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## Unit

# 1

## Trade Practice

### In this unit you will learn

- ❑ Text A: General introduction to trade terms and detailed explanation for the most frequently used trade terms.
- ❑ Text B: The reason to revise the UCP 500, the revising process, and some articles extracted from UCP 600.
- ❑ Supplementary Reading: General introduction to Incoterms 2000.



## Section I Trade Terms

### Lead-in

- 1 Work in pairs. Divide the trade terms below into four groups.

FCA	DES	DDU	EXW	CPT
CFR	FOB	DAF	DDP	CIP
DEQ	FAS	CIF		

Departure Paid	Main Carriage Unpaid	Main Carriage	Arrival

2 Work in pairs. Discuss the following questions:

What are the functions of trade terms?

What do you know about the differences among these trade terms?

Text A



## Trade Terms

Trade terms, also called price terms or delivery terms, are an important ingredient of a unit price in international trade, standing for specific obligations of both the buyer and the seller. Trade terms used in the contract have the important function of appointing the exact point where the ownership of the goods is transferred from the seller to the buyer. The trade terms also define the responsibilities and expenses of both the seller and the buyer. The use of the trade terms greatly simplifies the contract negotiation, and thus saves time, energy and cost.

For better understanding, 13 trade terms are divided into four basically different groups. Namely it starts with the term **whereby** the seller only makes the goods available to the buyer at the seller's own **premises** (the "E"-term, EXW); followed by the second group whereby the seller is called upon to deliver the goods to a carrier appointed by the buyer (the "F"-terms FCA, FAS and FOB); continuing with the "C"-terms whereby the seller has to **contract** for carriage, but without assuming the risk of loss of or damage to the goods or additional costs due to events occurring after shipment and dispatch (CFR, CIF, CPT and CIP). Finally, the "D"-terms whereby the seller has to bear all costs and risks needed to bring the goods to the place of the destination (DAF, DES, DEQ, DDU and DDP). Listed below is a detailed explanation of 3 trade terms which have been the most frequently used in international trade.

**FOB: Free on Board (— named port of shipment)**

This term means that the seller delivers when the goods pass the ship's rail at the named port of shipment. This means that the buyer has to bear all the costs and risks of loss of or damage to the goods from the point. The FOB term requires that the seller to clear the goods for the export.

FOB is a widely used term in international trade. Under this term, the seller must obtain at his own risk and expense any export license or other official **authorization** and carry out, where applicable, all customs formalities necessary for the export of the goods. On the contrary, the buyer should complete all the necessary steps for import. The risk of loss of or damage to the goods is transferred from the seller to the buyer when these goods pass over the ship's rail at the named port of shipment. The buyer also pays the price as specified in the sales contract.

**CFR: Cost and Freight (— named port of destination)**

This term means that seller delivers when the goods pass the ship's rail at the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination, but risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer. The seller must bear all risks of loss of or damage to the goods until such time as they have passed the ship's rail at the port of shipment, while the buyer must accept delivery of the goods when they have been delivered and received from the carrier at the named port of destination. The CFR terms require the seller to clear the goods for the export.

It is the seller that charters ships, books shipping space and pays for the cargo loading. When the goods are loaded on board the vessel, the seller should send shipment notice to the buyer. Cargo insurance is to be effected by the seller. The buyer receives the goods at the port of destination and funds all loading expenses at the destination port unless such costs have been included in the freight or collected by the ship-owner at the time the freight was paid.

**CIF: Cost, Insurance & Freight (— named port of destination)**

Under CIF, in addition to CFR obligations, the seller is obliged to arrange marine insurance against risk of loss of, or damage to the goods in transit. That is, the seller contracts with the insurer and pays the insurance **premium**. The CIF terms requires the seller to clear the goods for the export.

Many factors should be taken into consideration by the seller and the buyer when selecting trade terms. Some trade terms, for example are used only for sea and inland waterway transport, while other trade terms under Incoterms 2000 can be applied to all modes of transport. The term of payment is also relative to the trade terms. There are also other factors to be considered when selecting a trade term, such as the wills of the parties, the price acceptable, the time of shipment, the customs formalities in both countries and the possible risks, losses and damages to the goods during the transportation.

**Notes:**

whereby: as a result of which, by or through which.

premise: a statement that is assumed to be true and from which a conclusion can be drawn.

contract: to make a legal agreement to provide them with a service.

authorization: a document giving an official instruction or command.

premium: payment for insurance.

