

Chapter 3: Vocabulary for International Business Management

Free Trade

Reading II

Free Trade

Free Trade is a market model in which trade in goods and services between or within countries flow unhindered by government-imposed restrictions. Restrictions to trade include taxes and other legislation¹, such as tariff² and non-tariff trade barriers.

The theory is that any voluntary trade must benefit both parties, otherwise, it would not be made. More precisely, for a trade to occur, both parties must expect a benefit (benefit ex ante³.) Furthermore, the advantages of free trade according to classic economic theory are substantiated in Ricardo's comparative advantage analysis, accordingly with which free trade achieves maximum economic efficiency and overall productivity gains.

Free Trade can be contrasted with protectionism⁴, which is the economic policy of restraining trade between nations, through methods such as high tariffs on imported goods, restrictive quotas, a variety of restrictive government regulations designed to discourage imports, and anti-dumping laws in an attempt to protect domestic industries in a particular nation from foreign take-over or competition.

Governments often call managed international trade agreements "free trade", and although this is not really free trade, such treaties may result in a freer trade.



Figure 3-2 Free Trade Agreements Worldwide

Free trade is a term in economics and government that includes:

- Trade of goods without taxes (including tariffs) or other trade barriers (e.g., quotas on imports or subsidies for producers);
- Trade in services without taxes or other trade barriers;
- The absence of trade-distorting policies (such as taxes, subsidies, regulations or laws) that give some firms, households or factors of production an advantage over others;
- Free access to markets;
- Free access to market information;
- Inability of firms to distort markets through government-imposed monopoly or oligopoly power;
- The free movement of labor between and within countries;
- The free movement of capital between and within countries.

Free Trade Zone

A **free trade zone (FTZ)** or **Export processing zone (EPZ)** is one or more areas of a country where 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. They are special zones where some normal trade barriers such as import or export tariffs do not apply. Bureaucracy⁵ is typically minimized by outsourcing it

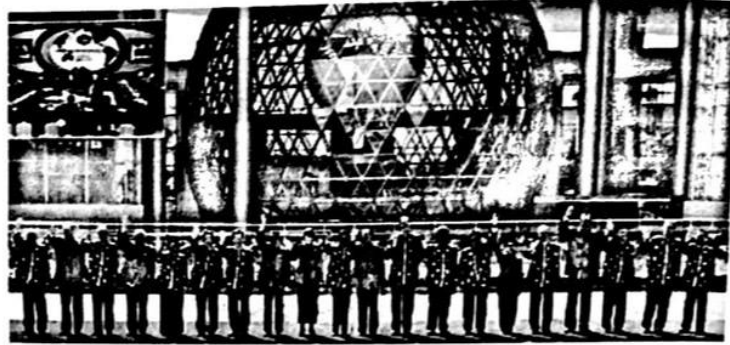


Figure 3-3 Trade Agreements

to the FTZ operator and corporations setting up in the zone may be given tax breaks⁶ 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).

In 2002 there were 43 million people working in about 3000 FTZs spanning 116 countries producing clothes, shoes, sneakers, electronics, and toys. The basic objectives of EPZs are to enhance foreign exchange earnings, develop export-oriented industries and to generate employment opportunities.

(Retrieved from http://en.wikipedia.org/wiki/Free_trade)

Footnote

1. **Legislation** is law which has been promulgated (or "enacted") by a legislature or other governing body. Before an item of legislation becomes law it may be known as a bill, which is typically also known as "legislation" while it remains under active consideration.
2. A **tariff** is a tax on foreign goods upon importation. When a ship arrives in port a customs officer inspects the contents and charges a tax according to the tariff formula. Since the goods cannot be landed until the tax is paid it is the easiest tax to collect, and the cost of collection is small.
3. **ex ante** (latin) = from beforehand
4. **Protectionism** is the economic policy of restraining trade between nations, through methods such as high tariffs on imported goods, restrictive quotas, a variety of restrictive government regulations designed to discourage imports, and anti-dumping laws in an attempt to protect domestic industries in a particular nation from foreign take-over or competition.
5. **Bureaucracy** means the political rule of offices.

