PubPol/Econ 541

Classes 23, 24

Dumping and Anti-Dumping Policy

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Dumping and Anti-Dumping

- Dumping is defined as exporting for a price below a “fair price,” defined as

  EITHER
  - What the exporter charges in its home market,

  OR
  - Cost
- Anti-dumping duties (ADD) are permitted by the GATT/WTO if set equal to (or below)
  - The dumping margin, the difference between fair price and the export price

Pause for Discussion

Questions

- Under what circumstances are imports regarded as “dumped”?
- What is the “dumping margin”?

Outline

- Why firms dump
  - Predation? No
  - Protected home market
  - Interface problem
  - Other reasons
- Procedures and data
- Effects of ADD

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Predation

- Defined as selling at low price in order to
  - Drive competitors out of business

  AND THEN
  - Charge monopoly price

Predation

- Does predation happen?
  - Within economies yes. (e.g., Microsoft Explorer)
  - Internationally? Rarely if ever
    - Dumping is usually alleged against multiple firms and sometimes multiple countries
    - Later monopoly pricing is therefore very unlikely

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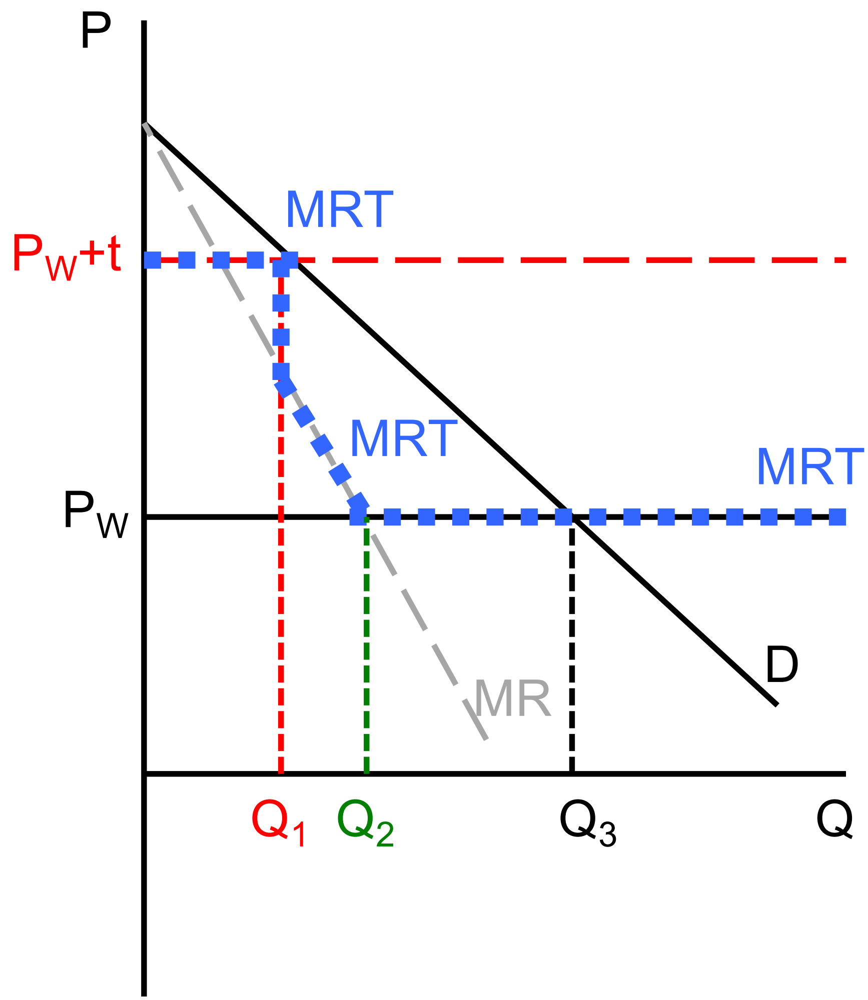
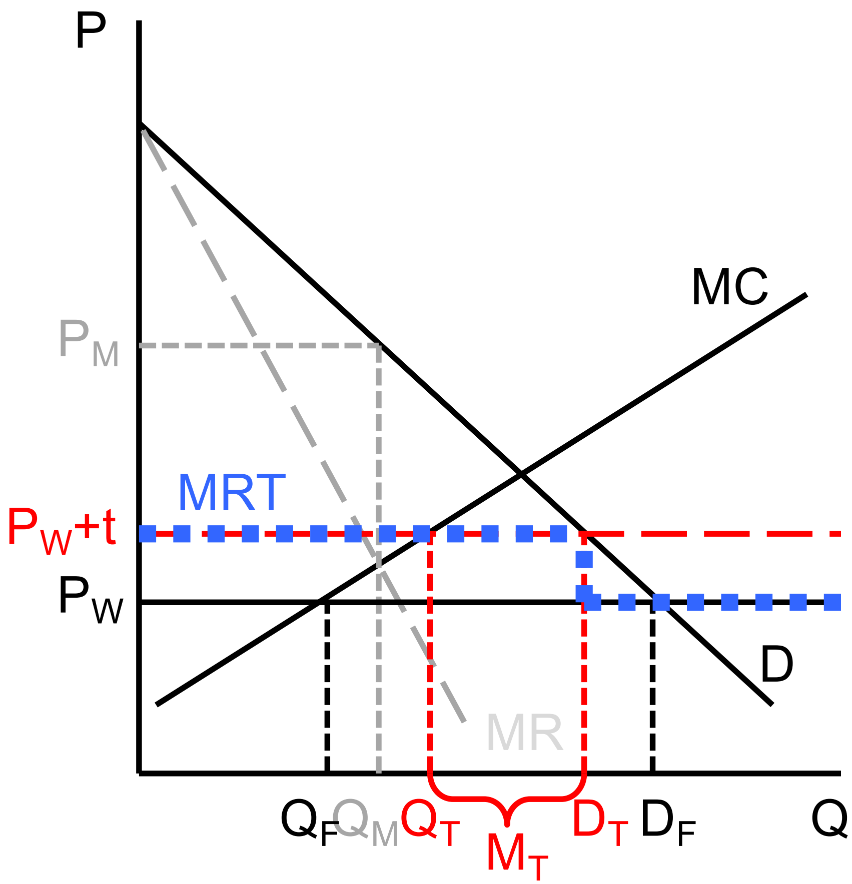
Marginal Revenue of a Monopoly protected by a Tariff



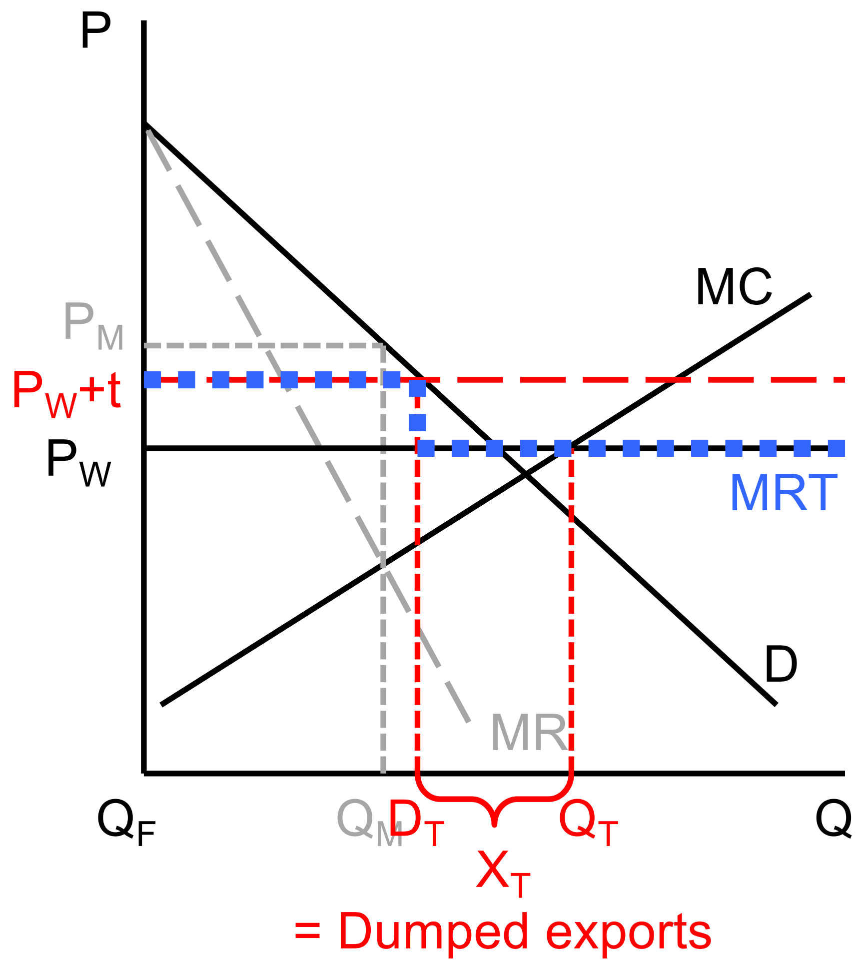
- The usual MR curve for a monopolist in a closed economy is is mostly not relevant for a firm facing a world price P_W at which it can export and an upper limit P_W+t on what it can charge in the home market.
- MRT (marginal revenue in presence of a tariff) is
  - P_W+t for sales up to Q_1
  - MR for sales between Q_1 and Q_2 (sales along demand curve)
  - P_W for sales above Q_2 (exports above Q_3)

