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Evidence on the upstream and downstream impacts of antidumping cases

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Abstract

Anecdotal and theoretical evidence suggests that antidumping cases filed on behalf of domestic upstream intermediate products affect not only the upstream competitors, but also the downstream users. We empirically examine these claims using a panel of upstream/downstream product pairs over the 1977–1992 period. The results show that the imposition of antidumping duties in an upstream industry positively affects the quantity and value of domestic upstream production and negatively affects the quantity of downstream production. In addition, we find evidence that duties negatively affect the quantity value of dumped upstream imports (the harassment effect), positively affect non-dumped upstream imports in quantity terms (the diversion effect), and positively affect the value share of upstream domestic production (market-share shifting).

JEL classification: F13

Keywords: Antidumping; Intermediate product; Market response

1. Introduction

Antidumping laws are a form of "fair" trade protection in which a beleaguered domestic industry may prompt the government to investigate its allegation that a foreign firm has caused it injury by selling at prices below "fair value." Most industrialized countries have and use these laws, as permitted under the GATT Code Article VI.[1] Since 1980, the number of antidumping investigations filed in the United States and in other countries has risen dramatically.[2]

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This paper empirically examines the market impact of antidumping case filings and duty impositions in upstream (intermediate product) industries under the presumption that effects will be felt by both domestic and foreign competitors in the upstream industry as well as by domestic downstream users of the allegedly dumped good. We focus on a sample of 10 U.S. antidumping cases filed between 1978 and 1992 in industries whose products have a well-defined downstream industry customer base. Current U.S. antidumping law does not require the investigating agencies to consider how antidumping duties affect downstream users, but a thorough understanding of the welfare implications of the antidumping laws would be incomplete without an analysis of their impact on the industries upon which duties are imposed and on any downstream buyers.[3]

Our analysis extends the current empirical literature on the effects of antidumping actions in several ways. First, we add to the fairly small number of papers that use disaggregated and industry-specific microeconomic data.[4] Much of the existing research uses aggregate data, as in Finger, Hall, and Nelson (1982), although there are a few notable exceptions. Krupp and Pollard (1996) use data disaggregated to the same level as in the present paper, but they collect them for only one industry. Staiger and Wolak (1994) use more aggregate data, but try to mitigate the effects of aggregation by incorporating some disaggregated measures. Prusa (1997), who voices concern about the level of aggregation in most studies, uses fairly disaggregated data at the five-digit Foreign Trade Statistics (TSUSA) level, but addresses a different issue. In this paper, we use seven-digit TSUSA and eight-digit SIC data for our entire sample of industries.

Second, we are able to examine the effects of antidumping case filings and imposed duties on upstream quantities, as well as the effects on market shares of imports and of domestic import-competing products. Our data also allow us to analyze how the downstream users of these upstream inputs are affected by changes in downstream production quantities after the antidumping orders are in place.

In addition, we consider some interesting questions raised by the anecdotal evidence. These questions include:

- Is there evidence of market-share shifting towards dumped imports and away from domestic products and non-dumped imports *prior* to an antidumping investigation?
- Are there any differences in responses for firms' behavior after the final antidumping order is handed down? Specifically, is there evidence of diversion away from dumped imports towards domestic products and non-dumped imports?[5]
- What are the impacts of the investigation and the imposition of antidumping duties on the value of upstream domestic production and the value of dumped imports? What can we infer about price movement in upstream markets?

The interaction between upstream and downstream industries and markets varies significantly across products and may be modeled in a variety of ways. For some purposes the competitive structure of the relevant markets matters and the extent to which upstream–downstream relations are intra-firm rather than inter-firm in nature is also important. For present purposes, however, the relevant interactions are general rather than model-specific. Thus, we can examine the above questions without concern for the precise nature of upstream and downstream market structures.