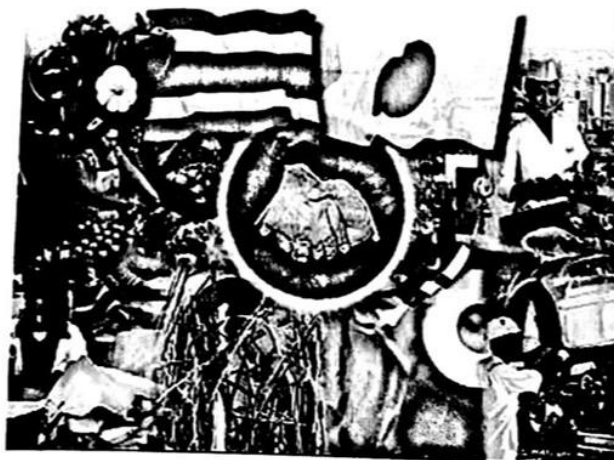


Figure 3-4 Trade Agreements between Thailand and Japan

6. **Tax breaks** is a tax saving. This includes:
- Tax exemption, an exemption from all or certain taxes of a state or nation in which part of the taxes that would normally be collected from an individual or an organization are instead foregone.
 - Tax deduction, an expense incurred by a taxpayer that is subtracted from gross income and results in a lower overall taxable income,
 - Tax credit, more valuable than an equivalent tax deduction because a tax credit reduces tax dollar-for-dollar, while a deduction only removes a percentage of the tax that is owed.

Questions

1. Define "free trade".

.....
.....

2. What do restrictions of trade include?

.....
.....

3. Explain the theory of free trade briefly.

.....
.....

4. What are the major differences between free trade and protectionism? Explain and give some examples.

.....
.....

5. Name some trade terms which are included in free trade.

.....
.....

6. Explain why tariffs and quotas are eliminated and why bureaucratic requirements are lowered in free trade zones.

.....
.....

7. Why are most free trade zones located in developing countries?

.....
.....

8. What types of merchandise are often produced in free trade zones?

.....
.....

Samples of Economic Integration Arrangements

Free Trade Area

European Free Trade Association (EFTA)

Iceland
Liechtenstein
Norway
Switzerland

Latin American Integration Association

Argentina	Mexico
Bolivia	Paraguay
Brazil	Peru
Chile	Uruguay
Columbia	Venezuela
Ecuador	

Association of South-East Nations (ASEAN)

Brunei	Philippines
Burma (Myanmar)	Singapore
Indonesia	Thailand
Laos	Vietnam
Malaysia	

North American Free Trade Area (NAFTA)

United States
Canada
Mexico

Customs Union:

Benelux

Belgium
Netherlands
Luxembourg

Common Market:

European Union (EU)

Austria	Italy
Belgium	Luxembourg
Denmark	Netherlands
Finland	Portugal
France	Sweden
Germany	Spain
Greece	United Kingdom
Ireland	

Andean Common Market

Bolivia	Peru
Columbia	Venezuela
Ecuador	

Economic Union:

The closest is the European Union (EU). The creation of the so-called EU 'internal market' at the end of 1992 was a step towards fully integrated economic cooperation between the then 12 (now 15) member states.

Political Union:

The Council for Mutual Economic Assistance (COMECON) was a hybrid involving the political union of economic affairs. Originally it was a forced union of the countries of the eastern Europe with the USSR, but it evolved into a type of voluntary economic association including any nations that cared to be members.

The British Commonwealth of Nations can be viewed as a voluntary union. Similarly, the EU is moving in this direction under various provisions of the Maastricht Treaty, including the creation of a single currency, the Euro.

(Adapted from Albaum, Strandkov, and Duerr, International Marketing and Export Management, 2002, p.124.)

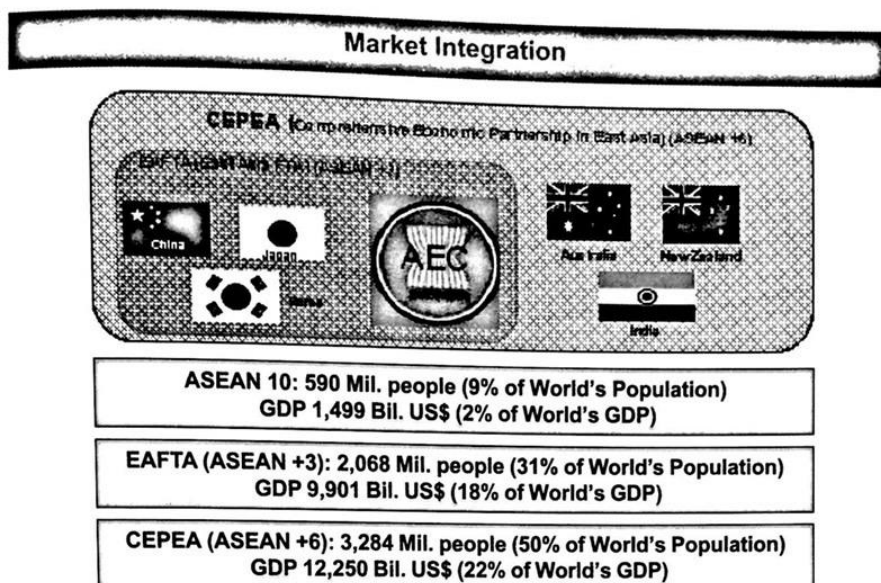


Figure 3-5 Market Integration

(Source: The Department of International Trade Promotion)

