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Antidumping protection and markups of domestic firms

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Abstract

This paper tests whether Antidumping (AD) protection affects the market power of import-competing domestic firms. We use panel data of about 4000 EU producers that were involved in AD cases to estimate markups before and after the filing of a case. Our findings indicate that AD protection has positive and significant effects on domestic markups, except in cases where import diversion after protection is strong, like in 'seamless steel tubes'. Our results control for potential endogeneity of AD filings. A randomly drawn control group of firms not subject to AD policy did not have rising markups during the same period.

Keywords: Markups; Antidumping protection; European producers; Firm data

JEL classification: F13; L13; L41

1. Introduction

Among trade economists, there is a growing consensus that in many cases, Antidumping (AD) policy is an industrial policy tool in disguise. Instead of keeping 'unfair imports' out, it is often aimed at fostering the interests of domestic producers (Blonigen and Prusa, 2003). However, despite the industrial policy nature of AD measures, surprisingly little empirical work has measured the effects of AD policy on domestic producers.[1] In this

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[1] A small number of papers have used US stock market data and identified excess returns on firms protected by trade policy (e.g., Lenway et al., 1990).

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paper, we look at how domestic producers' markups, defined as price over marginal cost, are affected by AD protection. This seems a natural focus, given that many existing theoretical models of AD have analyzed domestic profitability and price setting behavior.

In theory, an AD duty is very similar to an import tariff.[2] The static effects on an imperfectly competitive industry of a tariff/duty on foreign imports point in the direction of a rise in domestic prices irrespective of the type of competition assumed (Helpman and Krugman, 1989). Several papers have also pointed out that AD protection can result in collusive outcomes with higher prices in the domestic market for both domestic and foreign firms involved in the AD case.[3] A number of dynamic models have also been developed, taking into account that firms involved in AD cases may have incentives to behave strategically to influence AD outcomes.[4] While these models offer some guidance as to what we may expect a priori about the direction of markups, it is not our intention to test any of these models formally. Rather, our primary focus will be to test for a structural break in domestic markups as a result of AD protection.

In particular, we will study the 1996 European AD cases and the domestic producers affected by them. Firm level data for the period 1992–2000 will allow us to estimate markups before and after AD protection for this group of domestic producers.[5]

Given that earlier empirical work has shown that trade liberalization disciplines markups (Levinsohn, 1993; Harrison, 1994; Krishna and Mitra, 1998), we are inclined to expect, a priori, that trade protection will raise markups. However, there are a number of reasons why the effect of AD protection on markups may not be unambiguously positive. Import diversion from dumping countries to non-dumping countries (Prusa, 1997), domestic entry and/or inward FDI[6] are just a few reasons why the increase of domestic markups due to AD protection could be dampened.

Section 2 explains the methodology we apply and discusses the company data that we use. In Section 3, we discuss our findings both for the pooled data across AD cases as well as on a case-by-case basis. In Section 4, we perform a number of extra robustness checks, and Section 5 is a concluding one.

2. Empirical methodology and data

2.1. Methodology

There are many alternative ways to estimate markups.[7] Any choice between them is likely to involve trade offs. Our methodology for estimating markups is based on Roeger

[2] In the EU, AD measures can also take the form of a price undertaking (PU), which is voluntary price increase by the importers and is also believed to raise domestic markups (Belderbos et al., 2004).

[3] For example, Veugelers and Vandenbussche (1999) and Zanardi (2004).

[4] For example, Fischer (1992), Reitzes (1993), Prusa (1994) and Pauwels et al. (2001).

[5] Under EU AD law, protection is in principle limited to 5 years (Sunset Clause).

[6] We do not observe entry and exit of firms. An 'entrant' in the data may just be a firm that meets the inclusion criteria in our data.

[7] For an overview on how to estimate markups with firm data, see Tybout (2003).