**NMIMS Global Access**

**School for Continuing Education (NGA-SCE)**

**Course: International Business**

**Internal Assignment Applicable for September 2020 Examination**

**1. Comment on the following statement: “Since the U.S. imports more than it exports, it is necessary for the U.S. to import capital from foreign countries to balance its current account deficits.”** Its sample only

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**Answer**: For a long time, economists had assumed that factors of production do not move across international boundaries. Classical economists-built models of trade assuming that only goods and services move across international boundaries. International capital movements viewed in that light were an impossibility. Perhaps, for this reason, we do not have a well -developed theory of international

**2. Why is the Documentary Letter of Credit collection method most popular mode of collecting payment by the exporters? How is an irrevocable L/C different from back to back L/C?**

**Answer**: A letter of credit (L/C) is an instrument signed by the importer’s banker that promises to make payment to the exporter if he follows the conditions mentioned in the L/C and if the specification about the quantity and quality of exports matches with those mentioned in the L/C. It is a letter of promise and not a letter of guarantee of the underlying commercial transaction. The issuing bank gets a fee for making the L/C. An L/C serves the interest of both the parties. Exporter is assured that he will get the payment and he will try to hedge against foreign exchange risk, credit risk, political risk, country risk etc. by trading in the derivative market.

**3. Read the passage and answer the questions given below it: The European Union (EU) has finally adopted duties on shoe imports from China and Vietnam in a dispute over alleged dumping of cheap footwear. The announcement came after a vote by trade officials from the 25 EU nations earlier this month highlighted divisions over the planned tariffs. While Italy and Portugal wish to protect their own shoe firms, others like the cheaper Far Eastern imports. But the European Commission voted in favor of the measure on Thursday. In a statement, the EU's executive body said that it had "identified clear evidence of disguised subsidies and unfair state intervention to the leather footwear sector in China and Vietnam". Trade Commissioner Peter Mandelson has proposed duties of 16.8% against Vietnam and 19.4% on China to be phased in over five months, starting at 4% in April. “We do not target China and Vietnam's natural competitive advantages, only unfair distortions of trade”. Mr. Mandelson said that tariffs were necessary to correct the damage that cut- price shoe imports were doing to EU firms. But he added: "It is important that we act against unfair trade while encouraging legitimate and competitive trade from emerging economies. China has urged the EU to reconsider its action, saying the planned measures are unfair. Chinese officials say there is no evidence of dumping and question whether the duties conform with World Trade Organization rules. China exported 1.2bn pairs of shoes to Europe last year, while Vietnam exported 265m pairs. According to the Commission, the tariffs will add £1 to the average import price of the footwear of about £6.**

**a. Analyze the above situation and discuss whether EU should impose anti-dumping duty**

**on China.**

**b. What is the role of WTO (World Trade Organization) in International Trade Dispute Resolution?**

**Answer**: a) As mentioned in the question, EU was imposing anti-dumping duty on China which was opposed and asked to reconsider the decision. China officials mentioned that planned measures are unfair and there is no evidence of dumping and question whether the duties conform with World Trade Organization rules. The price of the goods may be very low as compared to the prices of the domestic market. They may intend to do so in order to sell the excess stock in their country. In order to avoid such dumping, antidumping duty up to the margin of dumping on such articles, if the goods are being sold at less than its normal value. Levying such anti-dumping duty is permissible as per WTO agreement. The EU’s controversial launch of duties on Chinese and Vietnamese-made leather shoes in 2006 marked deep divisions between Europe’s manufacturing South and retail-heavy North. Spanish and Italian shoemakers said they could not compete against cheap Asian shoes while importers and retailers argued high-