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Antidumping and retaliation threats

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Abstract

We propose and test two ways in which retaliation threats may dampen the antidumping (AD) activity we observe. First, the threat of retaliatory AD actions may make a domestic industry less likely to name a foreign import source in an AD petition. Second, the prospect of a GATT/WTO trade dispute may make government agencies less likely to rule positive in their AD decision. Using a nested logit framework, we find evidence that both retaliation threats substantially affect US AD activity from 1980 through 1998.

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1. Introduction

In the past decade, there has been a proliferation of countries adopting antidumping (AD) policies. As documented by Prusa (2001), 29 countries filed over 2000 AD cases from 1987 to 1997. These figures represent triple the number of filing countries and five times the AD petitions compared to the 1980s, when the primary users of AD laws were Australia, Canada, the European Community,

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and the United States. Proliferation of countries with AD laws also means an increased chance of seeing AD wars and retaliatory AD duties breaking out between countries. Anecdotal evidence of this certainly abounds. One important example is the filing of Canadian AD cases against US steel products in the fall of 1992 and 1993, ostensibly in response to the initiation and subsequent US antidumping duties levied against Canadian steel products from investigations begun in June 1992. More formally, Prusa and Skeath (2001) examine worldwide patterns of AD use from 1980 to 1998 and find evidence consistent with ‘tit-for-tat’ retaliatory AD actions. These apparent examples of retaliation and the rising use of AD laws have raised substantial concern that AD activity may ultimately reverse many of the free trade gains of the GATT rounds.²

On the other hand, the rising threat of retaliatory AD actions may have an eventual dampening effect on AD activity, leading to some sort of ‘cold war’ equilibrium. In other words, once other countries have the ability to retaliate in kind, a country (or petitioning industry) may find it no longer to their benefit to file AD cases. It may even ultimately mean that traditional users of AD laws may not wish to enforce these laws as stringently as before. For example, Lindsey and Ikenson (2001) document the rising incidence of worldwide AD activity against US exporters and recommend that US policymakers consider the effects of defending and promoting AD activity within the context of the WTO when one considers the interests of all domestic producers, not just those in import-competing sectors.

Retaliation as a mechanism toward free trade is not a new idea. For example, a common perception is that the trade wars stemming from the US implementation of the Smoot–Hawley tariffs may have laid the foundation for the GATT. Additionally, the literature on trade negotiations has highlighted that the potential for countries to revert back to higher tariffs (i.e., retaliation) serves as an important enforcement mechanism for achieving trade protection reductions.³

The purpose of this paper is to examine whether threats of retaliation have had any measurable dampening effect on US AD activity from 1980 through 1998. At first glance, this may seem to be a poor place to look for such dampening effects from retaliation threats. Law changes in the late 1970s led to a blossoming of US AD activity during this time period and the latter half of this period (the 1990s) saw increased worldwide AD activity and evidence consistent with retaliation against US exporters, as noted above. There are two important responses to this concern. First, as noted by Blonigen and Prusa (forthcoming), an important

²Gallaway et al. (1999) report that the collective US welfare cost of US antidumping and countervailing duties are substantial enough to rank second only to the effects of the Multifiber Arrangement in terms of most costly US trade protection programs.

³Important papers in this literature include Maggi (1999), Bagwell and Staiger (1999), Grossman and Helpman (1995) and Riezman (1991).

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