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Tariff-jumping antidumping duties

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Abstract

This paper examines the tariff-jumping response of all firm and product combinations subject to US antidumping investigations from 1980 to 1990 using a newly constructed database. Previous studies have focused only on Japanese FDI responses to antidumping protection and found large tariff-jumping responses. In contrast, this paper finds quite modest tariff-jumping responses and the evidence suggests that tariff-jumping is only a realistic option for multinational firms from industrialized countries. This may partially explain developing countries' concerns about addressing AD protection in the WTO. Despite high tariff-jumping responses, there is no evidence of a Japanese-specific propensity to tariff-jump, holding other economic factors constant.

Keywords: Foreign direct investment; Antidumping protection; Trade policy; Tariff-jumping

JEL classification: F13; F23

1. Introduction

In August 1993, Eastman Kodak Company filed a US antidumping (AD) petition against US imports of photographic paper originating from plants owned by Fuji Photo Film in Japan and the Netherlands. By October of 1993, preliminary decisions in the case had found dumping margins of over 300% against the Fuji

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plants and ruled that the imports were injuring the domestic industry. While this led to an ensuing suspension agreement that led to substantially lower imports for a brief period, Fuji soon located a photographic paper manufacturing plant to the United States that was operational by March 1996. As reported by Komuro (1998), less than a year after its US plant opening, Fuji's share of the US photographic paper market had surpassed the market share Fuji had enjoyed before the US AD petition was filed by Kodak.

The above is an example of foreign direct investment (FDI) motivated by avoiding a trade protection barrier, or more commonly, tariff-jumping FDI. The phenomenon is important because it likely increases the competition between the foreign and domestic firms, thereby reducing, eliminating, or (in the case above) reversing the positive impact of the initial trade policy on the protected domestic firms. In turn, domestic consumers gain from increased competition, while the government loses direct revenue in the case of a tariff. Recent theoretical papers have broadened the issues connected with tariff-jumping FDI by considering models where the government and/or firms act strategically in the determination of trade policy when tariff-jumping FDI is possible.[1]

Tariff-jumping FDI connected with AD protection presents a number of interesting issues that are not present with other standard forms of trade protection because of how AD duties are determined and potentially changed over time. As in the Kodak–Fuji case above, AD duties are often quite high, averaging almost 34% (median of 20%) for all firms receiving US AD duties from 1980 through 1990. Unlike many other forms of trade protection, these duties are not determined by government and industry negotiations, but by technical calculations of the difference between the US price of the imports and a definition of 'fair' or 'normal' value. Thus, there is no indication that the government is acting strategically in the sense of setting a tariff that affords maximum protection to the domestic industry without inducing tariff-jumping, as in the theoretical model presented by Ellingsen and Warneryd (1999). Finally, AD duties are not fixed, but are recalculated by the US Department of Commerce (USDOC) over time as dumping behavior changes in what are called administrative reviews. These reviews allow firms to stop dumping and obtain refunds of AD duties subsequent to the case, which could provide a much lower incentive to tariff-jump. However, the USDOC often employs certain methods that lead to much higher AD duty calculations in reviews when the USDOC rules the foreign firm is not fully

[1] A number of papers, including Brander and Spencer (1987), Levinsohn (1989), Haaland and Wooton (1998) and Ellingsen and Warneryd (1999) focus on a government's optimal trade protection policy when tariff-jumping FDI is possible. In contrast, Smith (1987), Motta (1992) and Flam (1994) highlight various equilibria that may arise in a game where both the trade-policy-setting government and foreign firm are acting strategically. Finally, Blonigen and Ohno (1998) examine a setting where two exporting firms with different costs of tariff-jumping FDI act strategically when facing possible protection in their common export market.