Recall Monopoly with Tariff



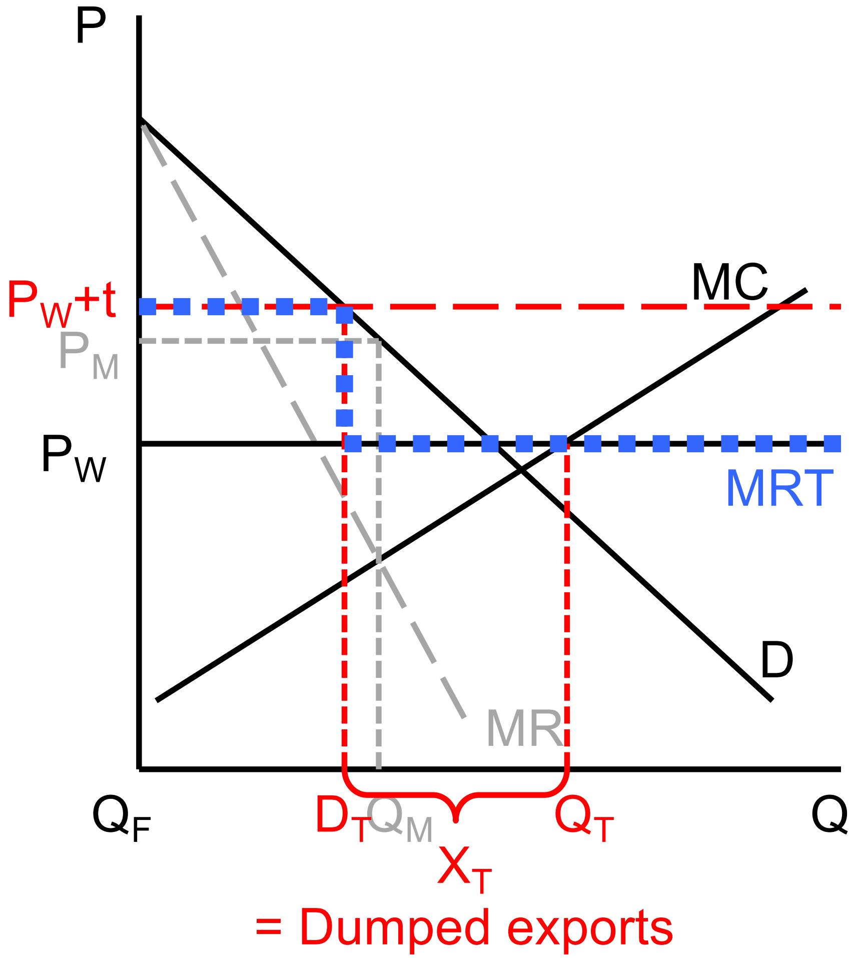
- Here the world price is low enough that the monopolist does not export.
- It can sell up to D_T at price P_W+t, so that is its marginal revenue. Equating that to MC, it produces only Q_T and demanders import the rest.

Monopoly with Small Tariff



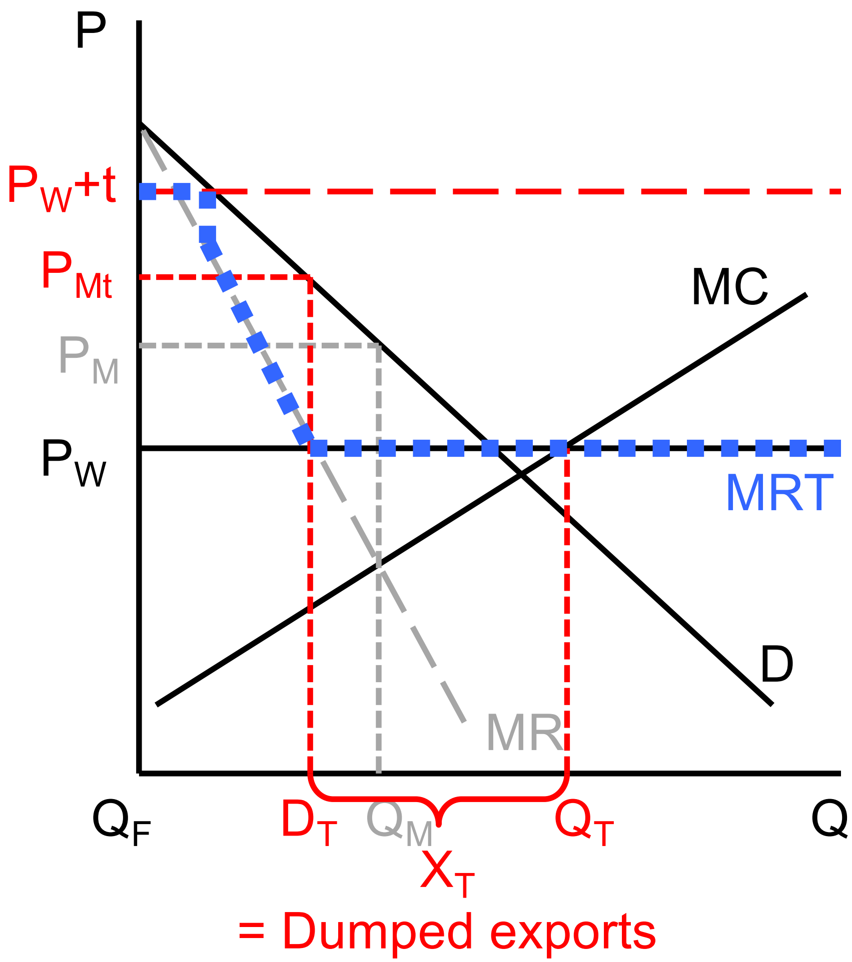
- But suppose P_W is higher
- Again the firm can sell up to D_T at price P_W+t,
- But now it can also sell more at price P_W which is above its MC. Its marginal revenue from exporting is P_W, so it produces Q_T where P_W=MC
- It is charging P_W+t at home and P_W abroad, so it is dumping.

Monopoly with Medium Tariff



- With a somewhat higher tariff, the firm charges an even higher price at home, sells less there but exports more.
- Again it is charging P_W+t at home and P_W abroad, so it is dumping.
- Note that it is now selling domestically for <u>more</u> than the closed-economy monopoly price.

Monopoly with High Tariff



- With an even higher tariff, the firm would lose profit if it charged P_W+t at home.
- Instead it charges P_{Mt} equating marginal revenue to marginal cost.
- But the relevant marginal cost for sales at home is not MC, but rather P_W, since that is the opportunity cost of selling at home instead of exporting.
- Again it is charging P_{Mt} at home and P_W abroad, so it is dumping.

Pause for Discussion

Questions

- Why will a tariff not cause dumping (by price definition) if markets are perfectly competitive?
- If dumping is due to a protected home market, to what extent is it harmful to the
  - Importing country?
  - Exporting country?

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The Interface Problem

- Countries with different cultures and institutions may encounter frictions at the border as a result.
- Example from the Jackson text:
    - Japan: Worker tenure; debt financing
    - US: No worker tenure; equity financing
  - Leads to differences in fixed costs (F) and variable costs (V), even when total costs are same

The Interface Problem

Costs		Japan		US	
		F	V	F	V
	Plant	20		20	
	Debt service	90		50	
	Dividends		10		50
	Labor	240			240
	Materials		240		240
Total cost		600		600	
	Fixed	350		70	
	Variable		250		530

At prices 250<P<530: Japan produces; US shuts down
To US, looks like P<MC

The Interface Problem

- Japan-US
  - Differences in normal behavior lead naturally to conflict and misunderstanding
- China-Other
  - China's political system differs from the democracies of other major traders
    - Much greater use of state-owned firms
    - Communist Party plays a role in even private firms
  - Others see subsidies where China sees national interest

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Other Reasons for Dumping

- Below-average-cost dumping
  - Temporary weak demand (recession)
  - World excess supply
- Below-marginal-cost dumping
  - Producer learning
  - Consumer learning
- Other thoughts?

