

## Lecture 23

### Economics 181: International Trade

#### Trade Policy, Continued

#### I. Finishing up export subsidies and export taxes.

##### Export Subsidies:

- Always welfare worsening—even in the large country case (because you worsen your TOT)
- Extremely Expensive to government
- Foreign countries gain from home subsidies—improves their TOT
- So why do foreign nations oppose US agricultural subsidies?

##### Export Taxes:

- Hurts small countries
- Ambiguous result for large countries (TOT gains may offset distortions)

#### II. Countervailing and Anti-dumping duties ("Less Than Fair Value" Cases)

A. These have become the protective mechanism of choice for firms hurt by imports.

B. Definitions.

Two types of dumping:

- (1) Price in the importing country is below the price charged in the producing country.
- (2) The price in the importing country is below the cost of production.

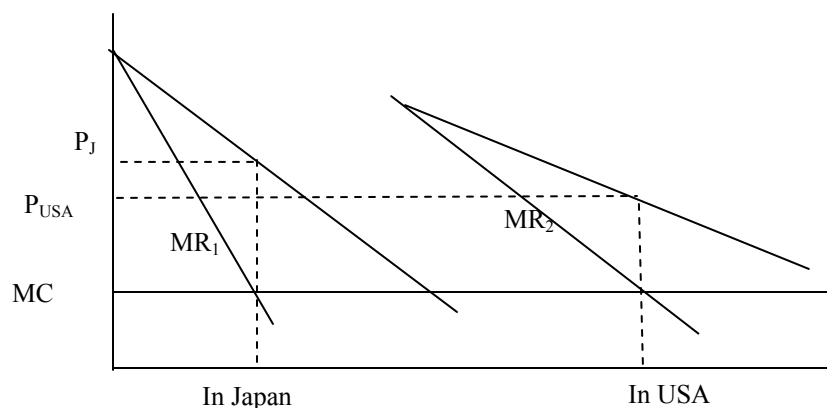
Countervailing duties:

Imposed if subsidies are received for exports from the home country government. Although explicit export subsidies have been banned by the Uruguay Round, other types of subsidies are still permitted.

C. The economics behind dumping and CVD cases issues are important. First, why would an exporter "dump" in the sense it is defined above? Second, how can we evaluate dumping and CVD cases from a welfare standpoint?

##### (1) Long run dumping by a monopolist

Price definition This is the conventional discriminatory pricing across separate markets. The monopoly exporter sets  $MR_1 = MC = MR_2$ . This implies a lower price in the market with more elastic demand. There is some presumption that the price is lower in the export market.



For Japanese  
Exporter

From the importing country's point of view, this just represents more favorable terms of trade so this should be a welfare gain.

Cost Definition The price falls below marginal cost or average cost.

(2) Subsidies provided by foreign governments. If the foreign government provides a subsidy to exporting firms, this will enable to price below long run average cost. Public enterprises are also able to sell at prices below costs or below domestic prices if they are supported by their government. The forms these subsidies can take includes export rebates on income taxes, credits, credit subsidies, lower energy costs, etc.

Solution?

(3) Predatory dumping. From an economic viewpoint, this is the only kind of dumping that it would make sense to try and offset with duties. Yet since the welfare of consumers is not taken into account in the decision making process on setting duties, this point is ignored.

Definition:        A firm prices low in the first period  
                         to induce exit by competitors, then  
                         later can raise the price to exploit  
                         its monopoly power.

This requires:

- (1) Commitment to keep price low for a long period
- (2) Large re-entry costs and small exit costs
- (3) Other firms cannot enter when the monopoly is established.

Evaluation:

- (1) Examples of predatory pricing are hard to find. One would have to find a foreign firm first pricing low and then raising prices.
- (2) Other mechanisms already exist to address predation. These should be applied to all firms (foreign and domestic) instead of creating this special mechanism.

#### D. Institutional Features.

- (1) LFV cases are first initiated by either the Secretary of Commerce or an "interested party" representing domestic manufacturers competing with the import.
- (2) Two parallel tracks are pursued. Commerce must determine the extent of the dumping or subsidy margin. In practice, Commerce always finds such a margin. The real constraint on whether a duty is imposed comes from the International Trade Commission (ITC) which must decide whether a product is causing or threatens to cause injury (substantial harm) to US firms. Need both determinations to get a positive result.
- (3) Even if the determination is negative, the harassment effect is substantial.
- (4) Note that consumer interests are ignored in the determination.

#### E. Some Strategy Issues. What have some firms done to avoid being the targets of these duties?

- III. Data and concluding observations on LTFV cases
- IV. Discussion of Softwood Lumber Agreement with Canada (if have time)

**Table 1.1 International Use of Antidumping and the Global Antidumping Database**

Country	Number of Antidumping Investigations, 1995-2004	Number of Antidumping Measures Imposed, 1995-2004
<b>User-Countries in the Global Antidumping Database</b>		
Argentina	192	139
Australia	172	54
Brazil	116	62
Canada	133	80
Colombia	23	11
European Union	303	193
India	400	302
Mexico	79	69
New Zealand	47	14
Peru	55	34
South Africa	173	113
South Korea	77	43
Turkey	89	77
United States	354	219
Venezuela	31	25
Subtotal (share of total)	2244 (84.8%)	1435 (86.7%)

**Table 1: Statistics on U.S. Steel Countervailing Duty (CVD) Cases, 1980-2003.**

Country	U.S. Steel CVD Cases, 1980-2003	CVD Cases Ruled Affirmative	CVD Cases Suspended	Average CVD for Affirmative Case	Average CVD for all non-suspended cases	Country's Share of Total U.S. Consumption of Steel Mill Products, 2002	Share of Country's Steel Mill Imports Affected by CVD Orders, 2002
Argentina	9	7	1	11.83	10.52	0.3	0.0
Australia	1	0	0	na	0	0.6	0.0
Belgium-Luxembourg	21	2	0	3.93	0.37	0.5	6.0
Brazil	34	8	7	21.77	6.15	2.9	5.0
Canada	4	3	0	39.89	29.92	4.4	0.3
China	0	0	0	na	na	0.6	0.0
France	22	4	0	12.6	2.29	0.5	51.9
Germany	19	4	0	8.39	1.77	1.1	30.7
Italy	23	8	0	13.47	4.68	0.3	61.7
Japan	0	0	0	na	na	1.2	0.0
Korea	21	12	0	2.41	1.38	1.4	17.2
Mexico	8	3	0	9.37	3.52	2.8	1.2
Netherlands	5	0	0	na	0	0.5	0.0
South Africa	18	12	1	7.73	5.15	0.3	23.6
Spain	19	9	0	20.58	9.75	0.3	0.4
Sweden	6	2	0	6.52	2.17	0.1	0.0
United Kingdom	15	3	0	8.97	1.79	0.4	0.6
Taiwan	4	0	0	na	0	0.3	0.0

*Notes: Data for the first five columns come from Federal Register notices and were compiled by Chad Bown at Brandeis University, and which are available online at [http://www.brandeis.edu/~cbown/global\\_ad/](http://www.brandeis.edu/~cbown/global_ad/). Data for the final two columns come from authors' calculations using the 2002 American Iron and Steel Institute Annual Statistical Report.*