

Trade Remedy Response and Circumvention

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Trade Remedies

- Anti-dumping duties (ADD)
 - On “dumped imports”
 - Target firms and/or countries
- Countervailing duties (CVD)
 - On subsidized imports
 - Target firms and/or countries
- Safeguard tariffs
 - On injurious imports
 - Apply to imports from all sources

Trade Remedies

- Economists' views:
 - Dumping is not harmful
 - Except very rarely, when “predatory”
 - Subsidized imports do distort markets if not justified by market failure
 - CVDs may be beneficial for world
 - But they harm the importer, who would benefit from subsidized imports
 - Injurious imports may justify temporary protection as 2nd best relief

Trade Remedies

- My focus here: Market responses to anti-dumping laws and duties
 - Threat of AD
 - Process of AD
 - Price responses to AD
 - Circumvention of AD

Threat of Anti-dumping

- “Chilling effect” on trade
 - Exporters who fear ADD will
 - Charge higher prices if able, to avoid ADD
 - Not export at all
 - Effect of the Anti-dumping Law is to
 - Reduce trade
 - Raise price in importing countries, just like a tariff
 - But without the tariff revenue

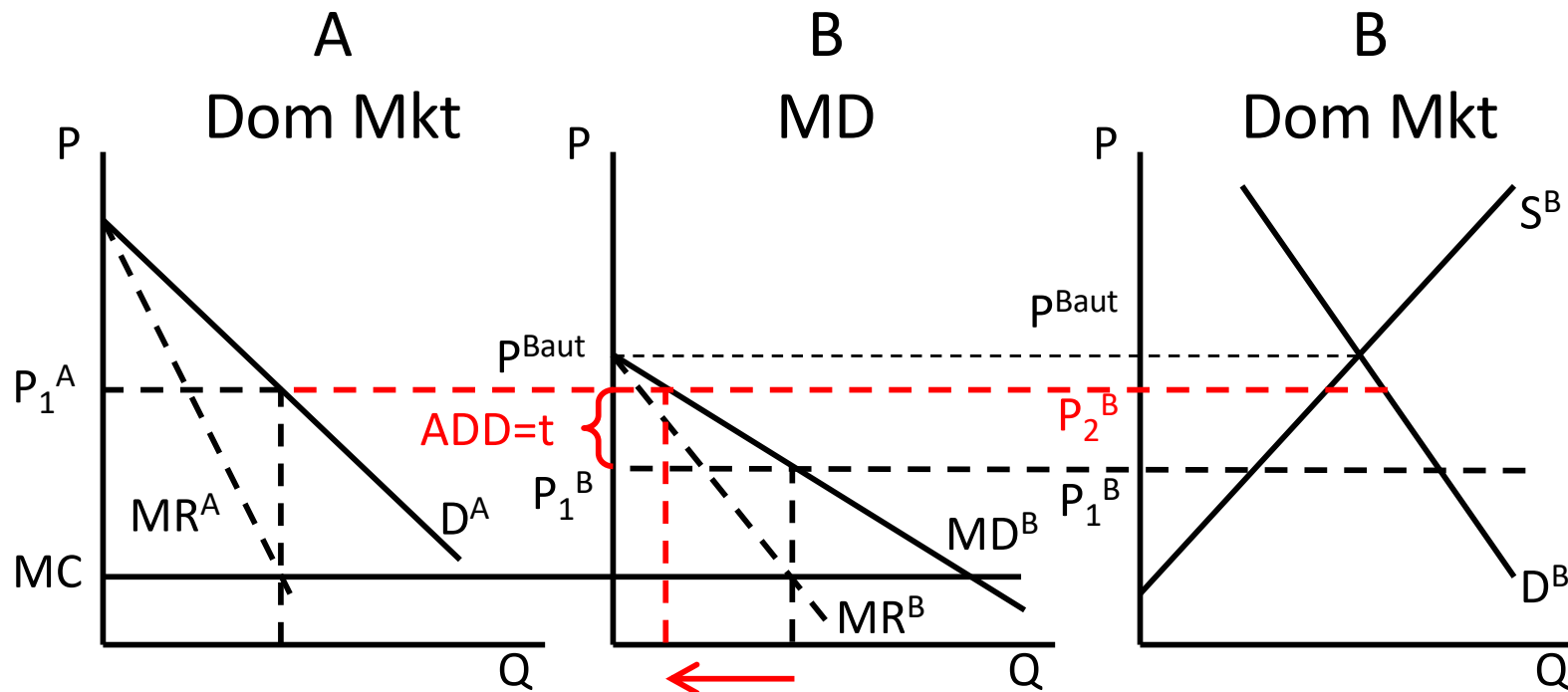
Process of Anti-dumping

- Collusion
 - In US at least, after AD case is filed
 - Foreign exporters and domestic firms are encouraged to consult and try to resolve the case by agreement
 - That agreement is to raise price and limit quantity, exactly as in a cartel
 - Benefit may accrue to both suppliers, but at expense of demanders