Pause for Discussion

Questions

- Why might an exporter dump, based on the below-cost definition? Who is harmed in these cases (answer may depend on which of several reasons apply)?
- How common is "predatory dumping", and why?

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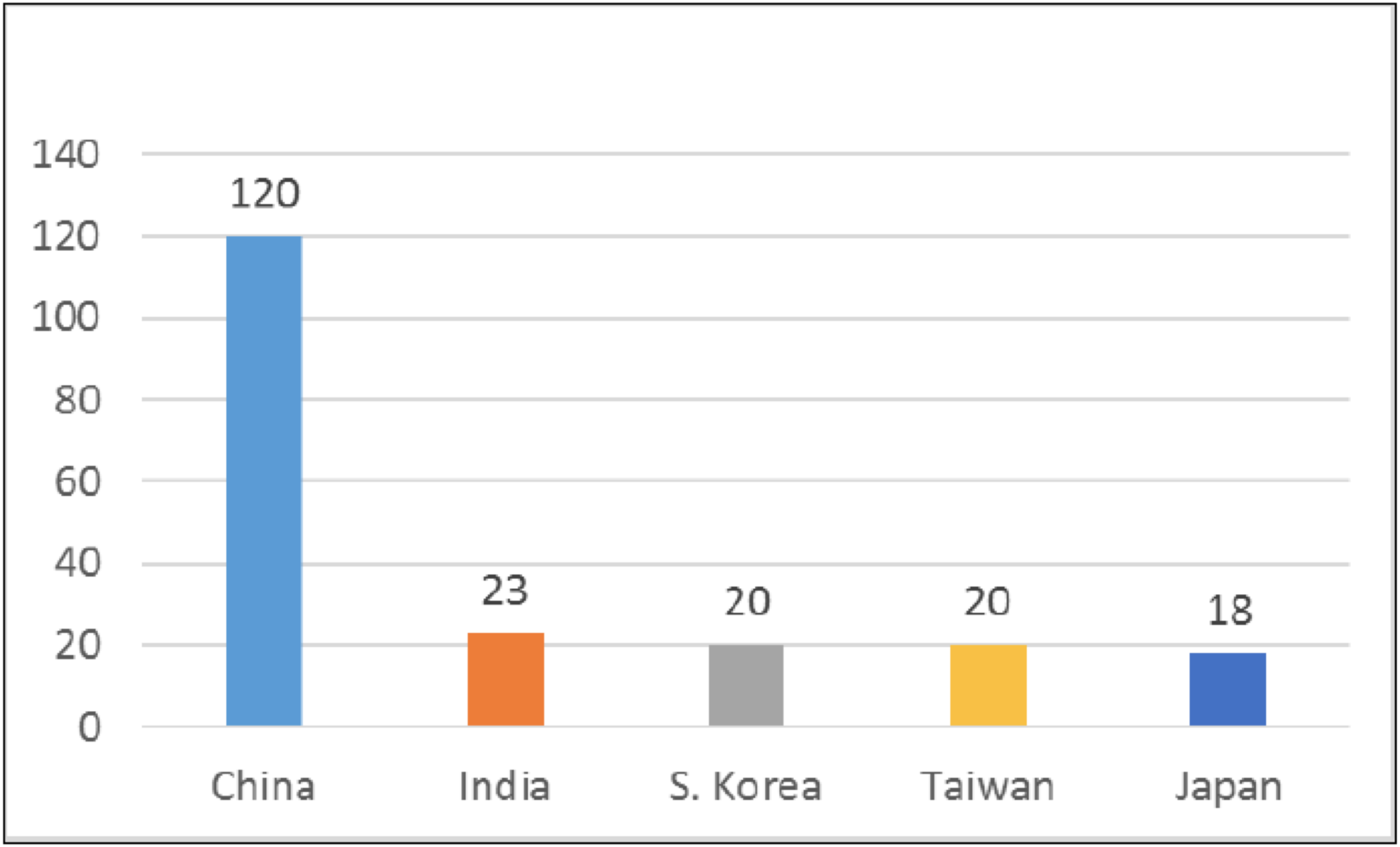
US Procedures for ADD

1. File in both Commerce (ITA) and USITC
2. < 45 days: Preliminary injury
3. < 160 days: Preliminary dumping margin
   (if yes, action at the border)
4. < 235 days: Final injury and final margin

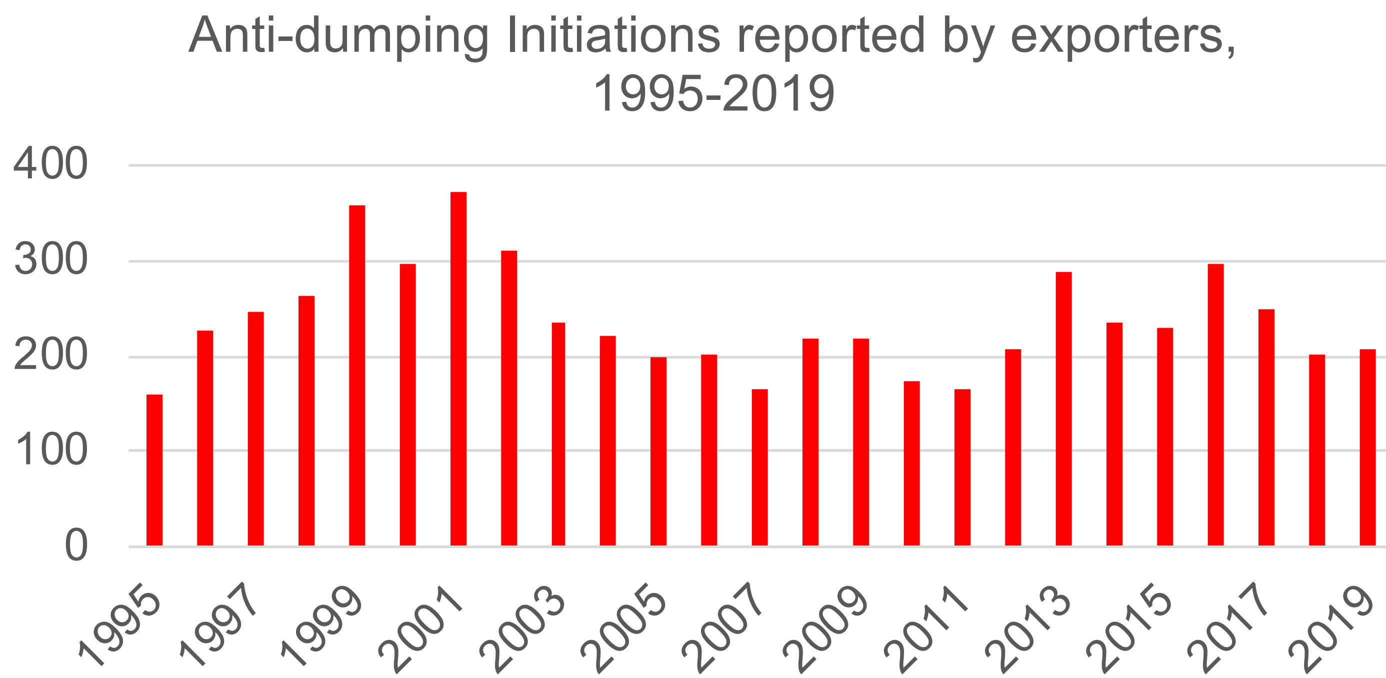
Throughout: Settlement possible!

Figure 1. Major Targets of U.S. AD Orders

(In place as of December 14, 2018)



Source: U.S. International Trade Commission.