**3** Read Text A and choose the best answers.

- 1 Trade terms are called price terms or delivery terms because \_\_\_\_\_.
  - A. they represent the sales contract
  - B. they stand for the price components
  - C. they are under Incoterms 2000
  - D. they have been developed in international trade
- 2 EXW is the trade term under which \_\_\_\_\_.
  - A. the seller clears for export and loads on the transportation vehicle
  - B. the buyer's obligation ceases when he accepts the goods at the factory or warehouse
  - C. the obligations, costs and risks borne by the seller are minimum
  - D. the responsibilities of the seller are more extensive
- 3 Under trade term FOB, the risk of loss or damage to the goods is transferred from the seller to the buyer when \_\_\_\_\_.
  - A. the goods cross the vessel at the shipping port
  - B. the goods are placed on board at the destination port
  - C. both the seller and the buyer agree to deliver the goods
  - D. the shipping vessel is ready to leave
- 4 When the seller only pays freight for the goods up to arrival at the port of destination, we can say that the trade term must be \_\_\_\_\_.

A. FOB	B. CIF	C. EXW	D. CFR
--------	--------	--------	--------
- 5 When we decide the trade terms, we should consider \_\_\_\_\_.
  - A. how to distinguish the obligations of both the seller and the buyer
  - B. mode of transportation, payment terms and other factors
  - C. whether the trade terms are suitable for ocean transportation or not
  - D. the time and cost spent during the transaction



4 Fill in the blanks with the words or phrases given in the table to complete the passage below.

1\_\_\_\_\_ have been developed in practice over many years to fit particular circumstances. The trade terms refer to using a brief English concept or abbreviation to indicate the formation of the 2\_\_\_\_\_ and determine the 3\_\_\_\_\_, expenses and risks borne by two parties as well as time of the passing of the ownership of the goods. When the two parties determine to adopt certain trade terms, all other clauses in the contract shall be 4\_\_\_\_\_ them. Therefore, in international trade, we usually make use of certain trade terms to define the nature of the contract so as to determine expenses and risks as well as their 5\_\_\_\_\_ accordingly. Among 13 trade terms, 6\_\_\_\_\_ are different from all other terms because they contain two key points. First, they indicate the point to which the seller bounds to arrange and bears the cost of carriage. Second, they allocate the risks. While “D”-terms are characterized as the 7\_\_\_\_\_. “F”-terms are related to a 8\_\_\_\_\_ appointed by the buyer and EXW only requires the seller to prepare the goods 9\_\_\_\_\_. Factors such as mode of transport, terms of payment, the wills of the parties, the price acceptable, the time of shipment, and possible risk of losses and damages to the goods during the transportation should all be considered when selecting trade terms. As different countries might have different interpretations of the trade terms, misunderstandings occurred frequently. To clear up the confusion, some international organizations have made quite a few rules and explanations. 10\_\_\_\_\_ has drawn up a set of standard terms and definitions and revised them in 1953, 1982, 1990 and 2000 in order to bring the rules in line with current international practice.

- |                                      |                        |                           |
|--------------------------------------|------------------------|---------------------------|
| A. International Chamber of Commerce | F. unit price          | K. obtain insurance       |
| B. arrival contracts                 | G. “C”-terms           | L. carrier                |
| C. Trade terms                       | H. in conformity with  | M. international trade    |
| D. named port of destination         | I. responsibilities    | N. cost and carriage      |
| E. buyer and seller                  | J. at his own premises | O. rights and obligations |

5 Translate the following sentences into English.

- 1 贸易术语是用一个简短的名词短语和几个英文缩写字母来说明在一定价格基础上，买卖双方责任的划分。(obligation)  
\_\_\_\_\_
- 2 贸易术语具有两重性。一方面是货物单价的重要组成部分，另一方面又体现交货条件。(unit price)  
\_\_\_\_\_
- 3 采用何种贸易术语既关系到买卖双方的利益，也关系到能否顺利履约。(relate to)  
\_\_\_\_\_
- 4 在现在出口利润普遍不高的情况下，对于国际贸易的每个手续精打细算比以往任何时候都更为重要。(formality)  
\_\_\_\_\_
- 5 中国在进口贸易中，大多使用FOB或者FCA贸易术语，而在出口贸易中，则争取按CIF或CIP方式成交。  
\_\_\_\_\_



## Section II UCP 600

### Lead-in

- 1 Listen to the recording about the UCP 600 and fill in the blanks numbered from 1 to 7 with the exact words you hear. With the blanks numbered from 8 to 10, you can write down either the exact words you hear or the main points in your own words.

A 1\_\_\_\_\_, in international trade may be described as an instrument of finance carrying a conditional guarantee of payment from an overseas bank to the seller. Consequently, an L/C is desirable in high value and/or high risk transactions. The guarantee is conditional upon the seller complying 100% with the documentary requirements of the L/C, an issue of particular concern to exporters, as the International Chamber of 2\_\_\_\_\_ (ICC) estimates worldwide documentary discrepancy rates of 3\_\_\_\_\_. L/C transactions are governed by ICC rules, and whilst these provide an international 4\_\_\_\_\_ process, the differing 5\_\_\_\_\_ of what constitutes documentary 6\_\_\_\_\_ create difficulties for sellers in particular.



