Dumping and Anti-Dumping Policy
by
Alan V. Deardorff
University of Michigan
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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
Outline

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• Effects of ADD

Class 23,24: Dumping and Anti-Dumping Policy
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

Class 23,24: Dumping and Anti-Dumping Policy
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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 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 more than the closed-economy monopoly price.

Class 23,24: Dumping and Anti-Dumping Policy
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

## Class 23,24: Dumping and Anti-Dumping Policy

<table>
<thead>
<tr>
<th>Costs</th>
<th>Japan</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>V</td>
</tr>
<tr>
<td>Plant</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Debt service</td>
<td>90</td>
<td>50</td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Labor</td>
<td>240</td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td>240</td>
<td></td>
</tr>
<tr>
<td>Total cost</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td>Fixed</td>
<td>350</td>
<td></td>
</tr>
<tr>
<td>Variable</td>
<td>250</td>
<td></td>
</tr>
</tbody>
</table>

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
Outline

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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?
Outline

• Why firms dump
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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)

Anti-dumping Initiations reported by exporters, 1995-2019

Source: WTO
## Top targets of anti-dumping investigations, 1995-2019

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

Source: WTO
• **Newly Initiated Antidumping Investigations, 1Q 2007–3Q 2009**

![Bar chart showing the number of investigations initiated by developing and developed economies from 1Q 2007 to 3Q 2009. The chart indicates a significant increase in investigations, particularly in 3Q 2009.](chart.png)

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

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?
Outline

• Why firms dump
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• Procedures and data
• Effects of ADD
Effects of ADD

• Effects of an Anti-Dumping duty depend on how the dumping firm responds
  1. It may **keep** its exporting **price** unchanged
  2. It may **readjust** its **prices** in the presence of the duty
  3. It may **not dump** (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 can charge a lower price for export than at home
  – Uses monopoly pricing (MC=MR) in both markets separately
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 **changed** 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.

• Note welfare effects.
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  \(+e-(b+d)\)
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: \(-(h+i)\)
- 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 \(e > (b+d)\)
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

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Note: The diagram illustrates the relationship between the demand curves and marginal revenue in two markets, showing how the firm's pricing decisions are affected when it combines the markets.
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?