

Antidumping duties and macroeconomic variables: The case of Korea

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Received 1 July 2004; received in revised form 1 February 2005; accepted 1 July 2005

Available online 8 September 2005

Abstract

Unlike most empirical studies on the administered protection measures that dealt with the developed countries, the present study reveals the relationship between macroeconomic variables and the number of investigations of antidumping duties in Korea. The unit root tests show that it is not unrealistic to assume that all concerned variables are integrated of order one. Johansen's cointegration test shows that there is a long run equilibrium relationship between antidumping duties and real GDP growth rate. The error correction model reveals that protection measures such as antidumping duties lead to slowdown in the overall economic activities in Korea.

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JEL classification: F13; O24

Keywords: Antidumping duties; Macroeconomic variables; Korea

1. Introduction

Although antidumping duties were allowed under the General Agreement on Tariffs and Trade (GATT), they were seldom imposed until the early 1970s. Beginning from the mid-1970s, antidumping duties have been actively imposed. The investigation, as well as the imposition, of antidumping duties may act as strong protectionist measures. Although antidumping duties were almost entirely used by the developed countries up until the mid-1980s, a few developing countries have begun to impose antidumping duties since the late 1980s. Many others have

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followed this trend since the late 1990s. However, most, if not all, of the literature has dealt with the determinants of antidumping decisions in developed countries, especially, the United States; for instance, [Blonigen and Prusa \(2001\)](#), [Baldwin and Steagall \(1994\)](#), [Lee and Mah \(2003\)](#), [Leidy \(1997\)](#) and [Mah \(2000\)](#).

Korea is one of the few developing countries, which started investigations of antidumping duties in the late 1980s and has used those measures actively since then. The purpose of this study is to reveal the long run equilibrium relationship and causality between investigation of antidumping duties and macroeconomic variables in Korea. The results and implications drawn from those would be compared with the previous works which dealt with developed countries. The remainder of this paper is organized as follows. In the next section, the institutional background of the antidumping decision making process in Korea and the econometric models to analyze the stationary properties, the cointegration nature and the causal relationships between the concerned variables are explained. In Section 3, the empirical evidences following from the econometric models are provided. The final section summarizes the overall results.

2. Institutional background and the models

Korea, which became a contracting party of the GATT in 1967, introduced an antidumping duties provision in its Tariff Act in 1983, which actually modified the pre-existing 'unfair price preventing duties.' It was basically consistent with the GATT Article VI. Korea became a signatory to the Tokyo Round Antidumping Code in February 1986. The Ministry of Finance was in charge of investigating the existence of dumping, material injury to the domestic industry and causation from dumped imports to material injury ([Chang \(1998\)](#)). The current Tariff Act on antidumping duties is based on the 1994 GATT Article VI and the Antidumping Code, as Korea is a member of the WTO.

According to the current regulations on antidumping decisions in Korea, which began to govern in 1996, the KTC is in charge of both calculation of dumping margin and material injury/causation. When it receives a complaint of foreign dumping, it evaluates whether dumping has occurred. It must also determine whether or not the complainant industry in Korea is either materially injured or threatened with material injury as a result of the dumped goods. A preliminary decision should be made within 3 months from the date of initiating investigation. The final decision should be made within 3 months from the date of preliminary decision. The Minister of Finance is required to determine the necessity of imposition and degree of antidumping duties within 1 month from the date of the final decision by the KTC ([KTC \(2002\)](#)). The formal record of investigations regarding antidumping duties in the KTC dates back to early 1987. From the first half of 1987 to the second half of 2003, the number of investigations of the antidumping duties cases totaled some 79. About two-thirds of the investigations resulted in actual imposition of antidumping duties.

Regarding the determinants of protectionist threats such as investigation of antidumping duties, both economic and political factors have been studied in the literature. The authority in charge of antidumping duties may be influenced by changes in macroeconomic situation ([Baldwin and Steagall \(1994\)](#)). This study begins by conjecturing that the KTC's decisions on investigation of antidumping duties are affected by the macroeconomic situation of the overall economy such as trade balance and import penetration ratio as the international economic factors and real GDP growth rate as the domestic economic factor. More specifically, its investigation of antidumping duties might have long run equilibrium relationships with the macroeconomic variables. Authors

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