Pushing Exports

Based on Chapter 10 of Pugel and Lindert

By

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Introduction and Objectives

- Nontariff barriers (NTBs) include quotas, voluntary export restraints, export subsidies, and other regulations and restrictions of international trade.
  - Economists have become increasingly concerned.
    - NTBs have not been reduced as much as tariffs.
    - WTO does not discipline many NTBs as effectively as it does tariffs.
      - New protectionism: tendency to circumvent WTO rules by using loopholes in agreements and imposing types of barriers over which negotiations have failed.
- We have covered quotas and VER in earlier chapter that relate to imports, here we consider the NTBs related to imports.
- Debate over **"Unfair Trade"** and "**Industrial Targeting**".
- Story: US and Europe in the past two decades charged that Japan, Korea and Brazil are engaged in "unfair trade" violating competitive set-up and rules of WTO. US and Europe like to have Industrial Targeting, means having the govt. and insudtri agree in advance on just which industrial lines need the most encouragement and subsidy, grooming them future expowrt specialties.

Topics

- Dumping
  - predatory dumping
  - cyclical dumping
  - seasonal dumping
  - persistent dumping
- Anti-dumping duty
- Export subsidies
- Countervailing duty
- Actual experience in six industries
- Did Japanese government use industrial targeting to promote Japan's export industries of the future?

Dumping

- Generally speaking, selling exports at a price that is too low--less than "normal" value.
- <u>“Price-based” definition</u>
  - Dumping occurs whenever a firm sells a good in a foreign market at a price below that for which the same good would sell in the domestic market.
- <u>“Cost-based” definition</u>
  - Sale of a good in a foreign market at a price below its production cost constitutes dumping.
- Next we define various types of dumping

1) Predatory dumping

- Predatory Dumping
  - Selling in the foreign market at prices below production cost to drive domestic firms from the industry.
    - After eliminating competitors, the firm can then exploit the newly created monopoly power by raising prices.

Several difficulties with this strategy:

- Dumping firm would suffer economic losses while dumping.
- Domestic firms would know this dumping would only be temporary and could borrow funds to weather the attack.
- Once prices were raised, nothing would prevent domestic firms from re-entering the industry and benefiting from the new price levels.
- Dumping firm would be subject to filing of dumping charges by competitors.

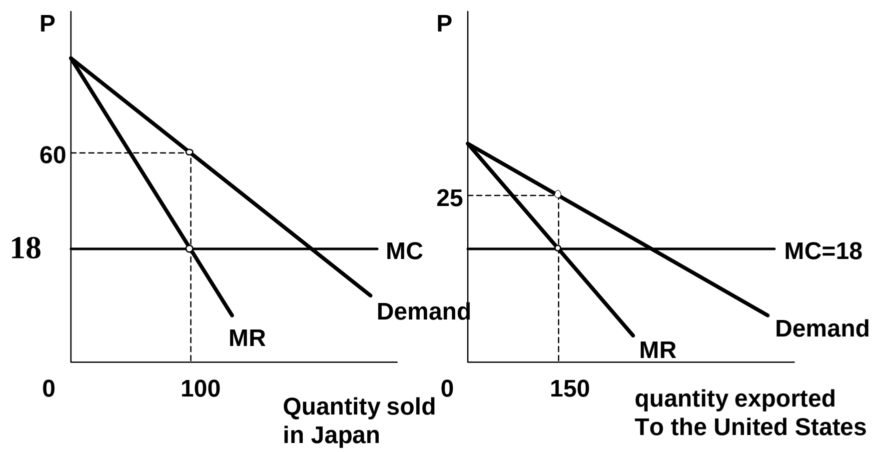
2&3) Cyclical and Seasonal dumping

- Cyclical dumping: It occurs occurs during periods of recession.
  - During business cycle when demand is low, a firm makes exports sales that are lower than average costs. If these low prices gain export sales, then the firm can use more of its productive capacity and provide work for its labor.
- Seasonal dumping: It is intended to sell off excess inventories of a product without lowering the price in the domestic (home) market.
  - For instance, towards the end of a fashion season, a US swim suit company may sell off remaining stock of swim suits in Canada at a low price.

4) Persistent Dumping (price discrimination)

- Continued sale of a good in a foreign market at a price below either the domestic price or production cost, a practice that provides the basis for many calls for protection.
- Major cause of persistent dumping is international price discrimination (according to price-based definition).
  - Any firm able to separate its customers into two or more groups with different elasticities of demand for its product and to prevent resale of the good among them can increase profit by charging the groups different prices.

International Price Discrimination under persistent dumping



Home Market in Japan

The US market for Japanese Export

Policy responses to dumping

- Why not be happy with it? Getting imports cheap!!
- It should be ok for both seasonal and persistent dumping
- Its also ok for cyclical dumping. If it is used, however, aggressively, it can export unemployment. The importing country should be concerned about it.
- Predatory dumping is potentially the most troubling to the importing country.
  - If the exporter succeeds, it will raise prices in the future, and the importing country can be harmed. But predatory dumping probably rare.
- Actual importing-country government policies toward dumping generally do not make these economically sensible distinctions. (See next slide for US policy actions)

Policy responses to dumping (contd)

- Normal course: U.S. firm charges its foreign counterpart with dumping – Commerce Department and International Trade Commission conduct investigation.
  - They must determine if dumping is really occurring; and
  - Whether it materially injures the domestic industry.
- If answers to both questions are “Yes,” then the government imposes an *Antidumping Duty*, a tariff equal to the dumping margin.
- Antidumping policy has become a way for import-competing producers to gain new protection against imports.