Price Responses to Anti-dumping duty

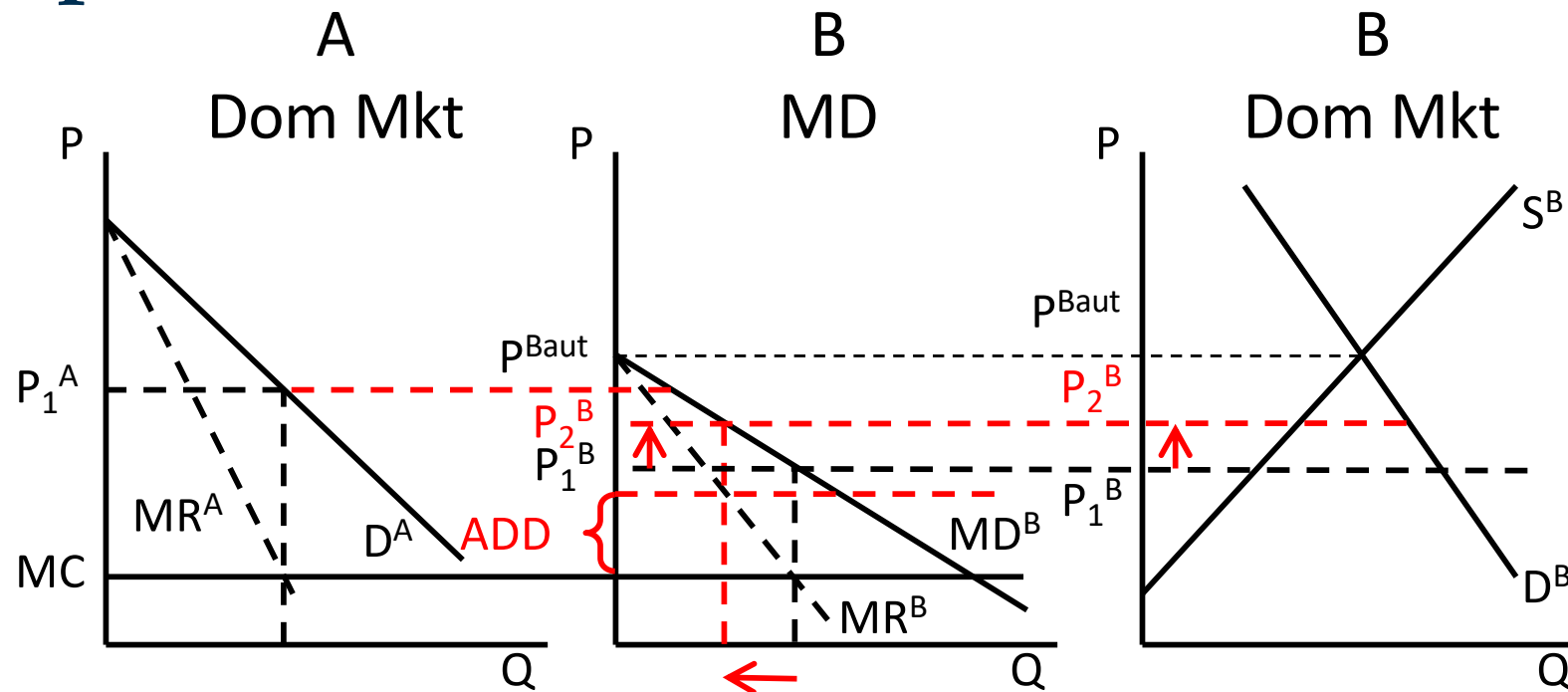
- I'll look at 3 cases of monopoly exporter:
 1. Exporter keeps export price unchanged
 2. Exporter adjusts export price
 3. Exporter stops dumping
- The following are the slides I use with my students
 - I'd welcome feedback, especially if I'm getting it wrong