Special Terminology

- agent** : a person or company that represents another person or company selling its products
- A good agent helps promote the products.
 - The Smith Inc. is a well-known agent.
- catalog** : a book which lists products with details of prices, sizes, packaging, etc.
- Please send us your latest catalog so that we can review your selection.
 - A good colored catalog can definitely promote sales.
- channel of distribution** : the way a product is sold to the customer who will use it
- The export manager must determine which distribution channel fits the target market.
 - The channel of distribution consists of four basic parts: a manufacturer, a wholesaler, a retailer and a customer.
- consumption** : use of a product
- Consumption normally depends on economic conditions.
 - Last year, the consumption decreased by 5%.
- department store** : a store which sells a variety of products, displayed in separate departments
- Central Department Store is one of the major stores in Thailand.
 - A lot of companies prefer department stores as their main outlets.
- directory** : a book containing a list of producers and manufacturers of given products
- Thailand's Trade Directory can be obtained at major trade centers.
 - Yellow Pages is one kind of directory.



Figure 3-6 Premium Outlets

- distribution** : the act of supplying goods to stores or companies
- *Free distribution of alcoholic drinks is prohibited.*
 - *The cost of distribution in a foreign market can be very high.*
- distribution pattern** : where and how a product is sold
- *The means of transportation has a great impact on the distribution pattern.*
 - *The distribution pattern can become more complex in major cities.*
- exhibit** : To show goods or products in a public place or at a trade show, or trade exhibition
- *As a good channel to meet potential buyers, companies often choose to exhibit their products at trade shows.*
 - *The museum will exhibit a collection of famous paintings next week.*
- financial status**: the position or condition of money
- *The company has to maintain a good financial status*
 - *Both sides are arguing over the future of the company's financial status.*
- hypermarket** : an excessively large supermarket with a wide variety of products, from food to household products and garments
- *BIG C and Tesco Lotus are good examples of hypermarkets.*
 - *A hypermarket usually offers lower prices than other channels.*
- figure** : a number, an amount of money
- *Tom now earns a six-figure salary.*
 - *Last year, the unemployment rate figures were low.*
- merchandise** : products or items that are for sale; goods
- *A description of the merchandise is included in the leaflet.*
 - *The merchandise was damaged by the storm.*
- outlet** : a store that sells things for less than the usual price
- *An outlet mall can lessen the quantity of stock.*
 - *There are a lot of good bargains on brand names at the outlet mall.*



Figure 3-7 Hypermarket

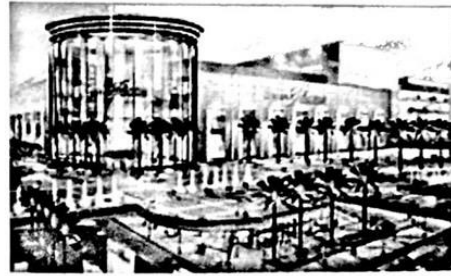


Figure 3-8 Department Store

- quota** : a limited set quantity
- *A quota is a limit on the goods imported into a country.*
 - *The US government sometimes sets a quota on certain products to avoid excessive imported goods.*
- retail outlet** : a place where sellers and buyers make direct sales
- *Convenience stores are retail outlets.*
 - *Major department stores are also considered to be retail outlets.*
- shopping center** :
- *a group of stores built together in one area or in one large building*
 - *It's convenient to shop at the shopping center.*
 - *Modern shopping centers integrate shopping experiences.*