The latest revision was approved by the Banking Commission of the ICC at its meeting in Paris on 7 \_\_\_\_\_. This latest version, called the UCP600, formally commenced on 1 July 2007. The new rules: UCP 600, supposedly has simpler and clearer wording, to reduce ambiguity and differences in interpretation, 8 \_\_\_\_\_.

As the implementation of the UCP 600 rolls out into the world of commerce, 9 \_\_\_\_\_, and require the intervention of the ICC to clarify the issues concerned. It would be useful to undertake more in-depth research in the future, once a sufficient period of time has lapsed and a body of knowledge has developed through the application and use of the UCP 600 to establish, at least, 10 \_\_\_\_\_.

## Text B



### UCP 600

In May 2003, the International Chamber of Commerce authorized the ICC Commission on Banking Technique and Practice (Banking Commission) to begin a revision of the Uniform Customs and Practice for Documentary Credits, ICC Publication 500. This is the sixth revision of the rules since they were first promulgated in 1933.

ICC, which was established in 1919, had as its primary objective facilitating the flow of international trade at a time when nationalism and protectionism posed serious threats to the world trading system. It was in that spirit that the UCP was first introduced — to alleviate the confusion caused by individual countries' promoting their own national rules on letter of credit practice. The objective, since attained, was to create a set of contractual rules that would establish uniformity in that practice, so that practitioners would not have to cope with a **plethora of** often conflicting national regulations.

As with other revisions, the general objective was to address developments in the

banking, transport and insurance industries. Additionally, there was a need to look at the language and style used in the UCP to remove wording that could lead to inconsistent application and interpretation.

When work on the revision started, a number of global surveys indicated that, because of **discrepancies**, approximately 70% of documents presented under letters of credit were being rejected on first presentation. This obviously had, and continues to have, a negative effect on the letter of credit being seen as a means of payment and, if unchecked, could have serious implications for maintaining or increasing its market share as a recognized means of settlement in international trade. The introduction by banks of a discrepancy fee has highlighted the importance of this issue, especially when the underlying discrepancies have been found to be dubious or unsound. Whilst the number of cases involving litigation has not grown during the lifetime of UCP 500, the introduction of the ICC's Documentary Credit Dispute Resolution Expertise Rules (**DOCDEX**) in October 1997 (subsequently revised in March 2002) has resulted in more than 60 cases being decided.

To address these and other concerns, the Banking Commission established a Drafting Group to revise UCP 500. It was also decided to create a second group, known as the Consulting Group, to review and advice on early drafts submitted by the Drafting Group. The Consulting Group, made up of over 40 individuals from 26 countries, consisted of banking and transport industry experts.

One of the structural changes to the UCP is the introduction of articles covering definitions (Article 2) and interpretations (Article 3). In providing definitions of roles played by banks and the meaning of specific terms and events, UCP 600 avoids the necessity of repetitive text to explain their interpretation and application. Similarly, the article covering interpretations aims to take the ambiguity out of vague or unclear language that appears in letters of credit and to provide a definitive elucidation of other characteristics of the UCP or the credit.

The following articles are extracts from the UCP 600 which are important in international trade.

#### **Article 2 Definitions**

For the purpose of these rules:

- Advising bank means the bank that advises the credit at the request of the issuing bank.
- Applicant means the party on whose request the credit is issued.
- Banking day means a day on which a bank is regularly open at the place at which an act subject to these rules is to be performed.
- Beneficiary means the party in whose favor a credit is issued.

#### **Article 3 Interpretations**

- A credit is irrevocable even if there is no indication to that effect.

**Article 4 Credits vs. Contracts**

A credit by its nature is a separate transaction from the sale or other contract on which it may be based. Banks are in no way concerned with or bound by such contract, even if any reference whatsoever to it is included in the credit. Consequently, the undertaking of a bank to honor, to negotiate or to fulfill any other obligation under the credit is not subject to claims or defenses by the applicant resulting from its relationships with the issuing bank or the beneficiary.

A beneficiary can in no case avail itself of the contractual relationships existing between banks or between the applicant and the issuing bank.

**Article 14 Standard for Examination of Documents**

- c. A presentation including one or more original transport documents subject to Articles 19, 20, 21, 22, 23, 24 or 25 must be made by or on behalf of the beneficiary not later than 21 calendar days after the date of shipment as described in these rules, but in any event not later than the expiry date of the credit.
- d. Data in a document, when read in context with the credit, the document itself and international standard banking practice, need not be identical to, but must not conflict with, data in that document, any other stipulated document or the credit.

**Notes:**

a plethora of: an amount that is greater than is needed.

discrepancies: differences between conflicting facts or claims or opinions.

