specialized needs, banks have turned to the holding company structure to increase their competitiveness.

2. In addition, a number of laws passed since the 1970s have favored the multibank holding company format.

3. The trend toward large holding companies provided incentive for commercial banks to offer comprehensive financial service packages, including **financial planning,** investment brokering, and insurance.

4. Electronic information technology, the third major factor in the recent evolution of banking, is evidenced most visibly by the proliferation of electronic transactions.

5. Electronic fund transfer systems, **automated teller machines** (ATMs), and computerized home-banking services all combined to transform the way banks conduct business.

Compose the story on one of the following topics:

1.The developments of commercial banking.

2.The ways of transforming banks conducting business.

LESSON 10

Foreign direct investment

Read the text:

International competition is a fact of life for today's companies. Manufacturers in the United States, for example, must compete not only with **exports** from other countries, but also with American **subsidiaries** of foreign corporations. The same is true for manufacturers and other companies in Japan and the **European Union** (EU). Newly industrialized countries such as China, Singapore, South Korea, Taiwan, Brazil, and Mexico are also competing for a share of the international marketplace. In short, international competition is the driving force behind the globalization of production and markets.

International trade in the 1990s has been dominated by the United States, Japan, and the European Union (EU). Together they generate 80 percent of all world trade and account for 65 percent of all foreign direct investment. One sign of increased international competition has been the growth of **imports** and exports. In the United States, for example, exports increased from less than 10 percent of manufacturing output in the 1960s to more than 20 percent in the 1990s. Similarly, imports of manufactured products increased from 5 percent of domestic output in the 1960s to more than 25 percent in the 1990s.

The growth of foreign direct investment is another sign of increased international competition. Since the 1980s, foreign direct investment has increased four times faster than world output. Trade between parent companies and their foreign subsidiaries in the early 1990s accounted for approximately 80 percent of all trade between the United States and Japan, 40 percent of all trade between the United States and the EU, and 55 percent of all trade between the EU and Japan.

Foreign direct investment is a strategy used by multinational enterprises to create international production networks. Through an equity investment by a parent company in a branch, subsidiary, or affiliate located in another country, the parent company gains managerial control of an enterprise located in another country.

Foreign direct investment is primarily used by companies to establish foreign subsidiaries that will produce goods and services for sale in local and international markets. In the early 1990s U.S. subsidiaries of foreign companies accounted for approximately 20 percent of all U.S. exports and 33 percent of all U.S. imports. Foreign subsidiaries of U.S. parent companies accounted for approximately 33 percent of U.S. exports and 20 percent of U.S. imports.

There is a tendency toward regional clustering of foreign direct investment. That is, Japanese firms tend to invest in Asian countries, EU firms in other European countries, and U.S. firms in North and South American countries. Among the three dominant international trading groups, the United States is the principal direct investor in the EU and Japan, and the EU is the principal direct investor in the United States.

The elimination of trade and investment barriers can encourage foreign direct investment. **The North American Free Trade Agreement** (NAFTA), for example, involves the United States, Canada, and Mexico. It eliminated many of the trade and investment barriers that existed among the three signatories. With the adoption of NAFTA, foreign direct investment by the United States increased in Mexico, just as foreign direct investment by U.S. companies in Canada increased following the passage of the U.S. Canada Free Trade Agreement of 1989. In other parts of the world, though, foreign direct investment can be discouraged through protectionist policies that regulate the amount of allowable investment. For example, Malaysia requires foreign partners to limit their investments to less than 50 percent, so that control of such ventures remains with a local partner.

Answer the questions:

1.What countries are competing for a share of the international marketplace?

2.What driving forces exist?

3.Why do companies use foreign direct investment?

4.What country is the principal direct investor in the EU and Japan?

5.What can encourage foreign direct investment?

Decide if the following sentences are True or False:

1. International competition is a fact of life for today's companies.
2. In short, international competition is not the driving force behind the globalization of production and markets.
3. The growth of foreign direct investment is another sign of increased international competition.
4. There is no tendency toward regional clustering of foreign direct investment.

5. The elimination of trade and investment barriers can encourage foreign direct investment.

Compose the story on one of the following topics:
1.The existence of driving forces of foreign direct investment.

2.The USA as the principal investor in the EU and Japan.