Anti-dumping Initiations reported by exporters, 1995-2019
400
300
200
100
0
1995
1997
1999
2001
2003
2005
2007
2009
2011
2013
2015
2017
2019

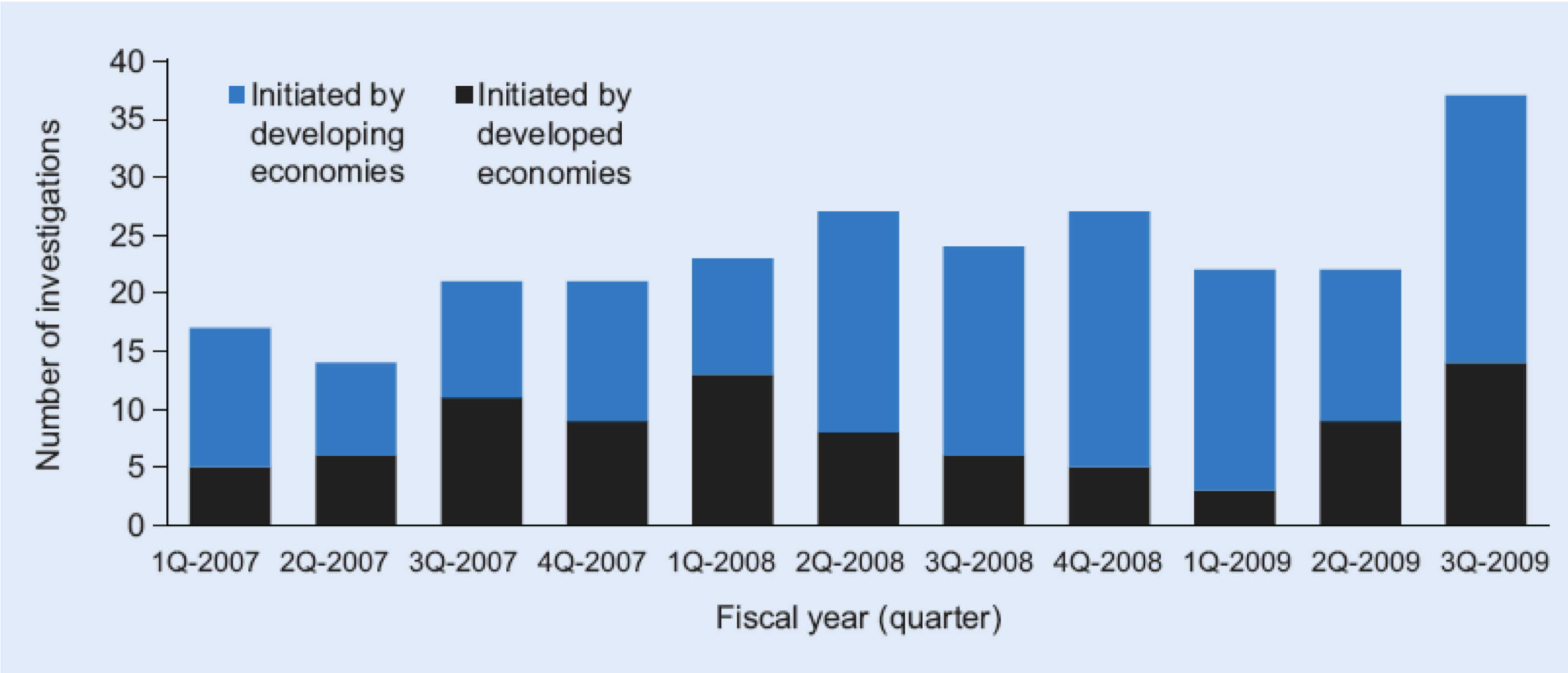
Source: WTO

Top targets of anti-dumping investigations, 1995-2019

	Exporter	
1	China	1392
2	Korea, Republic of	447
3	Chinese Taipei	315
4	United States	298
5	India	241
6	Thailand	238
7	Japan	230
8	Indonesia	218
9	Russian Federation	173
10	Malaysia	165
11	Brazil	159
12	European Union	133
13	Germany	119
14	Turkey	103
15	Ukraine	94

Source: WTO

- **Newly Initiated Antidumping Investigations, 1Q 2007–3Q 2009**



- *Source: Global Antidumping Database.*

Anti-Dumping Issues

- Cumulation
- Margins analysis

Pause for Discussion

Questions on Jackson

- Does "cumulation" make it more or less likely that a country whose exports are dumped will face an anti-dumping duty?
- Does "margins analysis" make it more or less likely that a country whose exports are dumped will face an anti-dumping duty?

Anti-Dumping Issues

- Cumulation
- Margins analysis
- Lesser-Duty Rule

Pause for Discussion

Questions on Jackson

- What is the level of the injury test in dumping cases?
- If dumping and injury are both found, what determines the size of the anti-dumping duty? Must it then be applied? Are the rules any different in the EU than in the US?

Questions on Jackson (cont.)

- What is the “lesser-duty rule”? In what countries is it applied, and in what countries is it not applied?
- Suppose an anti-dumping duty will cause harm to some in an economy that is greater than the benefit to the protected industry.
  - Can authorities therefore choose not levy the duty?
  - For those who can decline to levy the duty, what must be true in order for them to do so?

Questions on EC, DG-Trade

- Who decides on anti-dumping in the EU?
- Do the criteria for anti-dumping measures differ from those of the US?
- What forms do EU anti-dumping measures take, and for how long?
- What is the size of an anti-dumping duty in the EU?

Questions on Jacob, "Lesser Duty Rule…"

- What does Jakob view as "fair competition"?
- What is the "lesser-duty rule"?
  - In what countries is it applied, and in what countries is it not applied?
  - In those that apply it, how often has the smaller injury margin been used?
- In what countries can an anti-dumping duty be denied based on other interests of the country?
  - What is the "proportionality test" for this?

Anti-Dumping Issues

- Cumulation
- Margins analysis
- Lesser-Duty Rule
- Non-Market Economy

Table 1.Sample of U.S. AD Rates Imposed on Chinese and ME Products

ME = Market Economy

Product and year	China-Wide Rate	China Separate Rates	ME Rates
Corrosion-resistant steel, 2016	210	None	3-92
Certain cold-rolled steel, 2016	266	None	71
Certain polyethylene terephthalate resin, 2016	126	105-118	8-19
Certain uncoated paper, 2016	149	84	2-222
Melamine, 2015	363	None	173
Non-oriented electrical steel, 2014	408	None	7-205
Certain crystalline silicon photovoltaic products, 2014	165	27-78	12-28
Certain coated paper, 2010	136	8	20
Magnesia carbon bricks, 2010	236	128	58
Narrow woven ribbons, 2010	248	124	4

Source: U.S. Department of Commerce press releases.

Nonmarket Economy

- US criteria for market economy status (see Morrison)
  1. the extent to which the currency of the foreign country is convertible into the currency of other countries;
  2. the extent to which wage rates in the foreign country are determined by free bargaining between labor and management;
  3. the extent to which joint ventures or other investments by firms of other foreign countries are permitted in the foreign country;
  4. the extent of government ownership or control of the means of production;
  5. the extent of government control over the allocation of resources and over the price and output decisions of enterprises; and
  6. such other factors as the administering authority considers appropriate.

Pause for Discussion

Questions on Morrison, "China's Status as Nonmarket Economy"

- What does non-market economy (NME) status allow another country to do?
- Why did China insist it should be given market-economy status (MES)? Did others agree?
- Has the US ever granted MES to a country that was previously a NME?
- How is NME status relevant for the USMCA?

Questions on Miles, "China pulls WTO suit…"

- Why did China claim it was entitled to market economy status?
- Why does not having market economy status hurt China?
- Why did China drop the case?

