

## Domestic anti-dumping laws should be scrapped

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### Synopsis

The world over, anti-dumping measures are the most prevalent form of non-tariff barriers because it is used more to protect national markets than to prevent predatory pricing strategy – the original intention.

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The world over, anti-dumping measures are the most prevalent form of non-tariff barriers (NTB) because it is used more to protect national markets than to prevent predatory pricing strategy – the original intention.

Dumping can only be successful if the market of the exporting country is closed or restricted to outsiders. If a firm engages in dumping in foreign markets and its home market is open, the price differential will induce the firm's competitors or other re-sellers to re-export dumped products to the dumper's home market.

The re-exported products would drive down the home market price to the dumped price and erase home market profits. Thus, a closed or restricted home market is a virtual precondition for a successful dumping strategy.

Because of WTO, not many countries are now protected in terms of high tariff barriers or quota restrictions. Hence, the basic conditions under which anti-dumping duties would have thrived most, i.e., in the closed economy context, presently does not exist.

Even for the sake of argument, if we assume dumping is actually taking place, it cannot be sustained for the long term. The economists'™ popular definition of dumping refers to the act of selling a product at a price that is less than the marginal cost of production.

Under condition of dumping, the firm, to sustain itself, has to cross subsidise, i.e., charge a higher price in other market to make up its losses in its dumping market. However, this is not a plausible option given that most markets are now open and not geographically isolated.

There is always competitive pressure from other international firms to capture any particular market. Hence, dumping cannot be sustained in the long run. Accordingly now, in many instances, anti-dumping measures are used as a NTB.

Who are the sufferers? The efficient producers. The five most affected sectors in terms of imposition of anti-dumping duties include basic metals; chemicals; machinery and electrical equipment; and plastics and textiles.

The leading producers of these items for the year 1998-99 (this is the latest available data) are China, Taiwan and Korea. Incidentally, these are also the countries against whose exports maximum numbers of anti-dumping investigations were initiated during 1998.

Given their export share in world trade, one can argue that the aforesaid countries are efficient producers of these items. It would be irrational on their part to dump products. There is little reason for them to sell at a price lower than their domestic market price, which, in any case, is low because of efficient production.

There are other negative implications. Under competitive conditions, foreign export subsidies or dumping means an aggregate real income gain to the importing country because of improved terms of trade. Consumers of the importing country also benefit. Though import competing industries in the domestic country get hurt, they can be compensated through internal redistributive measures like provision of subsidy.

Subsidy is always a better option to increase social welfare when monopoly distortion exists in the domestic market. In many instances, anti-dumping measures are the result of lobbying by petitioners who are dominant players (monopolists). There is, therefore, no economic rationale for any government to deny its population foreign resources by levying anti-dumping duties.

Other factors like appreciating value of the domestic currency of the investigating country and a tit-for-tat strategy followed by rival oligopolistic group of firms in different national markets, contribute to the levy of anti-dumping duties.

Cross-country evidence involving four major users of anti-dumping duties, namely the EU, US, Australia, and Canada, supports these facts. Many countries at present are taking undue advantage of the anti-dumping clause and using it as a protectionist measure.

Since the endeavour of WTO is to do away with trade distortions, the first best option lies in scrapping domestic anti-dumping laws. The second best option is to set up an independent regulatory body. Only then will justice be done.

The author is a trade researcher at the University of Utah