Pitfalls in US Anti-dumping policy

1. The procedure is biased toward finding dumping.
2. The injury test considers only import-competing producers. There is no consideration of whether predation or some other source of harm to the country involved.
3. Overall, the process is biased toward imposing antidumping duties, even though this probably usually lowers the well-being of the importing country. Antidumping duties also generally lower world welfare.

Antidumping cases reported to WTO

FIGURE 10.2

Top 10 Initiators of Antidumping Cases

Importing Country	*Average Annual Number of Cases Initiatied, 1991–1995*	*Average Antidumping Duty Imposed 1991–1995*	*Antidumping Orders in Effect End of 1995*	*Average Age (Years) of Orders in Effect End of 1995*
United States	49	57%	294	7
Australia	43	26	75	3
European Union	32	29	133	4
Mexico	23	104	81	2
Argentina	23	na	20	1
South Africa	20[a]	na	15	3
Canada	16	36	98	6
Brazil	14	34	23	3
Turkey	11	19	37	3
New Zealand	8	32	25	4

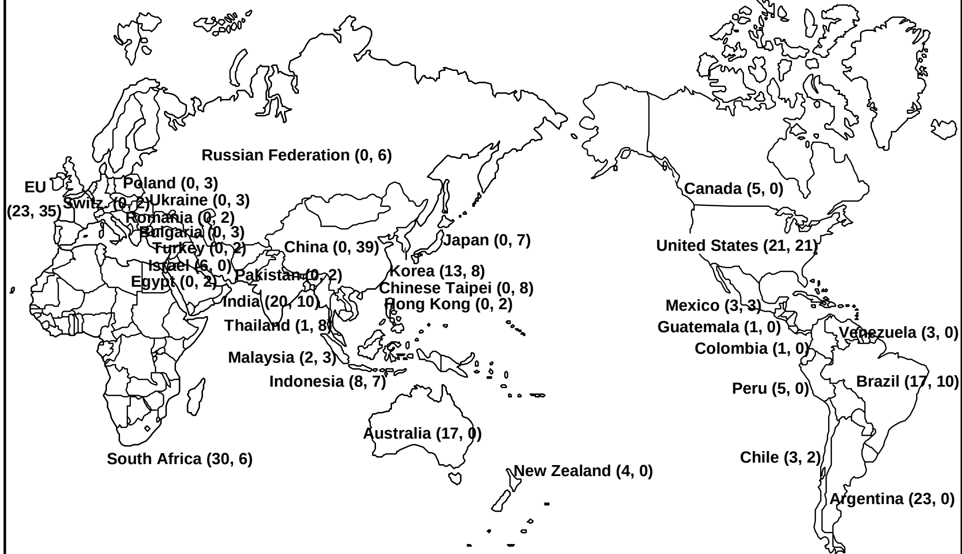
Note: na = not available.

[a]For 1994–1995 only.

Source: Congressional Budget Office, "Antidumping Action in the United States and Around the World: An Analysis of International Data," *CBO Papers*, June 1998, Tables B-1, B-2, B-5, and B-7.

Antidumping Cases Reported to the WTO in 1996

(n,m) = (number of of cases as initiator, number of cases as subject)



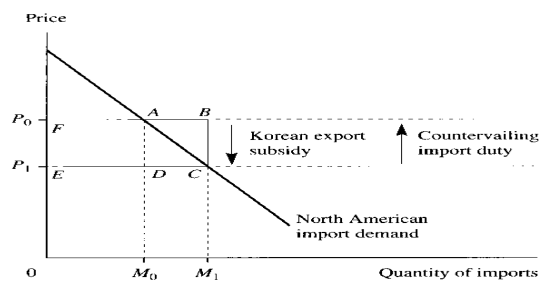
Export Subsidies

- Export subsidy (artificial promotion of trade not barriers)
  - A financial contribution from a government to a firm for export of a commodity.
    - Firm receives the subsidy along with the price paid by foreign consumers.
    - These subsidies create incentives for firms to export larger shares of their production and sell smaller shares domestically.
- Export subsidies amounted 0.6% of GDP in the US, 0.9% of GDP in Japan, and 2.5% of GDP in the European communities.
- Why should a government want its home buyers to pay more than foreign buyers?
- It is generally found that export subsidizing country also restrict their imports
- Export subsidies are controversial, WTO rules prescribes export subsidies as "unfair competition" and allows importing countries to retaliate with protectionist "countervailing duties".

Ways a country give export subsidies

- In the US, Exim bank give low interest loans to exporting firms.
- Government policies
- Income tax relief if a firm fulfils certain exports obligation.

A case of export subsity and countervailing duties



This diagram gives the effect of (*a*) a Korean export subsidy on steel to North America (either Canada or United States, say); (*b*) a North American countervailing duty against Korean steel, as allowed by the WTO; and (*c*) the two together. An odd pattern results: Each policy brings net losses to the country adopting it (so why do they do it?), yet for the world as a whole the countervailing duty undoes the harm done by the Korean export subsidy.

To harvest these results from the diagram trace these steps and results:

	Moves Equilibrium			Welfare Effects on		
Policy	*From Point*		*To Point*	*North America*	*Korea*	*Both ("World")*
Korea's export subsidy	*A*	→	*C*	gains *ACEF*	loses *BCEF*	lose *ABC*
North America's countervailing duty	*C*	→	*A*	loses *ACD*	gains *ABCD**	gain *ABC*
Both together	*A* back to *A*			gain *ADEF*	lose *ADEF*	zero
				(Korean taxpayers implicitly pay North American taxes.)		

* There are less exports to waste the subsidy on.

Good Night