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Macroeconomic factors and antidumping filings: evidence from four countries

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Abstract

This paper examines the relationship between antidumping filings and macroeconomic factors. Real exchange rate fluctuations affect the two criteria for dumping in opposite ways, making the overall effect on filings ambiguous in theory. Examining the filing patterns of the four major users of AD law during the 1980–98 period we find that real exchange rates and domestic real GDP growth both have statistically significant impacts on filings. Bilateral filing data indicate that a one-standard deviation real appreciation of the domestic currency increases filings by 33%. We also find one-standard deviation fall in domestic real GDP increases filings by 23%.

Keywords: Antidumping law; exchange rate pass-through

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1. Introduction

The GATT/WTO antidumping (AD) statute requires two criteria to be met in order to impose duties on foreign suppliers named in antidumping suits. First, there must be evidence that the domestic industry has suffered ‘‘material injury’’ (e.g., a decline in profitability) as a result of foreign imports. Second, the foreign suppliers must be found to be pricing at ‘‘less than fair value’’ (LTFV). This latter

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criterion can be determined in either of two ways: (1) by showing that the price charged in the domestic market by the foreign suppliers is below the price charged for the same product in other markets (i.e., the ''price-based'' method) or (2) by showing that the price charged in the domestic market is below an estimate of cost plus a normal return (i.e., the ''constructed-value'' method).

The focus of this paper is on how macroeconomic factors in general, and fluctuations in real exchange rates in particular, can affect the determination of each of these criteria. As we will explain, a foreign firm's response to a real exchange rate changes increases the likelihood that at least one of the AD criteria will be satisfied. At a theoretical level real exchange rate changes can either increase or decrease filings, depending on which AD test is most responsive to pricing changes. Empirically which effect is more important is also an open question. Within the business community there appears to be a belief that a strong domestic currency precipitates filings. For example, in its March 26, 1999 *Economic Analyst* publication, Goldman Sachs documents a rise in AD cases associated with an increase in the value of the trade-weighted U.S. dollar. Interestingly, the existing empirical literature reaches the opposite conclusion. In particular, using a dataset based on U.S. AD filings from 1982 to 87 Feinberg (1989) finds that filings increase with a weaker dollar.

Fluctuations in economic activity, both in the importing country and the exporting country, might also affect filing decisions. Clearly, a slump in economic activity in the importing country makes it more likely domestic firms perform poorly which may facilitate a finding of material injury. Also, a weak economy in the importing country might naturally lead foreign firms to reduce prices on shipments to the importing country. This could increase the likelihood of pricing below fair value. Thus we would expect that import country GDP will be negatively related to filings. It is less clear how export country GDP is related to filings. One possibility is that a weak foreign economy increases the likelihood that foreign firms will cut prices to maintain overall levels of output. While such behavior might cause injury to domestic firms, it is not clear that it would trigger pricing below ''fair value'' in the price-based sense, since foreign firms would presumably be lowering prices to all markets (especially their own home market). It is possible, however, that generally low prices would increase the chance of LTFV using the ''constructed-value'' method.

Our goal in this paper is to examine the relationship between AD filings, real exchange rates, and economic activity using data for four of the primary AD users (Australia, Canada, the European Union, and the U.S.).[1] Interestingly, despite the

[1] Several recent papers study issues related to those examined in this paper. Hens et al. (1999) study pricing-to-market in a reciprocal duopoly model. However, they do not address the issue of how pricing-to-market is affected by AD law. Blonigen and Haynes (1999) study the pricing behavior of firms following the imposition of AD duties. We are interested in the pricing behavior prior to an AD investigation. Finally, a number of papers including Baldwin and Steagall (1994) and Krupp (1994) examine how various factors influence the ITC injury decision. We focus not on the injury determination but on the number of filings in this work.