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ANTI-DUMPING WITH HETEROGENEOUS FIRMS[1]

Christian Gormsen[2]

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ABSTRACT. This paper analyzes antidumping (AD) policies in a two-country model with heterogeneous firms. One country enforces AD so harshly that firms exporting to the country choose not to dump. In the short run, the country enforcing AD experiences reduced competition to the benefit of local firm and detriment of local consumers, but in the long run AD protection attracts new firms, increasing competition and consumer welfare. In the country's trading partner, competition initially increases: Some firms give up exporting, but those that remain will lower their domestic prices. Consumers therefore benefit in the short run. In the long run, however, fewer firms will enter the unprotected country, and competition will eventually decrease, resulting in welfare losses.

JEL Classification: F12; F13.
Keywords: Trade Policy; Anti-dumping; Monopolistic Competition; Heterogeneous Firms.

RÉSUMÉ. Cet article analyse les politiques antidumping dans un modèle à deux pays avec des firmes hétérogènes. À court terme, le pays qui mène une politique antidumping réduit la concurrence aux profits des firmes locales et au détriment des consommateurs nationaux. A long terme, une telle politique attire de nouvelles entreprises, conduisant à une augmentation de la concurrence et du bien être du consommateur. Dans le pays partenaire, la concurrence augmente initialement : certaines entreprises exportent, mais les autres diminuent leurs prix domestiques, ce qui est bénéfique pour les consommateurs à court terme. Cependant, à long terme, moins de firmes entrent sur le marché non-protégé, diminuant ainsi la concurrence, ce qui entraînent des pertes de bien-être.

Classification *JEL* : F12 ; F13.
Mots-clefs : Politique commerciale ; anti-dumping ; concurrence monopolistique ; firmes hétérogènes.

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2. Department of Economics, Aarhus School of Business – Aarhus University, Hermodsvej 12, 8230 Åbyhøj, Denmark. Email: chgs@asb.dk.

1. Introduction

With Melitz (2003) as the seminal paper, models of monopolistic competition with heterogeneous firms have become one of the most prominent frameworks in international trade, for both theoretical and empirical research. So far, however, trade policies have received only a rather crude treatment in the framework, trade liberalizations are invariably reduced to fewer exported goods disappearing in transit (lower "iceberg costs" of exporting). This paper will mend this gap by examining how antidumping policies may affect an economy with heterogeneous firms.

The motivations for picking antidumping (AD) as the particular policy to treat theoretically are clear. As Zanardi (2006) documents, the number of countries with AD legislation rose from 37 in 1980 to 98 in 2003, and the number of annual investigations more than doubled over this period, whereas tariffs have been steadily declining. The results of Vandenbussche and Zanardi (2008) even indicate that countries replace regular tariffs with AD. All this points to AD as a trade policy of rising importance. Moreover, Konings and Vandenbussche (2008, 2009) document that responses to AD are firm-specific, warranting theoretical investigations at the firm-level.

The theoretical results of this paper are derived in the two-country model of Melitz and Ottaviano (2008), introduced in Section 2.1 and 2.2. To disentangle how both countries in the two-country model are affected by one country's AD policy, a unilateral AD regime is analyzed, where one country (Foreign) has AD legislation, whereas the other country (Home) has not.

The specific AD regime analyzed is what we may call a "credible threat" policy regime: The risk and costs of an AD petition are large enough that all firms exporting to Foreign choose to behave in a manner where they avoid infringing with the AD legislation. Although such a scenario admittedly is extreme, Vandenbussche and Zanardi (2010) find that threat effects of AD are quite real for countries that use AD extensively. From a theoretical perspective, the credible threat scenario also has the advantage that it makes AD policies resemble changes in the iceberg cost parameter, allowing a direct comparison and an assessment of how good the iceberg approximation may be.

In this scenario, firms in Home that wish to export must price such that they cannot be found guilty of dumping by Foreign's AD authorities, they export subject to a "no-dumping constraint". As outlined in Section 2.4, this constraint will make exporting firms cut their domestic price to be able to set a lower export price. The further results in the paper are consequences of this altered pricing behavior. For exporters that earn relatively little export profits, it may be more profitable to stop exporting altogether. A first benefit of the heterogeneous firms framework is this result on how AD affects export selection in slightly more subtle ways than an iceberg cost does, Section 2.5 provides the details.

The immediate consequences of Foreign's AD regime are analyzed in Section 2.6. Because the firms in Home that still export reduce their domestic price, competition increases in

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