LESSON 11

Management of international trade

Read the text:

Countertrading is a type of contractual agreement in international trade that provides special arrangements for financing an exchange of goods and services. There are many forms of countertrading, ranging from simple **barter** agreements to complex offset deals that involve the exporter agreeing to compensatory practices with respect to the buyer. Countertrading commonly takes place between private companies in developed nations and the governments of developing countries, although countertrading also occurs between developed nations. It has become popular as a means of financing international trade to reduce risks or overcome problems associated with various national currencies.

Buybacks are a common form of countertrading that typically take place between a private corporation from a developed country and the government (or government agency) of a developing nation. Under the first contract of a buyback arrangement, the exporting private corporation agrees to provide a production facility or other type of capital goods to the developing nation. Then, under the second contract, the developing nation repays the exporting private corporation with output produced at the facility or derived from the originally exported capital goods. The exporter, in effect, buys back the output of the facility it has constructed.

Buybacks are used to finance direct investment in developing countries. They are popular because they meet the needs and objectives of both parties. From the developing country's viewpoint, buybacks expand the country's export base, provide employment , and help it meet its goals for industrialization and development. From the point of view of a private cor-poration, the buyback may help it gain a market presence in the country and provide it with a source of products it can use or sell. If the particular output of the facility is not needed by the corporation, it can involve a third party to help it meet its countertrade obligations.

Another type of countertrade is the compensation trade. An exporter and importer agree to make reciprocal purchases of specific goods. The exchange is covered under a single contract. It may or may not take place simultaneously. Each delivery is invoiced in an agreed currency, with payments going either to the supplier or to a clearing account. A third party may be involved to fulfill the purchase commitment of one of the parties. There are many other types of countertrading; it has become firmly established as a method of financing international trade. For developing countries that have hard currency shortages, or whose national currencies are not readily convertible to other types of foreign exchange, countertrading offers them a means of financing imports.

International companies from developed countries who are willing to countertrade have found that it provides them with a competitive edge. By being flexible in the type of payment they are willing to receive, companies that are willing and able to countertrade have a stronger position in competitive bidding for projects involving emerging markets in developing countries. Many such companies are eager to find outlets for their products in emerging markets such as China and Mexico, for example.

Answer the questions:

1.What forms of countertrading do you know?

2.When does countertrading commonly take place?

3.In what cases are buybacks used?

4.What provides employment?

5.What is compensation trade?

Decide if the following sentences are True or False:

1. Countertrading is not a type of contractual agreement in international trade that provides special arrangements for financing an exchange of goods and services.
2. Buybacks are a common form of countertrading that typically take place between a private corporation from a developed country and the government (or government agency) of a developing nation.
3. The exporter, in effect, does not buy back the output of the facility it has constructed.
4. An exporter and importer agree to make reciprocal purchases of specific goods.
5. International companies from developed countries who are willing to countertrade have found that it does not provide them with a competitive edge.

Compose the story on one of the following topics:

1.Forms of the countertrading.

2. What is compensation trade?

LESSON 12

International credit settlement and currency transactions (part 1)

Read the text:

The foreign exchange market, also known as the forex, FX, or currency market, involves the trading of one currency for another. Prior to 1996 the market was confined to large corporate banks and international corporations. However it has since opened up to include all traders and speculators. Today, the average daily turnover in forex markets is US$1.9 trillion, according to the Bank of International Settlement's Triennial Survey. The market is growing rapidly as investors gain more information and develop more interest.

In trading foreign exchange, investors bet that one currency will appreciate over another; they profit when they bet correctly and collect the profit in the form of an interest rate spread when they return to the original currency. The profit margins are low compared with other fixed-income markets. Large trading volumes can, however result, in very high profits. Most forex trading takes place in London, New York, and Tokyo, with most trading activity in London, which dominates the market at 30% of all transactions. New York's market share is 16%, and Tokyo's has fallen to 10% due to the growing prominence of Singapore and Hong Kong. Singapore has become the fourth largest exchange market globally, and Hong Kong is the fifth, having overtaken Switzerland. The various players in the foreign exchange market include bank dealers, 16% of which are international investors and speculators. Banks account for almost two-thirds of forex transactions; of the rest, about 20% is mainly attributable to securities firms that operate in the international debt and equity markets.

One type of very short-term transaction is the spot transaction between two currencies, delivering over two days and using cash as opposed to a contract.