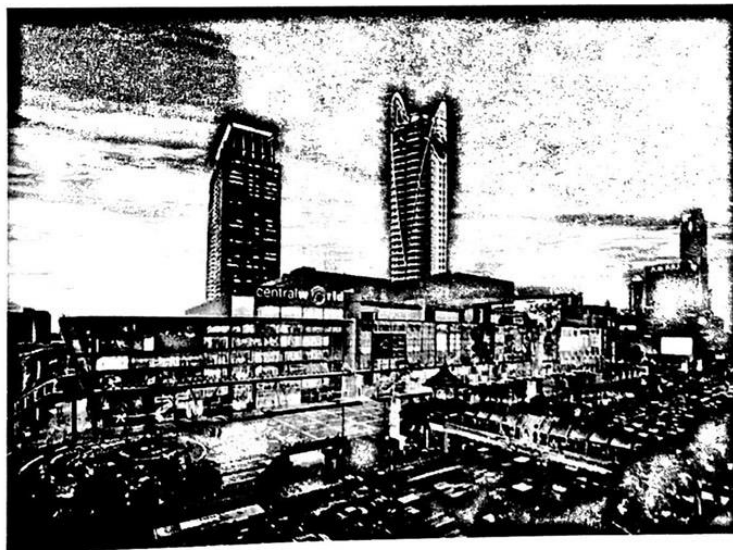


Figure 3-9 Shopping Center

- specialty store** : a store which sells only a particular type of product
- *Golf equipment is often sold at specialty stores.*
 - *Certain products like sporting goods, and bathroom products can be found only at specialty stores.*



Figure 3-10 Shopping Mall

- specifications** : conditions between buyers and sellers with regard to the goods, payment terms, delivery mode, and period
- *Certain buyers may require some specifications for special promotion.*
 - *The product must meet the specifications.*
- tariff** : a tax or customs duty on goods coming into a country or going out of a country
- *The tariff rate for imported cars is very high.*
 - *Tariffs can cause merchandise to be expensive.*

Vocabulary Practice

Match up the words or expressions on the left with the definitions on the right.

- | | |
|-------------------------|---|
| 1. distribution channel | a. a booklet or book which lists products and pictures |
| 2. specifications | b. ways of getting goods to customers. |
| 3. tariff | c. a book with a list of manufacturers |
| 4. department store | d. detailed instructions about how something should be made |
| 5. quota | e. the amount of each product a sales person is expected to sell during a certain time. |
| 6. catalog | f. a place or show that sells special types of products |
| 7. exhibit | g. import duty |
| 8. specialty store | h. to show or display goods |
| 9. shopping center | i. a store which sells a variety of products in separate departments |
| 10. directory | j. an area with a group of stores |

Useful Expressions

Getting More Information

When we do not get enough information from the people we are talking to, we will then have to ask them for additional information or more details. We may not be satisfied with the answers they have given. Here are some techniques for getting the extra information.

Would you please tell me more about.....?
 Could you tell me some more about.....?
 Would you mind telling me more about.....?
 Please tell me more about.....
 I'd like to know more about.....
 I was wondering if there's something else more about.....
 Sorry, that's not what I mean. What I'd like to know is.....
 I don't quite understand why.....

Listen and repeat:

Please tell me more about the DITP.
 Would you please tell me more about the competition in Asia?
 I don't quite understand why we should market only one product line abroad first.
 Could you please give me more details about the following information?

Exercise

Work in pairs or groups, trying to get your friends to give you as much information as possible on their:
 studies;
 hobbies;
 favorite ways of spending their free time;
 favorite ways of spending their weekends.

Then exchange the information you get with your friends.

Situational Dialog

Read the following dialog and see how one person asks for certain information and how the other responds. Then discuss the questions.

Pat owns a small factory, producing rattan and bamboo baskets. She wants to export her products overseas, so she is at the DITP gathering information on how to start exporting her products.

Pat : Could I ask you a few questions about the export business?
Officer : Sure. What is it?
Pat : I own a small factory making rattan and bamboo baskets. I really want to export my products to another country.
Officer : You've come to the right place. Can I see your samples?
Pat : Here they are. What should I do first?

- Officer* : First, you'd better attend any special courses about export and import here at the training center. Then, you may attend trade shows to get some general ideas of how the exporters participate in the show activities. Or, you may even be an exhibitor yourself.
- Pat* : Could you tell me about the shows?
- Officer* : The DITP holds two trade fairs each year: one in April and the other in October.
- Pat* : Please tell me more about being an exhibitor.
- Officer* : First you need to apply for a booth. We will then look into your qualifications to see if you would be appropriate for the exhibition or not.

Questions for Discussion

1. What questions does Pat ask? Does she receive all the information she needs?
2. When Pat needs more information, what does she say to the officer?
3. Add a little more to the dialog so that Pat can get more information about the trade show on the cost of a booth and how to set up a booth.

Internet Exercise

Visit the web sites of the following companies:

1. WalMart, Tesco and Carrefour
2. Nordstrom, Harrods and Printemps
 - a. From what country did each company originate?
 - b. What type of channel of distribution are they?
 - c. What are the similarities and differences among the first group of companies?
 - d. What are the similarities and differences among the second group of companies?
 - e. How can each company help expand and promote international business?



Figure 3-12 Printemps Department Store



Figure 3-13 Harrods Department Store