“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

Dumping Telephones in the U.S. - 1989

- 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 has 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

NYT, 11/21/89
Analysis of Telephone Dumping

The Market in Japan

- Telephone market smaller and more price inelastic in Japan.

The U.S. Market for Exports

- 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)
Boeing/Airbus - Subsidy of +10 to Airbus

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?
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