In a forward transaction, the money is not exchanged until an arranged date and an exchange rate is agreed in advance. The time period ranges from days to years. *Currency swaps* are a popular type of forward transaction; these involve the exchange of currency by two parties for an agreed length of time and an arrangement to swap currencies at an agreed later date. Another type is a foreign currency *future*, which is inclusive of interest. A standard contract is drawn up and a maturity date arranged. The time schedule is about three months.

In a foreign exchange *option* (FX option), the most liquid and biggest options market in the world, the owner may elect to exchange money in a designated currency for another currency at an agreed date in the future. This type of transaction depends on the availability of option contracts on an organized exchange. Otherwise, such forex deals may be carried out using an over-the-counter (OTC) contract.

Advantages:

The forex market is extremely liquid, hence its rapidly growing popularity. Currencies may be converted when bought or sold without causing too much movement in the price and keeping losses to a minimum.
As there is no central bank, trading can take place anywhere in the world and operates on a 24-hour basis apart from weekends.
An investor needs only small amounts of capital compared with other investments. Forex trading is outstanding in this regard.
It is an unregulated market, meaning that there is no trade commission overseeing transactions and there are no restrictions on trade.
In common with futures, forex is traded using a "good faith deposit" rather than a loan. The interest rate spread is an attractive advantage.

Disadvantages:

The major risk is that one counterparty fails to deliver the currency involved in a very large transaction. In theory at least, such a failure could bring ruin to the forex market as a whole.
Investors need a lot of capital to make good profits because the profit margins on small-scale trades are very low.

Answer the questions:

1. What is known as FX?

2. How does FX function?

3. What is spot transaction?

4. What is forward transaction?

5. What are advantages and disadvantages?

Decide if the following sentences are True or False:

1. The foreign exchange market, also known as the forex, FX, or currency market, does not involve the trading of one currency for another.

2. The profit margins are low compared with other fixed-income markets.

3. The various players in the foreign exchange market include bank dealers, 16% of which are not international investors and speculators.

4. As there is no central bank, trading can take place anywhere in the world and operates on a 24-hour basis apart from weekends.

5. An investor needs only small amounts of capital compared with other investments. Forex trading is not outstanding in this regard.

Compose the story on one of the following topics:

1.FX and its functions.

2.Advantages and disadvantages.

LESSON 13

International credit settlement and currency transactions (part 2)

Read the text:

The *foreign exchange market* is the market where one currency is traded for another. It is the largest market in the world. The *foreign exchange market* is an over-the-counter market.

This means that there is no single physical or electronic market place or an organized exchange with a central trading clearing mechanism, where traders meet and exchange currencies. The market is actually a worldwide network of inter-bank traders, consisting of banks, connected by telephone lines and computers. With direct dialing telephone services anywhere in the world, foreign exchange markets have become truly global in the sense that currency transactions now require only single telephone calls and take place twenty-four hours a day.

Geographically, the markets span all the time zones from New Zealand to the West Coast of the United States. When it is 3:00 PM in Tokyo, it is 2:00 PM in Hong Kong. When it is 3:00 PM in Hong Kong, it is 1:00 PM in Singapore. At 3:00 PM in Singapore, it is 12:00 noon in Bahrain. When it is 3:00 PM in Bahrain, it is noon in Frankfurt and Zurich, and 11:00 AM in London. When it is 3:00 PM in London, it is 10:00 AM in New York. By the time New York is starting to wind down at 3:00 PM, it is noon in Los Angeles. By the time it is 3:00 PM in Los Angeles, it is 9:00 AM of the next day in Sydney. The gap between New York closing and Tokyo opening is about 2.5 hours. Thus, the market functions 24 hours enabling a trader to offset a position created in one market using another market.

Types of transactions and settlement dates

Settlement of a transaction takes place by transfer of deposits between the two parties and the day when these transactions are effected is called the settlement date, or the value date. The countries where the transfers take place are called settlement locations. The locations of the two banks in the countries of the two currencies involved in the trade, are dealing locations, which need not be the same as settlement locations. For example a London bank can sell Swiss francs against US dollar to a Paris bank. Settlement locations may be New York and Geneva, while dealing locations are London and Paris. Depending upon the time elapsed between the transaction date and the settlement date; FOREX transactions can be categorized into 'spot' and 'forward' transactions. A third category called 'swaps' is a combination of a spot and a forward transaction.

