How do exporters respond to antidumping investigations?

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1. Introduction

Despite the increasing trend in international trade due to rounds of tariff reductions and advancements in telecommunications and logistics, we have witnessed persistent and even increasing use of contingent trade protection policies (e.g., Prusa, 2001; Zanardi, 2006; Bown, 2011). In particular, governments around the world have resorted to antidumping measures, which are permissible under the World Trade Organization (WTO) rules and regulations, to protect their industries, especially in times of economic difficulty. The widespread use of antidumping measures has spurred economists to study their effects on firm behavior, which has significant implications for national competitiveness and long-run economic growth.

While significant insights have been gained from the literature regarding the effects of antidumping measures on protected domestic firms and industries, much less is known about the corresponding impacts on affected foreign exporters. Understanding how affected foreign exporters respond to antidumping measures is, however, an essential component in piecing together a picture of market competition between domestic firms and foreign exporters in both the short run (i.e., right after antidumping measures) and the long run (i.e., after the expiration of antidumping measures) and its implications for industry dynamics and the national economy. Moreover, understanding whether affected exporters should continue their exporting behavior in response to the negative shocks generated by antidumping investigations complements the existing firm heterogeneity literature, which focuses primarily on the decision to enter the export market.

This paper provides the first empirical analysis of how affected foreign exporters respond to antidumping investigations. Specifically, we use antidumping cases filed by the U.S. against Chinese exporters over the 2000–2006 period.

We choose this research setting for two reasons. China, the world’s largest exporter, has become the world’s largest target of antidumping measures. Meanwhile, the U.S. is the world’s second largest initiator of...
antidumping cases against China, due to its rising trade deficit with
China and the apparently related loss of manufacturing jobs in the U.S.
(see, for example, Author et al., forthcoming; Pierce and Schott, 2012).

To conduct the empirical investigation, we draw on data from two
sources: China Customs data (2000–2006) and the World Bank global
antidumping database. From the first data set, we obtain information
on monthly export transactions at the Chinese HS-8 digit product
level by all Chinese exporters to the U.S., including export volume,
export value, and exporter identity. From the second data set, we com-
pile all the antidumping investigations carried out by the U.S. against
Chinese exporters at the U.S. HS-10 digit product level over the 2000–
2006 period, including information such as initiation date, preliminary
determination dates, and final determination dates. The two data sets
are then combined at the HS-6 digit product level, which is common
to China and the U.S.

Our identification strategy relies on the comparison of outcome
variables (such as export volume, number of exporters, export
price, and trade deflection) for exporters in the affected product category
(the treatment group) with the same variables for those in the unaf-
ected product category (the control group) before and after the various
important stages in the antidumping investigation process, i.e., the
difference-in-differences (or DID) method. Specifically, we use two
alternative control groups. First, for an HS-6 digit product subject to
antidumping investigations, we use all other unaffected HS-6 digit
products within the same HS-4 digit category as the control group.
Second, we follow Blonigen and Park (2004) in constructing a matched
control group based on the likelihood of products being subject to anti-
dumping investigations.

We find that antidumping investigations cause a substantial de-
crease in the total export volume at the HS-6 digit product level, and
that this trade-dampening effect is due to a significant decrease in the
number of exporters (extensive margin effect), yet a modest decrease
in the export volume per surviving exporter (intensive margin effect).
Meanwhile, we find that there is little change in freight on board
(F.O.B.) export price and no change in the exports of the concerned
products to markets other than the U.S. (trade deflection effect). Probing
the underlying causes for the substantial extensive margin effect of the
antidumping investigations, we find that less productive exporters are
more likely to exit the U.S. market; direct exporters are more likely
than trade intermediaries to exit the U.S. market; and single-product
direct exporters are more likely than multi-product direct exporters to
exit the U.S. market.

These results are found to be robust in a series of checks on various
data potential and estimation issues, such as validity checks on the
DID estimation, quarterly data (instead of monthly data), exclusion of
outlying observations, inclusion of unsuccessful and withdrawn cases,
exclusion of antidumping cases under investigation by other countries,
exclusion of processing traders and foreign firms, a check on the aggre-
gation bias, controlling for other trade shocks such as U.S. safeguard
investigations and China’s WTO accession, differential effects across
products with different import demand elasticities, and an alternative
definition of single-product direct exporters (see Section 5.6 for details).