1. ADD Effects with unchanged export price



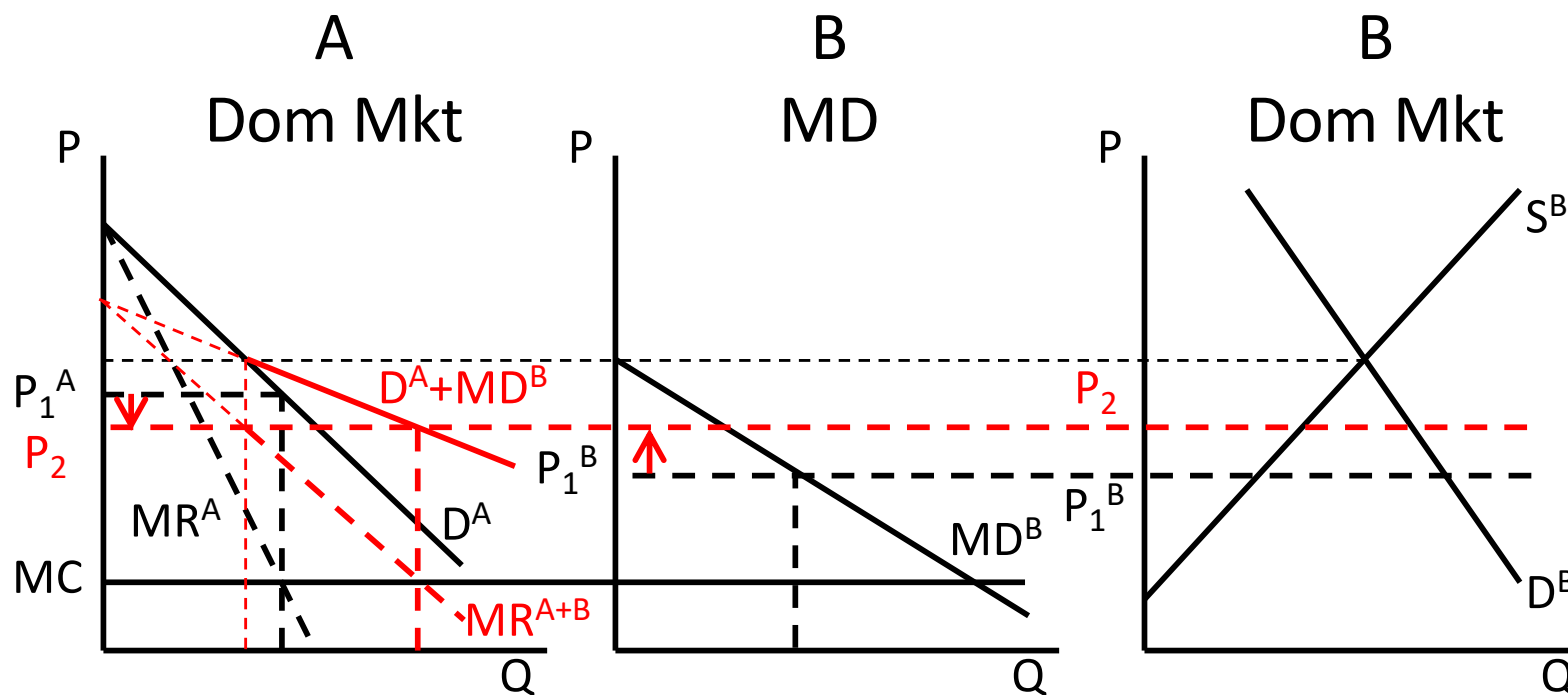
- With P_1^B fixed, ADD
 - Raises price to demanders like any other tariff, and
 - Reduces imports

2. ADD Effects with changed export price



- If P_1^A and P_1^B can readjust, P_1^A will not change
- ADD, set equal to $P_1^A - P_1^B$, acts as increase in MC
- Effect is to raise export price but by less than tariff
- So price received by exporter falls; more dumping

3. Not-Dumping Equilibrium



- Firm combines markets, facing single demand curve $D^A + MD^B$
- Corresponding MR curve, MR^{A+B} , determines price P_2 charged in both markets
- Result: Price falls at home and rises abroad