In a spot transaction, the settlement or value date is two business days ahead for European currencies, or the Yen traded against the dollar. The two-day period gives adequate time for the parties to send instructions to debit and credit the appropriate bank accounts at home and abroad. A complete requirement under the forex regulations and the exchange rate at which the transaction takes place is called the spot rate. A forward transaction involves an agreement today to buy or sell a specified amount of a foreign currency at a specified future date at a rate agreed upon today. The typical forward contract is for one month; three months; or six months, with three months being most common. Forward contracts for longer periods are not as common because of the great uncertainties involved. However, forward contract can be renegotiated for one or more periods when they become due.

The equilibrium forward rate is determined at the intersection of the market demand and supply forces of forex for future delivery. The demand and supply of forward forex arise in the course of hedging, from forex speculation and from covered interest arbitrage.

A swap transaction in the forex market is a combination of a spot and a forward in the opposite direction. Thus, a bank will buy Euros spot against US dollar and enter into a forward transaction with the same counter party to sell Euros against US dollar. A spot 60-day dollar-euro swap will consist of a spot purchase of dollars against the euro coupled with a 60-day forward sale of dollar against euro. When both the transactions are forward transactions, we have a forward-forward swap. Thus, a 1-3 month dollar-sterling swap will consist of purchase of sterling versus dollars one month forward, coupled with a sale of sterling versus dollars three months forward. The term "swap" implies a temporary exchange of one currency for another with an obligation to reverse it at a specific future date. Forward contracts without an accompanying spot deal are known as "outright forward contracts" to distinguish them from swaps.

Answer the questions:

1.What does over-the-counter market mean?

2.How many time zones do the market span?

3.What is settlement location called?

4.How many categories of transactions do you know?

5.What is the spot rate called?

Decide if the following sentences are True or False:

1. The *foreign exchange market* is the largest market in the world.

2. The *foreign exchange market* is not an over-the-counter market.

3. The market is actually a worldwide network of inter-bank traders, consisting of banks, connected by telephone lines and computers.

4. Settlement of a transaction takes place by transfer of deposits between the two parties and the day when these transactions are not effected is called the settlement date, or the value date.

5. The term “swap” implies a temporary exchange of one currency for another with an obligation to reverse it at a specific future date.

Compose the story on one of the following topics:

1. The meaning of the over-the-counter market.

2. What is settlement location and spot rate called?

LESSON 14

Competition in foreign market

Read the text:

There are three basic methods by which companies can compete in foreign markets: exporting, licensing and other contractual agreements, and investment. Each method has its own advantages and disadvantages. One method may be more appropriate for a certain line of business than another. For example, exporting works mostly for physical goods. Licensing and other contractual arrangements are more appropriate for intangibles, services, and the transfer of technology. Investment involves the transfer of an entire enterprise to another country.

EXPORTING. Exporting is limited to physical goods. When a company exports goods to another country, those goods are manufactured outside of the target market. Companies that export can use intermediaries located in their own country to facilitate exports, or they can use no intermediaries or only those located in the target country. International freight forwarders, **banks** , and other specialists can assist companies wishing to export by handling many of the details regarding documentation and financing.

Exporting is often the way a company initially becomes involved in international trade. Companies can gain valuable experience in international markets through exporting without being exposed to large capital losses. A recent variation on traditional exporting is mail-order exporting. **Mail-order businesses** based in the United States, for example, have found that with the use of fax machines, international **toll free telephone calls** , credit cards, and air courier delivery, consumers in Europe, Japan, and elsewhere are willing to place orders from catalogs and other **direct-mail** promotions.

LICENSING AND OTHER AGREEMENTS. International licensing is another way for domestic companies to compete internationally. Under an international **licensing agreement** , domestic companies provide foreign companies with rights to some of their intangible assets, such as their **patents** , trade secrets, know-how, trademarks, or even their company name and logo. Domestic companies often provide some type of technical assistance to make sure the licensed properties are used properly. Similar contractual agreements may include franchising , technical agreements, service or management contracts , and other variations.

Licensing and other contractual agreements are typically long-term associations between an international company and an entity in the host country. They typically involve the transfer of technology or human skills. Characteristically there is no equity investment by the international company in such agreements. Licensing and other contractual arrangements can offer several advantages over or alternatives to exporting. Exports are often subject to another country's import barriers, such as tariffs and quotas. Licensing agreements can circumvent such barriers, since only intangible assets and services are being exchanged. When exports are no longer profitable, companies can enjoy incremental income from licensing agreements. In some cases a country's currency may experience a prolonged **devaluation** , making exports no longer profitable. Licensing agreements can overcome some of the risks associated with such currency fluctuations. There is also less of a political risk with licensing, which avoids the risks associated with expropriation of the international company's investment by the host country's government. Licensing can also provide the host country with much-desired technology transfer , so that its government is likely to view such agreements as beneficial.

