



Antidumping, signaling and cheap talk[☆]

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ABSTRACT

In the United States, there is evidence that domestic non-filing firms do not always support dumping/countervailing duty investigations. Absent other factors, domestic firms have an unambiguous incentive to support petitions filed by other domestic producers. We argue that in cases where the non-complainant firm is not a significant importer or exporter, the most plausible explanation is that non-support acts as a costly signal of private information. Extending the model to allow firms to engage in cheap talk, such signaling can take place even in the absence of an investigation. This result provides an explanation for the puzzling observation that fewer antidumping investigations are filed than one would expect.

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... at Weldbend we believe that the way to combat foreign competition is to invest in the most modern equipment, the most efficient production methods, and the most dedicated people in the world – and to treat the customer fairly. We have done all of these things, and that is why we can compete in the market. We do not need government help.

– James J. Coulas, Sr.
President, Weldbend Corporation
from March 9, 1994 response to
ITC summons (U.S. I.T.C., 1995)

1. Introduction

Antidumping (AD) and countervailing duty (CVD) tariff protection cannot lower profits for firms in AD/CVD protected industries that neither import the affected commodity nor are vulnerable to foreign government retaliation. Rather, there is enormous upside potential for firms in some industries. Nonetheless, firms that would seemingly benefit from a successful antidumping or

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Table 1

Percentage rates of positions held by domestic producers in ITC antidumping and countervailing duty investigations

Year	Support	Neutral	Oppose	Withheld	No response	No. cases
2000	56.3	1.0	0.0	42.5	0.3	39
2001	64.4	0.2	4.2	31.3	0.0	42
2002	70.4	0.2	1.5	26.6	1.3	68
2003	72.5	0.6	9.0	17.9	0.0	20

Average percentage of participants holding various stances for cases that proceed to final determination 2000–2003. Data on participant stances can usually be found in Section III of the ITC's public Title VII reports. Cases for which there is no information have been omitted. Cases for which there is summary data on positions, the summary data have been used.

countervailing duty investigation do not always support it, opting instead for a “neutral” or “opposed” stand—that is, they do not support the petition. Moreover, in a recent survey, [Blonigen and Prusa \(2004\)](#) pose a second puzzle in that given the “many positive effects for domestic producers... It seems strange that we don't see many more AD petitions.”

In the sections below, we begin with the first puzzle and propose an explanation based on signaling theory. In signaling models, firms have costly actions available by which they can distinguish themselves from their counterparts. In particular, we show that the puzzling act of opposing a petition can be used by a low-cost non-complainant as a credible signal to its rivals that it is in fact a low-cost firm. The signaling firm gains market share at the expense of losing the benefits of tariff protection. Indeed, it is exactly this costly loss of protection that makes the signal so credible. For example, in the case from which the introductory quotation comes, Weldbend Corporation officially opposed the petition despite being the largest US producer of “carbon steel butt-weld pipe fittings.” Officially opposing an antidumping petition is costly in that it reduces the likelihood of an affirmative determination. In fact, the US International Trade Commission eventually concluded in this case that the foreign competition was not the cause of injury to the domestic competitors and so no industry protection was put in place.

In a similar vein, in the mid-1980s through the early 1990s, Nucor *publicly* voiced opposition to protection, emphasizing its own cost competitiveness ([Iverson, 1986, 1993](#)). And, in at least one case in the early 1990s, Nucor did back up its public posturing by publicly opposing the AD/CVD petition ([U.S. I.T.C., 1993](#)).¹ Yet, in other instances Nucor and others have postured opposition publicly but did not back up the opposition publicly. So what was Nucor doing with their public posturing in such instances? And, more generally, why do so few firms file for relief at all or so many withdraw their petitions?

To explain this second puzzle, we extend our basic signaling framework to allow firms to costlessly communicate prior to any decision to file a dumping petition. That is, a filing firm (or firms) can inquire of each of its rivals as to its intentions in the event that an antidumping petition is filed. Because this “cheap-talk” or “preplay communication” game is one of pure coordination, firms truthfully state their plan to support or oppose, with informational consequences identical to those of the signaling game. In other words, signaling effects may be quite prevalent even if there are very few antidumping cases where domestic non-complainants publicly oppose the petition. Consequently, antidumping and countervailing duty laws can have profound impacts on the market even if domestic producers never file antidumping petitions.

The next section presents some evidence of non-support. In Section 3 we set the institutional context with a brief overview of antidumping and countervailing duty procedures. Section 4 presents the model, derives the conditions for profit maximization when the cost structure of one of the firms is private information and establishes the conditions for the existence of a signaling equilibrium. Building on this framework, in Section 5 we allow firms to communicate prior to the filing of the petition. Finally, in Section 6, we offer some conclusions.

2. Evidence of non-support

Evidence of support and non-support of AD/CVD petitions can be found in the U.S. International Trade Commission's Title VII investigation reports. At the start of an injury investigation, “affected domestic producers” are each asked whether they support, oppose or take a neutral stance towards the investigation. Further, producers are asked if they would like their stance to be made public ([U.S. I.T.C., 2004](#)). The investigation report then lists each domestic producer's stance as “support,” “opposed,” “neutral” or “withheld.” Supportive, neutral and opposed stances are self-explanatory but stances that have been withheld may be any of these. Below we argue that while some firms in opposition may also have an incentive to make their stance as public as possible when their goal is to send an unambiguous signal, for others if the signaling domestic producers believe a non-public signal is sufficiently clear (for reasons we elaborate on in Section 4) then they may well elect to keep their stance private in order to avoid labor hostility or other adverse reactions when opposed.

Looking at investigations completed between 2000 and 2003, [Table 1](#) reports that public “opposed” and “neutral” stances were as high as 9.6% of all domestic participants in AD and CVD cases that proceeded to a final determination.² Although this is not insignificant and is supportive of the notion that non-complainants do at times oppose AD/CVD petitions, it is useful to consider the likely stances of participants that chose to keep their stances off of the public record—that is, at their request, non-complainant

¹ Nucor was involved in several cases in the early 90s but with the exception of the case cited, their stand was kept confidential in the publicly available report.

² The percentage of cases with at least one domestic firm opposing or holding a neutral stance ranges between 9.5% in 2001 and 38.2% in 2002.

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