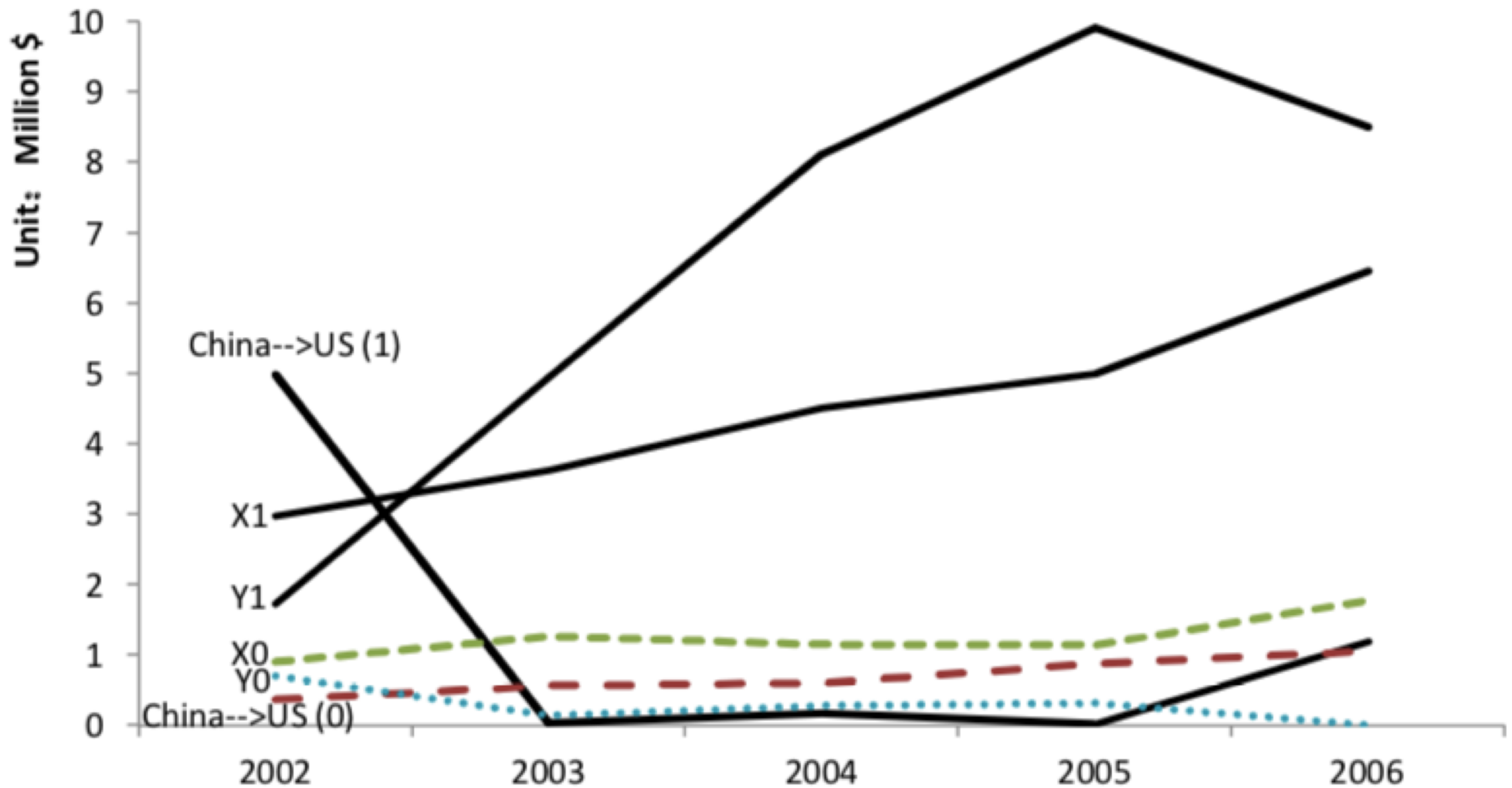
Circumvention

- Foreign firm may
 - Continue to export from same country, as above,
or
 - Ship to another country not covered by the ADD and re-export
or
 - Move production to another country not covered by the ADD and export

Circumvention Examples

- Transshipment
- Studied by Liu and Shi (2016)
- Found evidence that ADD led to
 - Reduced imports from target country
 - Increased imports from non-target countries
- Example: Saccharin and Its Salts from China, 2002

Figure 1: Trade Re-routing through Korea and Taiwan, the Case of US-AD-1013





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Circumvention Examples

- Mattress innersprings
 - 2008: US ADD on China, S. Africa, and Vietnam
 - Producers shipped to Malaysia, then on to US

Circumvention Examples

- Movement of production; more common in recent years
- Solar panels
 - 2012: US ADD on China
 - Production moved to Taiwan
 - 2013: Threat of ADD on Taiwan
 - Production moved to Germany, South Korea, Singapore, and Malaysia
 - 2018: US safeguard tariff on all imports

Circumvention Examples

- Steel
 - US ADD on China
 - 2017: US producers claim ADD circumvented by sending materials to Vietnam for processing and re-export

Circumvention Examples

- Washing machines
 - 2015: Whirlpool got ADD on Samsung and LG from S. Korea and Mexico
 - Companies moved production China
 - 2018: US safeguard tariff on all imports

Economics of Circumvention

- Effects of a tariff by Country A on some but not all countries:
 - (With or without dumping)
 - Exports from target countries to A fall
 - Exports from targets to other countries rise
 - Exports from other countries to Country A rise

Economics of Circumvention

- These effects may, but need not, be by the same firm
- If the importing country has high costs, this will always cause
 - Imports from lowest-cost country if permitted
 - Imports from other low-cost countries if not.
- Is this “circumvention” or just trade?

How to Respond to ADD Circumvention

- The policy community would probably say
 - Better monitor the true origins of imports
- Economists would say
 - Don't use tariffs at all, especially ADD
 - If domestic injury is the concern,
 - Use non-discriminatory, temporary safeguard tariffs
 - Or better: use other non-trade-distorting help for injured workers and industries