“Unfair” Trade and Export Promotion Policies

- Dumping and international trade
  - Types of dumping
  - What to do if your country is dumped on?
- Export subsidies
  - Programs beyond production subsidies
- Countervailing duties
- Strategic trade policy
  - Game theory on an international scale
Types of Dumping

- Dumping ⇔ international price discrimination
  » Selling same product at different prices, at home and abroad
- GATT/WTO definition
  » Selling in the foreign market at price < price in home market
- US and alternative GATT/WTO definition
  » Selling in the foreign market at price < “fair market value” which is often taken to mean < “normal average cost”
- Dumping adjectives
  » Seasonal - when exporter has a bumper crop
  » Cyclical - when exporter has a slump at home
  » Predatory - intended to eliminate competitors
  » Persistent - goes on and on
Seasonal Dumping - Mexican Tomatoes

The Overripe Case Against Mexican Tomatoes (1980)

- U.S. antidumping laws prohibit sales of imported goods below “fair value” = cost of production
- What about tomatoes? A perishable commodity whose price fluctuates from winter to summer. Is production cost relevant for sales price?
- In 1980, Mexico supplied ~ 1/2 of all fresh tomatoes, cucumbers, eggplants ... in U.S. winter season.
- Political issues of the day: Blocking cheap imports hurts US inflation, Mexico a large oil exporter to US
The case involved small business telephone equipment including private branch exchanges, or PBXs.

U.S. ITC concluded that imports from East Asia were priced artificially low and that domestic producers have suffered "material injury."

With ruling, Commerce Dept. directs U.S. Customs to impose countervailing duties based on "dumping margins" = price in US - price in exporter’s home.

Some analysts said that Toshiba, Matsushita, … could avoid duties by shipping from third country factories.
**Analysis of Telephone Dumping**

**The Market in Japan**

- **Quantity sold in Japan**
  - Price $/phone: 60, 18, 0
  - MR Demand
  - MC = 18

**The U.S. Market for Exports**

- **Quantity exported to US**
  - Price $/phone: 150, 25, 18
  - MR Demand
  - MC = 18

Telephone market smaller and more price inelastic in Japan.

Telephone market larger and more price elastic in US.

Suppose the firm saw U.S. and Japanese market as one market. Implications for price and welfare?
Impact of Dumping on Welfare

For dumping to persist, markets must be segmented.
- If not, arbitrage incentive: Buy phones in US, sell in Japan

For importing country (being “dumped on”)
- Dumping is a windfall gain for consumers, bargain prices
- Persistent dumping is a longer lived bargain
- Countervailing tariff could impose a national loss (Prices ↑) with no impact on producer’s home market
- Countervailing tariff could protect inefficient domestic firms
- However, countervailing tariff could pressure exporter to lower prices further, like an optimal tariff ⇒ welfare gain

To the extent that international trade falls, countervailing duty ⇒ world welfare loss
Export Subsidies

✧ Types of export subsidies
  » Loan guarantees, preferential financing
  » Government promotions, political junkets
  » Favorable tax treatment of export earnings

✧ Impacted industries
  » Military equipment
  » Agriculture

✧ Curiosities in export subsidies
  » Why favor exports over domestic consumers?
  » Subsidizing exports (raises export earnings and FX rate) acts to subsidize imports. Why make it easier to buy foreign goods?
Export Subsidies + Countervailing Duties

- Export subsidy lowers US price from $P_0$ to $P_1$
  - US gains $ACEF$
  - Korea loses $BCEF$
  - World loss $ABC$
- US countervailing duty
  - US loses $ACD$
  - Korea gains $ABCD$
  - World gains $ABC$
- Net effect
  - US gains $ADEF$
  - Korea loses $ADEF$
  - World impact is zero
  - Korea taxpayers implicitly pay US taxes

Lindert/Pugel Figure 10.3
Strategic Trade Issues

Why strategic trade became an issue

» Government already funds many capital intensive activities: National defense, space exploration, medical research, higher education, telecommunications, agriculture, ...

» Government agencies and private firms often develop consumer products in tandem with government mission: passenger aircraft, satellite networks, pharmaceuticals, genetic engineering, internet, ...

» In 1970s, and 80s, Japan’s “targeted industry” approach seemed to propel their economy to faster growth, and rising shares of “key” industries (⇒ high-tech, high-pay jobs)

» Initial capital commitments are large, uncertainty high, payoffs great ⇒ may be under-investment by private sector

» Need for government to take coordinating role
Strategic Trade Example - Boeing/Airbus

Two firm competitive game: Both produce a new plane (Loss=8), Only one produces (Gain =100), Neither produce plane (zero)
With the subsidy, Airbus will produce plane because gain is positive regardless of Boeing’s action. World gets new plane.
Boeing/Airbus Subsidy of +10 to Both

If both US and EU subsidize, both Boeing and Airbus gain, but both nations lose (invest +10, earn +2). Consumers gain. How?

Airbus gains this
Boeing gains this
Airbus produces
Boeing produces
Airbus does not produce
Boeing does not produce

+2
+2
0
110
0
0

If both US and EU subsidize, both Boeing and Airbus gain, but both nations lose (invest +10, earn +2). Consumers gain. How?
Strategic Trade Today

- Government’s past role in certain countries and in certain key industries is undeniable
  - Steel
  - Aircraft
  - Television (B&W, color, HDTV)
  - Autos
  - Semiconductors (16K, 32K, 64K, ... chips)

- Break-down of Japanese economic performance in the 1990s, along with decade of strong US growth

- Closer monitoring of government budget deficits (U.S. balanced budget and European Union stabilization pact)

- Privatization of large state-owned-enterprises

- Development of capital markets for risk-taking

- Speed of technological change dwarfs government’s ability to target industries. Can gov’t pick winners?
Summary on “Pushing Exports”

- Pushing exports clearly favors the consumer
  » Access to lower cost imports
- Dumping: A form of international price discrimination
  » Depends on market segmentation
  » Countries may respond with countervailing duties, but world welfare typically greater if dumping allowed to persist
- Export subsidies have been widespread
  » More prevalent in certain high-tech, high-employment sectors
  » Gov’t subsidy was key in some sectors (aircraft), much less important in others (autos, steel)
- Strategic trade policy, industrial targeting was popular
  » Less so now with fast technology change and fiscal restraint