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Antidumping duties, undertakings, and foreign direct investment in the EU

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Abstract

We study the effects of EU antidumping policy when foreign firms can ‘jump’ antidumping duties through foreign direct investment (FDI) in the EU. We show that duty jumping or duty pre-empting FDI occurs if the EU administration has broader objectives than protecting EU industry’s profitability and if cost advantages of foreign firms are transferable abroad. The (expectation of) price undertakings reduces the incentives to engage in FDI and may even discourage FDI as long as products are not too differentiated. The results are consistent with recent empirical findings on antidumping jumping FDI.

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1. Introduction

The tariff-jumping motive for FDI is well developed in the literature (Campa et al., 1998; Horstmann and Markusen, 1987; Motta, 1992; Smith, 1987, Collie and Vandenbussche, 2001). These studies show under which conditions foreign firms prefer to set up local production units over exporting when serving distant markets. The trade-off foreign firms typically face in these models is based on the level of the tariff when exporting versus the fixed cost associated with setting up a manufacturing plant abroad. Other studies (e.g. Konishi et al., 1999; Levinsohn, 1989; Hillman and Ursprung, 1988)

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compare the effects of tariffs with the effects of quota and voluntary export restraints (VERs) and have shown how the profit gain for foreign firms due to VERs lowers the propensity to engage in FDI.

While the use of tariffs, quota and VERs has been reduced as a result of multilateral trade negotiations, the use of other trade policy instruments, notably antidumping, has increased. Recent empirical work has confirmed that the FDI response to antidumping actions is certainly not uncommon, in particular in case of antidumping actions targeting Japanese firms (e.g. Barrell and Pain, 1999; Girma et al., 1999; Belderbos, 1997a; Blonigen and Feenstra, 1997; Azrak and Wynne, 1995). Blonigen (2000), in a recent study, analyses duty-jumping FDI by firms based in other countries than Japan.¹ The evidence suggests that EU firms show a comparable FDI response if they are targeted by US antidumping actions, but that antidumping jumping FDI is very limited in scale in case firms without international experience based in developing countries are targeted.

Given the demonstrated importance of FDI responses to antidumping actions, it is surprising that the theoretical literature on the effects of antidumping law have by and large ignored the issue of ‘antidumping jumping’. Theoretical work has dealt with the welfare and strategic effects of antidumping laws under alternative market structures (e.g. Anderson et al., 1995; Prusa, 1994; Reitzes, 1993; Leidy and Hoekman, 1990; Webb, 1992; Staiger and Wolak, 1992; Fischer, 1992; Bernhofen, 1995), industries’ incentives to petition for antidumping (e.g. Feinberg and Hirsch, 1989; Hoekman and Leidy, 1992; Sleuwaegen et al., 1998), and the potential effect of antidumping measures in strengthening collusive practices (e.g. Prusa, 1992a; Veugelers and Vandebussche, 1999). Two studies deal with the relationship between antidumping and FDI. Blonigen and Ohno (1998) focus on the strategic interactions between exporters from different countries facing the possibility of antidumping measures. In a two-period model, they show the possibility of a ‘protection building equilibrium’. A foreign firm that intends to engage in second period FDI increases its first period export in order to increase the level of protection faced by the rival foreign firm (which continues to export in the second period). Haaland and Wooton (1998) are concerned with the effects of economic integration involving the abolition of antidumping law. In a symmetric model of two countries considering reciprocal (anti-)dumping and reciprocal FDI, they find that producers in both countries would gain from the abolition of antidumping law from the WTO statute. This result is driven by the fact that reciprocal antidumping jumping FDI increases competition and reduces profits of domestic firms.

This paper examines antidumping jumping FDI in the context of EU antidumping practices. Incorporating the most particular features of EU antidumping law, we analyse the conditions under which antidumping jumping FDI occurs and the output and welfare effects of antidumping actions. An EU antidumping case can only be initiated when imports are dumped on the European market and cause material injury to the EU industry. All types of international price discrimination with the lower price charged in the EU can classify as dumping, at least for products for which there are close EU substitutes (‘like products’). We explicitly consider a clause in EU antidumping law that allows the

¹ In addition, Perrin (2001) found a positive impact of antidumping actions in the EU and the US on South Korean firms’ FDI.

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