Our results suggest that U.S. antidumping investigations drive weaker
Chinese exporters out of the U.S. market, leaving behind the more pro-
ductive ones, often with multi-market and multi-product coverage.
Meanwhile, previous studies (e.g., Pierce, 2011) on the effects of U.S.
antidumping measures on its domestic, protected firms have shown that
protection through the temporary imposition of antidumping duties is
more tilted toward the weaker domestic producers, thereby slowing
down the resource reallocation toward the more productive producers.
Taken together, U.S. antidumping investigations definitely bring tem-
porary benefits to domestic producers who expand their market share, as
Chinese imports substantially fall and numerous Chinese exporters exit
the market. In the long run (especially when the antidumping duties are
lifed), however, antidumping investigations may spell more troubles
for U.S. domestic producers in their competition with the Chinese
exporters, as the former becomes less productive on average while the
latter becomes more productive.

The remainder of this paper is organized as follows. Section 2
describes the institutional background of antidumping investigations in
the U.S. The estimation strategy is discussed in Section 3 and data are
reported in Section 4. Section 5 presents the empirical findings and
some discussions of these results. The paper concludes with Section 6.

2. Institutional background of antidumping investigations in the U.S.

In this section, we briefly describe the institutional context of anti-
dumping investigations in the U.S. and its relevance to our identification
strategy (Staiger and Wolak, 1994).

In the U.S., there are two government bodies involved in antidumping
investigations: the Department of Commerce (DoC) and the Interna-
tional Trade Commission (ITC). The DoC determines whether an imported
product under investigation is sold in the U.S. at less than its “fair
value”, while the ITC determines whether the imported product has
materially injured the relevant U.S. domestic industries. Each of these
two bodies makes two determinations, i.e., the preliminary and final
determinations.

Once an antidumping petition against an imported product is filed
and then considered, the ITC first makes a preliminary determina-
tion within 45 days. If the determination is negative, the investigation is
terminated. Otherwise (i.e., where the preliminary ITC determination is
affirmative), the DoC conducts its investigation and makes a preliminary
determination in the next 115 days. Regardless of the DoC’s preliminary
determination (affirmative or negative), the investigation process con-
tinues. However, if the DoC’s preliminary determination is affirmative,
importers of the affected imported product must post a cash deposit
or bond to cover the dumping duties the DoC estimates to be payable.

After the DoC’s preliminary determination but before the ITC’s final
determination, the antidumping investigation can be terminated due
to withdrawal by the petitioner(s), or can be suspended due to agree-
ments reached between affected foreign exporters and the DoC. If an
antidumping investigation is neither terminated nor suspended, the in-
vestigation moves on to the next stage, in which the DoC makes a final
determination within 75 days of its preliminary decision. If the DoC’s
final determination is negative, the investigation is terminated. Other-
wise, the ITC has 45 (or 75) days to conduct a second round of investi-
gation and make a final determination, depending on whether the
DoC’s preliminary determination was affirmative (or negative). Once
both the DoC and the ITC reach affirmative final determinations, the
DoC must issue an antidumping order to levy antidumping duties with-
in 7 days.

In summary, there are five important points in time during an anti-
dumping investigation: initiation, the preliminary ITC determination,
the preliminary DoC determination, the final DoC determination, and
the final ITC determination.

3. Estimation strategy

In contrast to the yearly data used in most of the literature, our
monthly export transaction data allow us to investigate whether ex-
porters respond differently to different stages of the antidumping in-
vestigation process. As noted in Section 2, there are five stages in an
antidumping investigation: the initiation of the case, the preliminary
ITC determination, the preliminary DoC determination, the final DoC
determination, and the final ITC determination. Given that the DoC
makes affirmative determinations in most antidumping cases, we
focus on the three remaining dates in the antidumping investigation,
i.e., the initiation date, the date of the preliminary ITC determination,
and the date of the final ITC determination. The affirmative final ITC de-
termination leads to the imposition of dumping duties, which conse-
quently increase the costs of the export products concerned for the
U.S. importers. The affirmative preliminary ITC determination, combined
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