DOCDEX: ICC Rules for Documentary Instruments Dispute Resolution Expertise.

2 Read Text B and answer the following questions. For questions 1 to 7, choose the best answers from the four choices marked A, B, C and D. For questions 8 to 10, complete the sentences with the information given in Text B.

- 1 In 2003, \_\_\_\_\_ began a revision of the Uniform Customs and Practice for Documentary Credits, ICC Publication 500.
  - A. the International Chamber of Commerce
  - B. ICC Commission
  - C. authorized practitioners
  - D. DOCDEX
- 2 The primary objective of establishing the ICC is to \_\_\_\_\_.
  - A. set trade rules for the international trade
  - B. restrict the national trade

- C. make the international trade easier
  - D. help to explain the trade procedures
- 3 The reason why the L/C has been rejected by banks in many cases is that \_\_\_\_\_.
- A. a lot of countries refuse to adopt UCP 500 when they are trading with other countries
  - B. a lot of banks don't admit the uniform practice rules
  - C. there are some discrepancies between the L/C and the documents
  - D. the L/C is issued under UCP 500 instead of 600
- 4 In order to attract the public's attention to the high rejection rate of the L/C in negotiation, the banks have \_\_\_\_\_.
- A. taken the L/C as the main instrument in international payment
  - B. introduced a new regulation to reduce the discrepancies
  - C. made alliances with the trading countries to reduce the trade barriers
  - D. decided to charge some money for the discrepancies
- 5 If the documents \_\_\_\_\_ they will be refused by banks.
- A. contain some different spellings to the L/C
  - B. are copies of the original certificates
  - C. are insufficient
  - D. All the above.
- 6 \_\_\_\_\_ has been established to begin the work of revising the UCP 500.
- A. ICC
  - B. DOCDEX
  - C. A Drafting Group
  - D. The Consulting Group
- 7 UCP 600 has provided \_\_\_\_\_ explanations to the application of L/C.
- A. definitive
  - B. wordy
  - C. vague
  - D. repetitive
- 8 The revised UCP 600 has addressed improvements in many aspects such as \_\_\_\_\_.
- 9 One of the structural changes to the UCP is \_\_\_\_\_.
- 10 The nature of a credit is a \_\_\_\_\_ transaction from the sale or other contracts on which it may be based. Even if the credit has mentioned the contracts, banks may \_\_\_\_\_.

3 Translate the following passage extracted from UCP 600 into Chinese.

An issuing bank is irrevocably bound by an amendment as of the time it issues the amendment. A confirming bank may extend its confirmation to an amendment and will be

irrevocably bound as of the time it advises the amendment. A confirming bank may, however, choose to advise an amendment without extending its confirmation and, if so, it must inform the issuing bank without delay and inform the beneficiary in its advice.



## Section III Incoterms 2000

### Supplementary Reading



### Incoterms 2000

Incoterms, by which the official ICC (The International Chamber of Commerce) rules for the interpretation of trade terms, facilitate the conduct of international trade. Reference to Incoterms 2000 in a sales contract defines clearly the parties' respective obligations and reduces the risk of legal complications. Since the creation of Incoterms by ICC in 1936, this undisputed world-wide contractual standard has been regularly updated to keep pace with the development of international trade. Incoterms 2000 take account of the recent spread of customs-free zones, the increased use of electronic communications in business transactions, and changes in transport practices. Incoterms 2000 offer a simpler and clearer presentation of the 13 definitions, all of which have been revised.

The purpose of Incoterms is to provide a set of international rules for the interpretation of the most commonly used trade terms in foreign trade. Thus, the uncertainties of different interpretations of such terms in different countries can be avoided or at least reduced to a considerable degree.

Frequently, parties to a contract are unaware of the different trading practices in their respective countries. This can give rise to misunderstandings, disputes and litigation, with all the waste of time and money that this entails. In order to remedy these problems, ICC first published in 1936 a set of international rules for the interpretation of trade terms. These rules were known as Incoterms 1936. Amendments



and additions were later made in 1953, 1967, 1976, 1980, 1990 and presently in 2000 in order to bring the rules in line with current international trade practices.

It should be stressed that the scope of Incoterms is limited to matters relating to the rights and obligations of the parties to the contract of sale with respect to the delivery of goods sold.

As has always been underlined by ICC, Incoterms deal only with the relation between sellers and buyers under the contract of sale, and, moreover, only do so in some very distinct respects.

Second, Incoterms deal with a number of identified obligations imposed on the parties. Further, they deal with the obligations to clear the goods for export and import, the packing of the goods, the buyer's obligation to take delivery as well as the obligation to provide proof that the respective obligations have been duly fulfilled.

Generally, Incoterms do not deal with the consequences of breach of contract and any exemptions from liability owing to various impediments.