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Effects of ADD

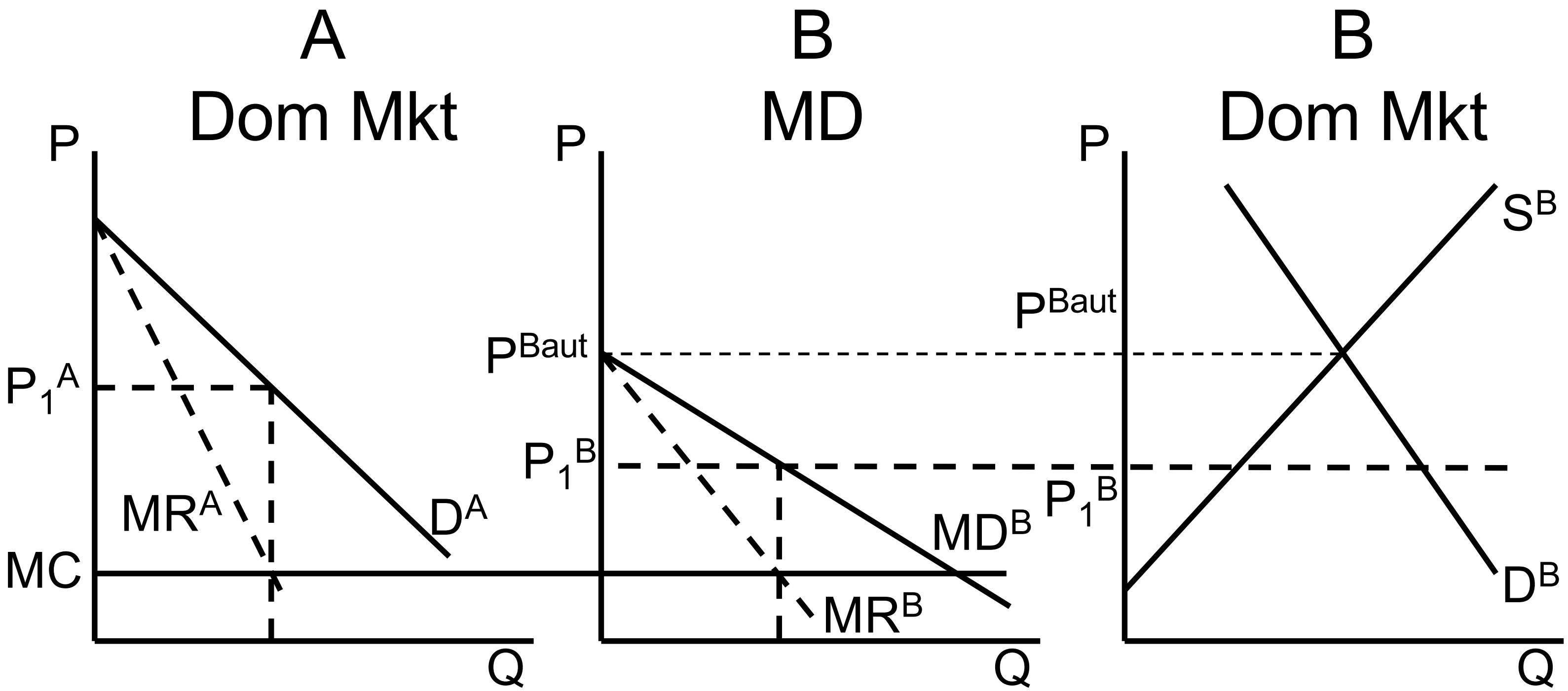
- Effects of an Anti-Dumping duty depend on how the dumping firm responds
  1. It may <u>keep</u> its exporting <u>price unchanged</u>
  2. It may <u>readjust its prices</u> in the presence of the duty
  3. It may <u>not dump</u> (perhaps to forestall the ADD): change its pricing policy to charge the same price in both markets

     Note that this may happen even without dumping ever being alleged

Effects of ADD

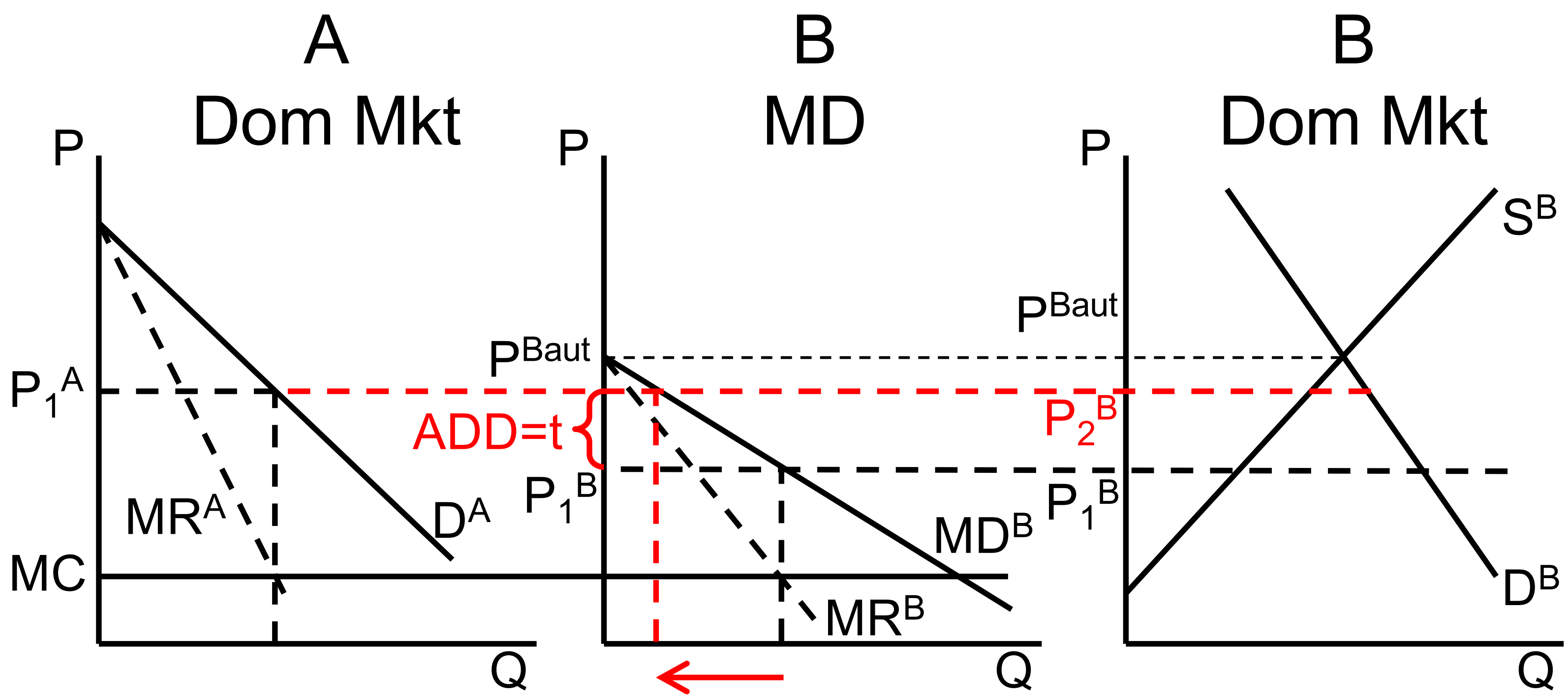
- Model
  - Single firm at home
  - Faces downward sloping demand from abroad
  - Protected by prohibitive tariff, so that it <u>can</u> charge a lower price for export than at home
  - Uses monopoly pricing (MC=MR) in both markets separately

Dumping Equilibrium



- Consider an equilibrium with a single firm at home (A) that can also export to a foreign market, B, whose home supply and demand lead to the import demand curve MD^B shown
- Assume Country A's domestic market is protected by a prohibitive tariff
- As drawn, $P_1^A > P_1^B$ so the firm is dumping

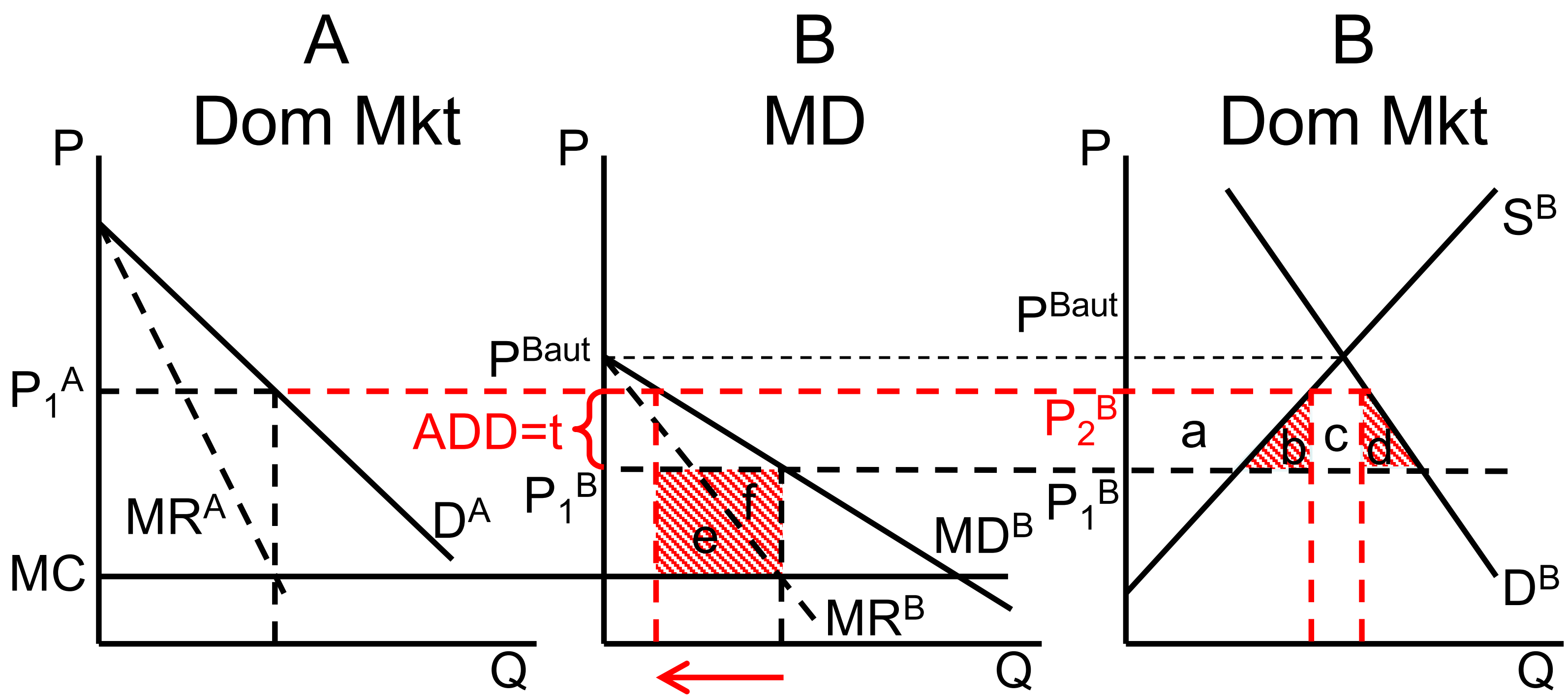
1. ADD Effects with unchanged export price



