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Policy externalities: How US antidumping affects Japanese exports to the EU

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Abstract

This paper investigates the international externalities associated with US use of antidumping (AD) measures by examining the relationship between US AD duties (ADDs) and Japanese exports to the US and EU over the 1992–2001 period. We first examine the trade destruction and trade diversion associated with Japanese exports to the US market resulting from US AD duties. We then investigate whether US ADDs impose externalities on a non-targeted third country by examining the effect of these US policies on Japanese exports to the EU. We document sizable trade deflection and trade depression in the EU market resulting from US ADDs. Model estimates indicate that, on average, roughly one quarter to one third of the value of Japanese exports to the US thought to be *destroyed* by a US ADD is actually *deflected* to the EU in the form of a contemporaneous increase in exports. Finally, we present evidence that US ADDs impose terms-of-trade externalities on non-targeted markets. We find that US duties on Japanese exports are associated with substantially lower Japanese export prices in the EU market.

JEL classification: F13
Keywords: Antidumping; Trade deflection; Trade destruction; Trade diversion; Trade depression; Terms-of-trade externality

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1. Introduction

Does a large importing country's use of an antidumping trade policy restriction impose externalities on countries other than the target of the trade remedy action? Most research on antidumping has focused on its economic costs from the perspective of the countries directly involved in the antidumping action, i.e., the policy-imposing country and the home country of the targeted exporting firms. These costs of antidumping in either the policy-imposing or targeted country have been well documented[1], and we will not investigate them formally here. Instead, the goal of the current paper is to take the analysis one step further and examine the impact of one country's use of antidumping measures on the economic activity in a *third* country not directly involved in the antidumping procedure.

How might a country's use of antidumping impose an externality on a third country? The most direct path is for the imposition of a trade remedy to change trade patterns and thus export prices, i.e., affecting the third country's terms of trade. In a three-country model, Bown and Crowley (2004) show how country A's imposition of a trade remedy against exporters from country B could lead to increased exports from B to a third country C. If the policy-imposing country is large enough to affect world prices, then a trade policy change would induce a terms-of-trade externality in the sense formulated by Johnson (1953–54) and highlighted by the recent theoretical work on trade agreements by Bagwell and Staiger (1999, 2002). The purpose of this paper is thus to take a first step in empirically investigating whether one country's use of antidumping generates systematic and sizable changes in both trade patterns and the terms of trade in the market of a third, non-targeted country.[2] In the empirical analysis, the US will be the AD-imposing country (A), and we will trace the impact that US ADDs have on Japanese (country B) exports to the EU (country C).

A broader goal for this paper is to contribute to the literature investigating the international ramifications of the use of antidumping as a policy instrument. Our contention is that the international linkages of antidumping are important and still not adequately understood. While the frequent use of antidumping by the US and the EU has been the subject of extensive research[3], and there is even an evolving literature examining its use in other countries, including some developing countries (e.g., Francois and Niels, 2004); understanding the international aspects of antidumping becomes increasingly important as its use rises and antidumping laws proliferate worldwide, as has been the recent trend (Miranda et al., 1998; Zanardi, 2004). Some of the worldwide proliferation is attributable to countries using antidumping in order to establish a credible retaliation device. Thus, proliferation may continue until all countries have adopted AD laws and the threat of AD use is a deterrent to countries using it in practice (Prusa and Skeath,

[1] Such costs include the losses to domestic consumers or downstream users through higher prices, which usually more than offset the combination of any gains to the protected industry in the policy-imposing country and its government's collection of tariff revenue. In the exporting country, firms targeted by the trade remedy face a reduction in exports to the now-protected market and in profitability. Furthermore, the use or existence of an antidumping law has been shown to impose other costs on these two countries, as by inducing socially inefficient "antidumping-jumping" foreign direct investment or collusive behavior among targeted firms.

[2] In this paper we do not intend to look for evidence that systematic changes in trade patterns or the terms-of-trade between B and C are valued or shunned by C's government, i.e. we will not attempt to differentiate between the cases in which C's government might consider this a positive versus a negative externality. We leave this follow-up question for future research that we discuss in Section 4.

[3] For surveys on the literature focused primarily on the US and EU, see Blonigen and Prusa (2004) and Nelson (2006-this issue). Messerlin and Reed (1995) discuss the comparative political-economy aspects of its use across the US and EU.