Answer the questions:

1. What are the basic methods of competing? Enumerate them.

2. What does investment involve?

3. What are the methods of exporting without large capital losses?

4. What can licensing and other contractual arrangements offer?

5. Why can licensing agreements circumvent the barries?

Decide if the following sentences are True or False:

1. There are three basic methods by which companies can compete in foreign markets: exporting, licensing and other contractual agreements, and investment.

2. Licensing and other contractual arrangements are not more appropriate for intangibles, services, and the transfer of technology.

3. Investment involves the transfer of an entire enterprise to another country.

4. Exporting is not limited to physical goods.

5. Licensing agreements can circumvent such barriers, since only intangible assets and services are being exchanged.

Compose the story on one of the following topics:

1. The basic methods of competing.

2. Licensing as another way for domestic companies to compete internationally.

LESSON 15

Competition in foreign market (part 2).

Read the text:

INVESTMENT. Investment is the third way in which companies can compete in other countries. Typically, foreign direct investment involves ownership by an international company of a manufacturing plant or other production facility in a target country. Investments may be sole ventures, with full ownership and control by the parent company; or they may be joint ventures , with ownership and control shared with one or more local partners. Investment may be in a new establishment, or it may involve the acquisition of an existing enterprise.

International companies generally make direct investments in foreign countries for one of three reasons. One reason is to obtain raw materials from the host country. Such investors are known as extractive investors. Very little of the extracted resource is sold in the host country. Most of it is either exported back to the international company's home country for use in manufacturing there, or sold on the world market. The steel, aluminum, and petroleum industries are examples of this type of investment.

The second reason for foreign direct investment is to source products at a lower cost. Sourcing investors establish manufacturing or assembly operations in a foreign country for the purpose of obtaining components or finished goods more cheaply than they could in their home country. These components or finished goods are then exported back to the investor's home country or shipped to other countries. In the U.S. consumer electronics industry, for example, assembled products are obtained by U.S. companies from Mexico, Taiwan, or elsewhere for sale in the United States.

The third and most prevalent reason for foreign direct investment is to penetrate local markets and compete internationally. As noted above, international companies use direct investment to establish a production base in another country for the purpose of competing in that country's marketplace.

THE FUTURE OF INTERNATIONAL COMPETITION. It is clear that many factors will contribute to the growth of international competition. These include technological and political factors as well as economic factors. Industries that are experiencing rapid technological advancements are already global in nature. Production facilities can and are being located virtually anywhere in the world. As a result, consumer demand in different industrial countries is converging, so that consumers in Germany, for example, want the benefits of the same technologies as consumers in Japan.

Politically it seems clear that international and multinational trade agreements are being written for the purpose of facilitating international trade. The formation of the European Union, the North American Free Trade Agreement, the General Agreement on Tariffs and Trade, and the World Trade Organization indicate that political leaders not only have realized the benefits of less restricted international competition, they have also been able to convince their constituents of those benefits.

It is likely that international competition will continue to increase. Companies will continue to enter international markets by exporting and through direct investment and licensing and other contractual agreements. International trade agreements will facilitate their efforts and potentially make them more profitable. Consumers throughout the world will benefit with a higher standard of living from access to a wider range of goods and services.

Answer the questions:

1.What does foreign direct investment involve?

2.What are the reasons for international companies to make direct investments in foreign countries?

3.What will contribute to the growth of international competition? Enumerate these factors.

4.Is it possible that international competition will continue to increase?

5.Who will benefit from a higher standard of living?

Decide if the following sentences are True or False:

1. Investment is the third way in which companies can compete in other countries.
2. Typically, foreign direct investment does not involve ownership by an international company of a manufacturing plant or other production facility in a target country.
3. Investment may be in a new establishment, or it may involve the acquisition of an existing enterprise.
4. International companies do not use direct investment to establish a production base in another country for the purpose of competing in that country's marketplace.
5. Companies will continue to enter international markets by exporting and through direct investment and licensing and other contractual agreements.

Compose the story on one of the following topics:

1.What is known about foreign direct investment?

2.The benefits of a higher standard living.

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