- With P_1^B fixed, ADD raises price to demanders like any other tariff, and imports fall

- Note welfare effects

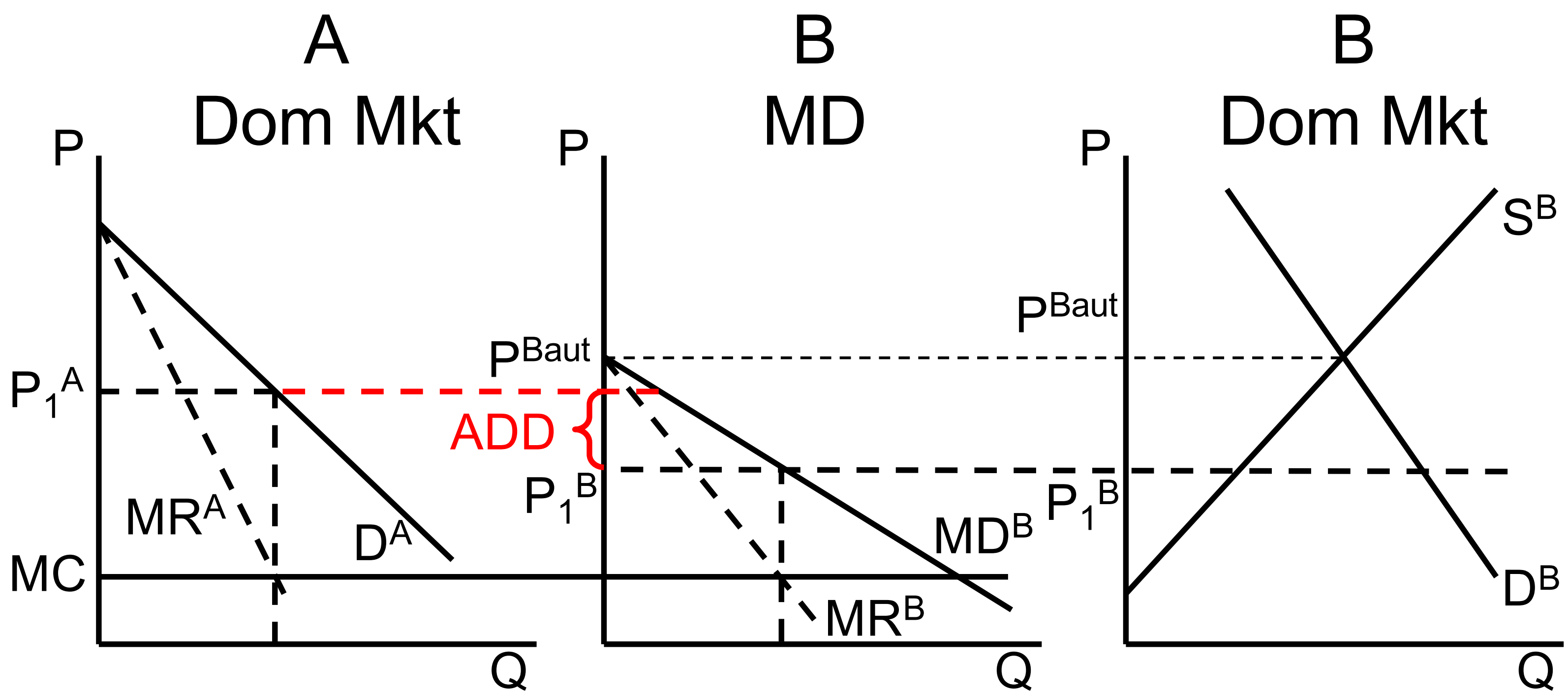
1. ADD Effects with unchanged export price



Welfare Effects of ADD in Dumping Country, A's firm:	
Lost profit	−(e+f)
Cty B	−(e+f)

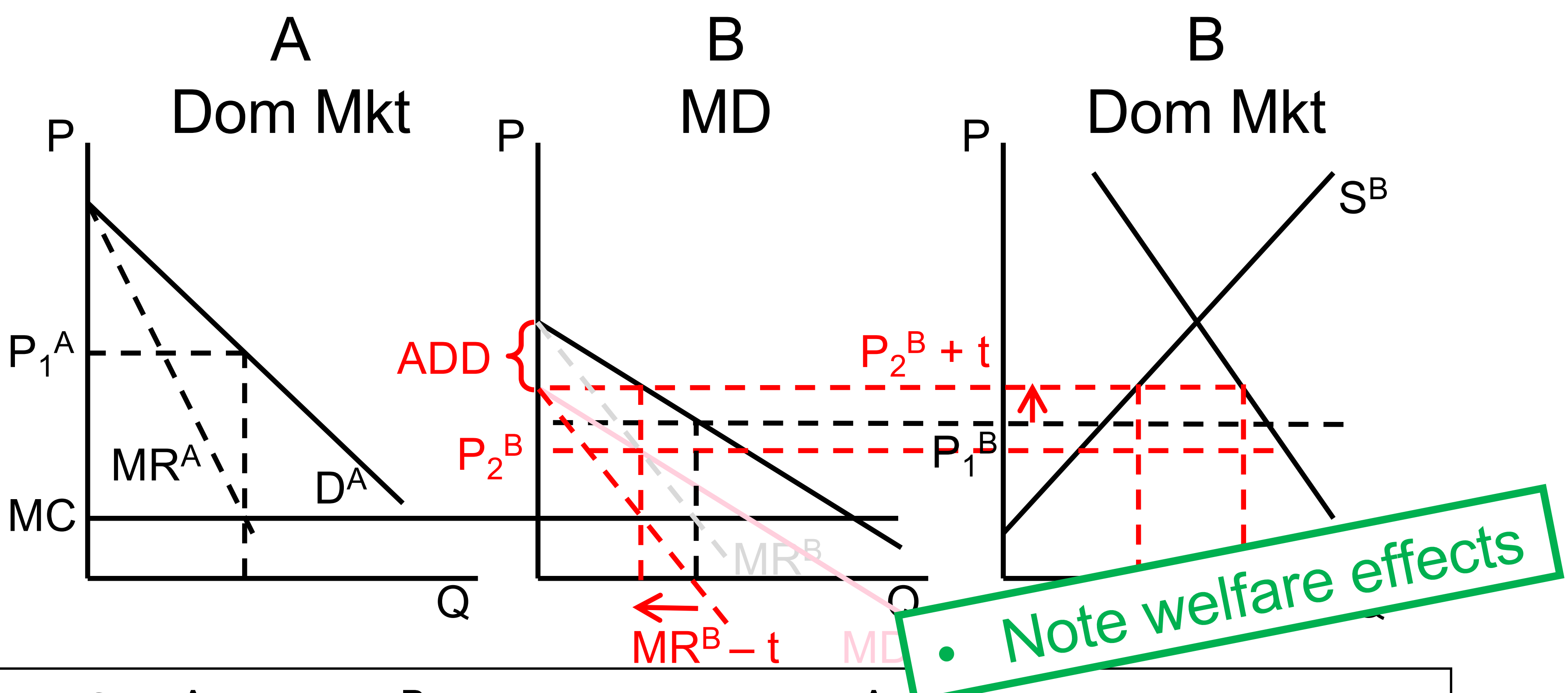
Welfare Effects of ADD in Importing Country, B:	
Suppliers gain	+a
Demanders lose	−(a+b+c+d)
A's gov't	+c
Cty A	−(b+d)

2. ADD Effects with <u>changed</u> export price



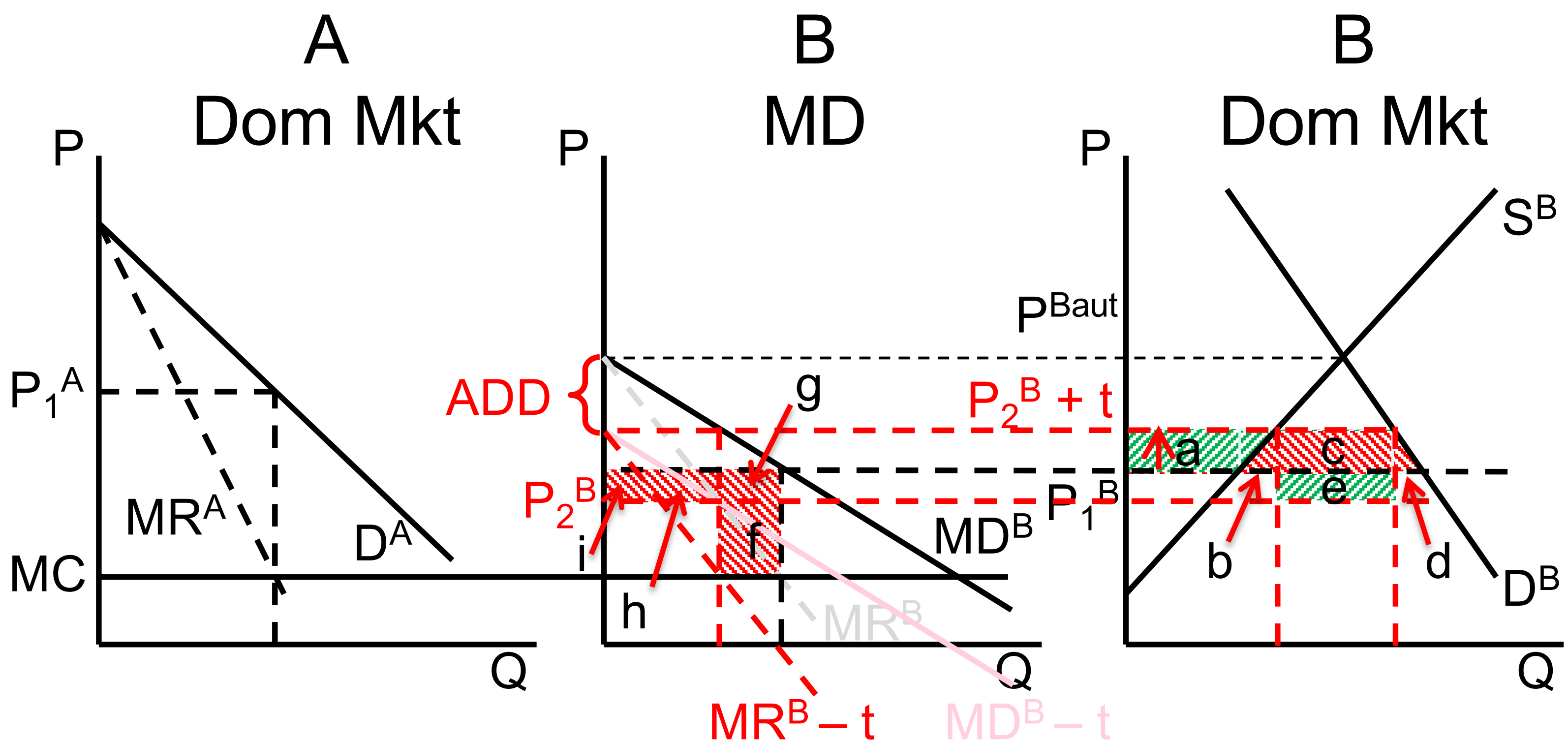
- If P_1^A and P_1^B can readjust, P_1^A will not change

2. ADD Effects with changed export price



- If P_1^A and P_1^B can readjust, P_1^A will not change
- ADD, set equal to $P_1^A - P_1^B$, acts as downward shift in demand (and MR) for the exporting firm
- Effect is to lower export price but by less than tariff

2. ADD Effects with changed export price



Welfare Effects of ADD in Dumping Country, A's firm:

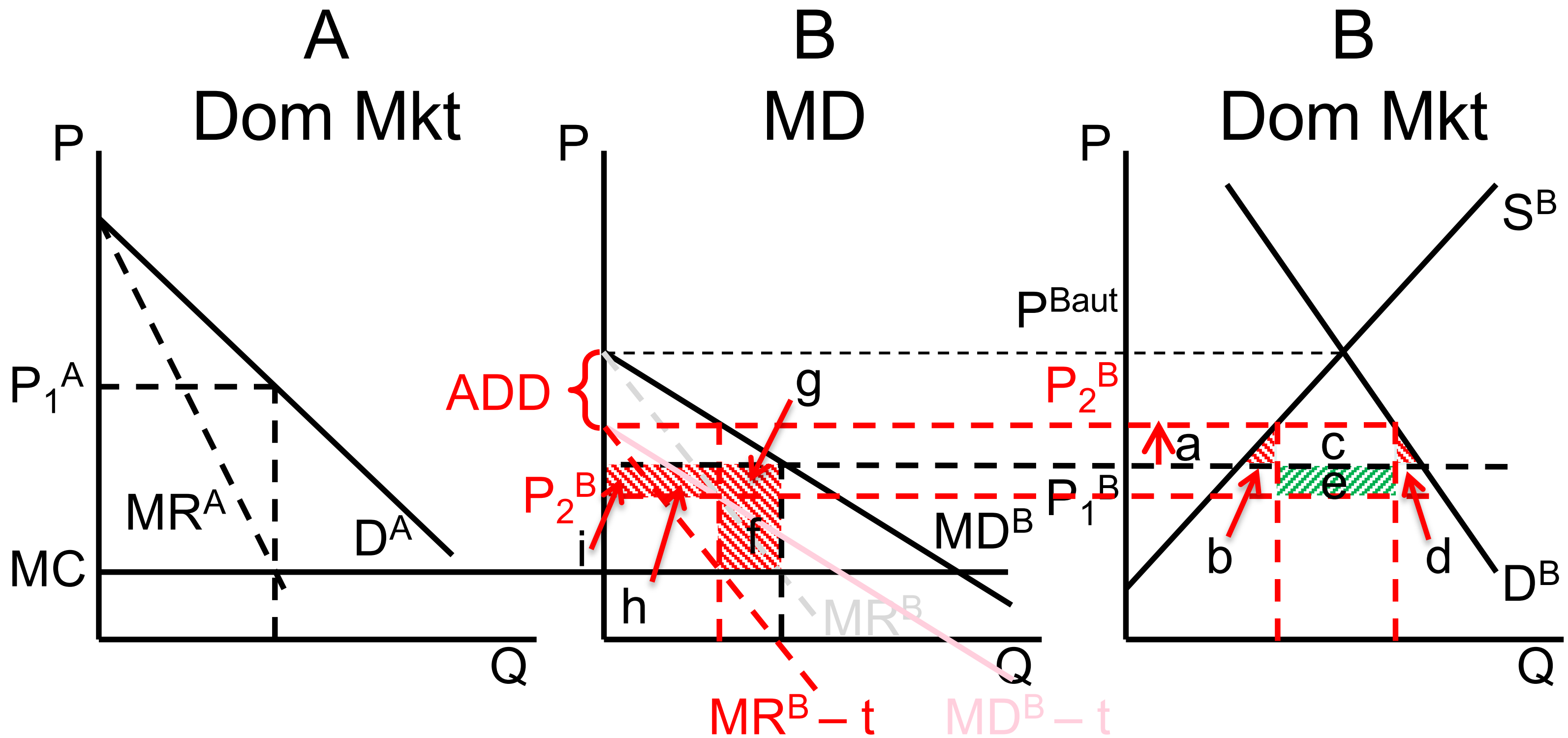
Lost profit on lost sales	−(f+g)
Lost profit on kept sales	−(h+i)
Cty B (firm)	−(f+g+h+i)

Welfare Effects of ADD in Importing Country, B:

Suppliers gain	+a
Demanders lose	−(a+b+c+d)
A's gov't	+(c+e)
Cty A	e−(b+d)

Net gain if e > (b+d)

2. ADD Effects with changed export price



Welfare Effects of ADD for world:
Note that (h+i) = e

So world loses (f+g) + (b+d)

Welfare Effects of ADD in Dumping Country, A's firm:

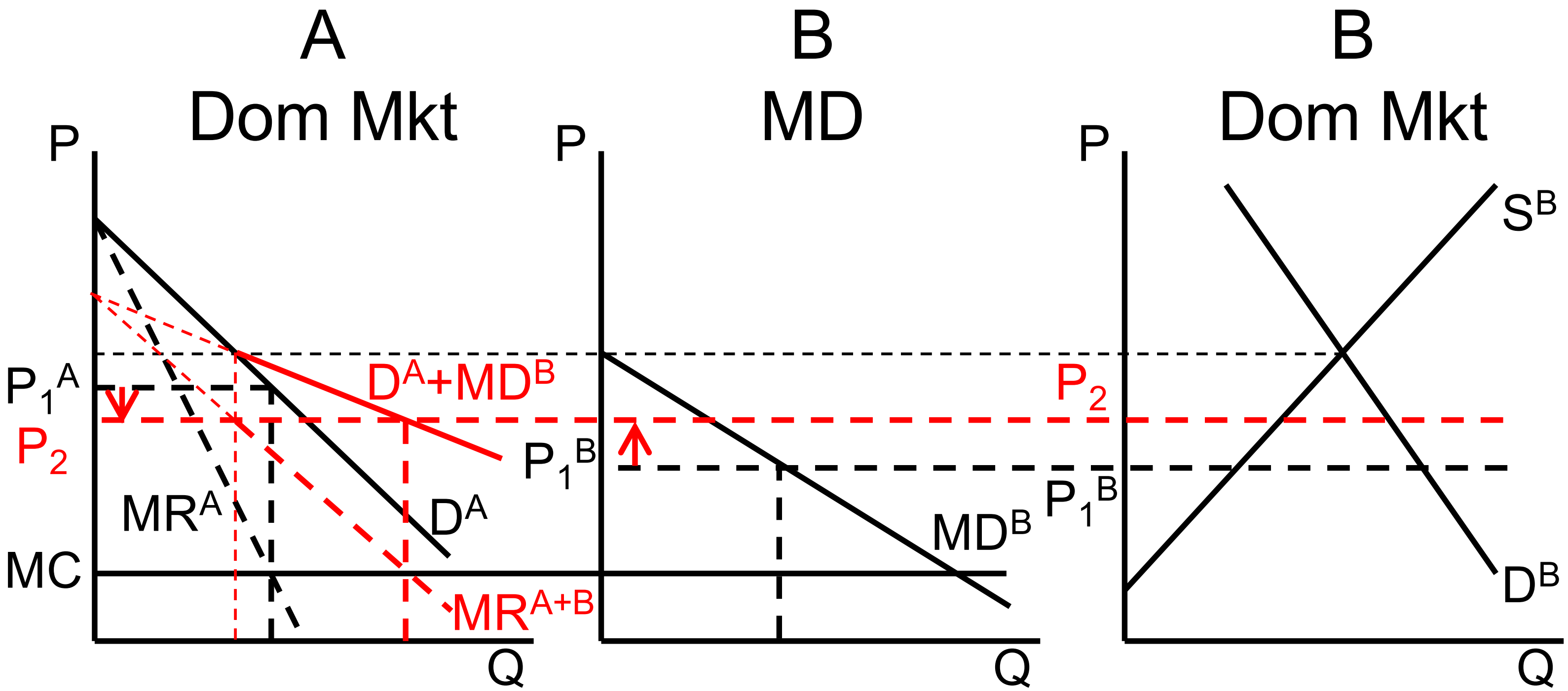
Lost profit on lost sales	−(f+g)
Lost profit on kept sales	<u>−(h+i)</u>
Cty B (firm)	−(f+g+h+i)

Welfare Effects of ADD in Importing Country, B:

Suppliers gain	+a
Demanders lose	−(a+b+c+d)
A's gov't	<u>+(c+e)</u>
Cty A	e−(b+d)

Net <u>gain</u> if e > (b+d)

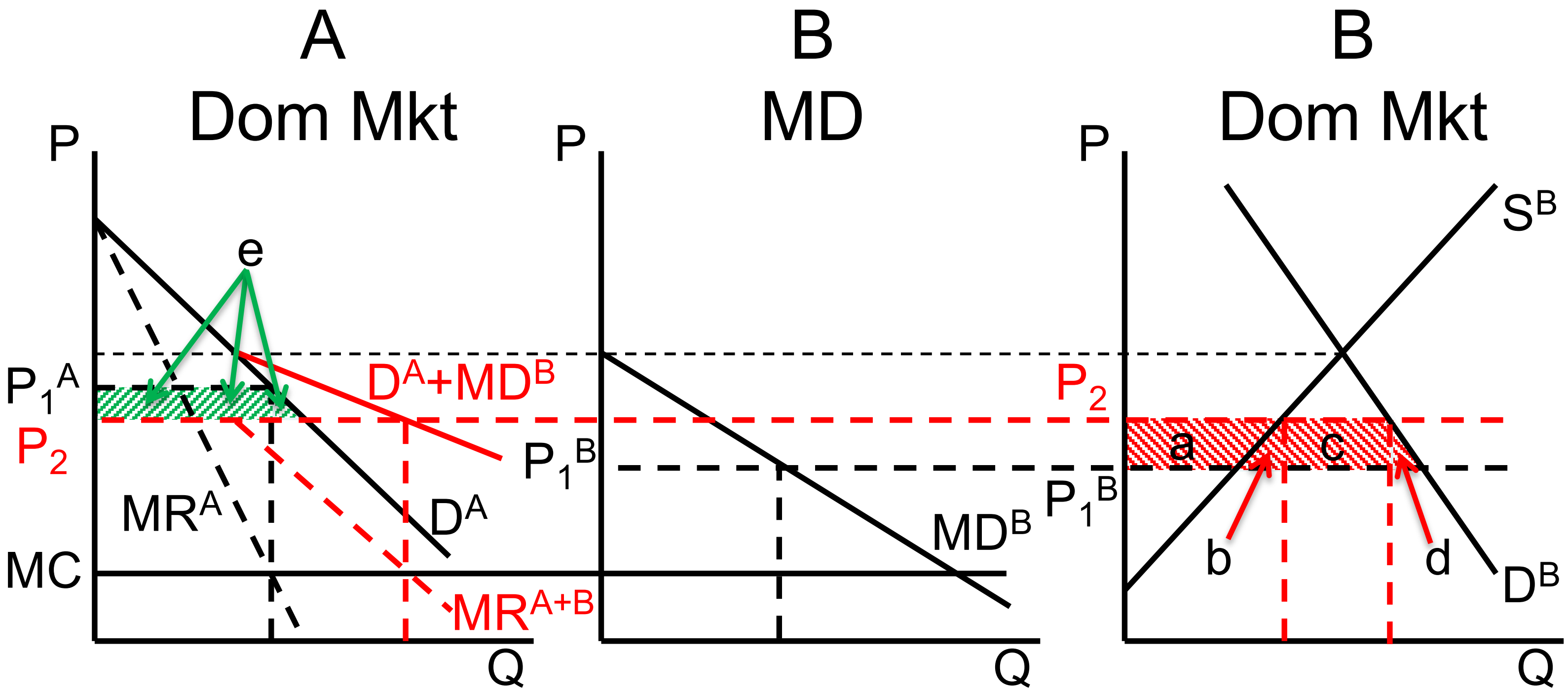
3. Not-Dumping Equilibrium



- Now firm combines the two markets, now facing single demand curve D^A+MD^B
- Corresponding MR curve, MR^{A+B},
- Determines price P_2 charged in both markets
- Result: Price falls at home and rises abroad

- Note welfare effects

3. Not-Dumping Equilibrium



Welfare Effects of No-Dumping in Exporting Country, A:	
Demanders gain	e
Firm loses	?
Cty A	?

Welfare Effects of No-Dumping in Importing Country, B:	
Suppliers gain	+a
Demanders lose	–(a+b+c+d)
Cty A	–(b+c+d)

Pause for Discussion

Questions

- Of the three cases considered here, which seems most likely to you?