天津外国语大学(天外)
Tianjin Foreign Studies University (TFSU)

Global Economics

Online class starts at 08:00

(Beijing Time, GMT+8)

Ivan Monich, PhD;

www.Monich.pro

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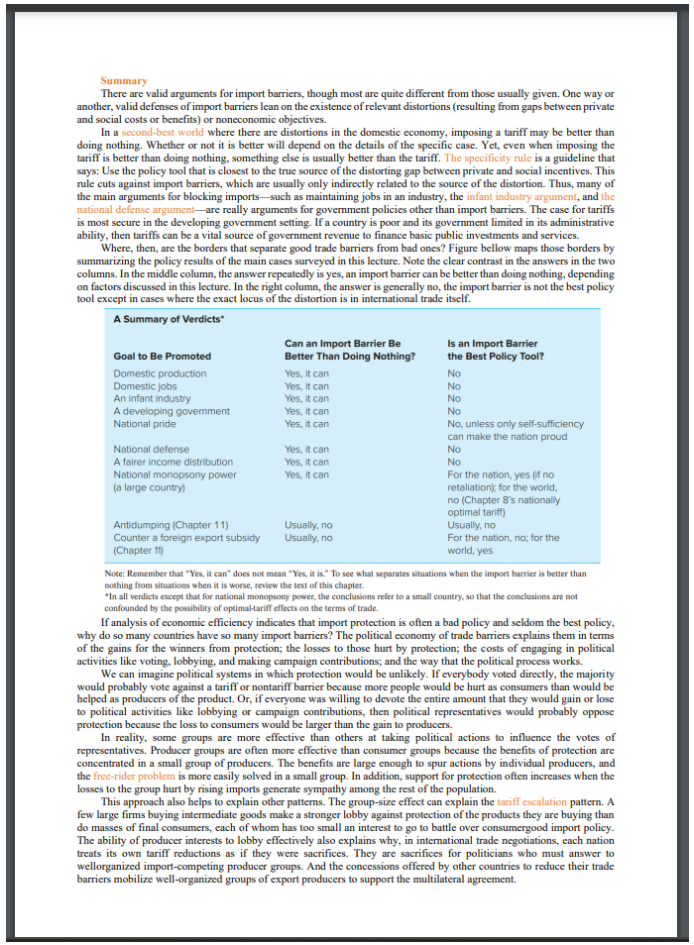
Summary

Task 1. Please, read the review of the summary. Free-rider problem.

There are valid arguments for import barriers, though most are quite different from those usually given. One way or another, valid defenses of import barriers lean on the existence of relevant distortions (resulting from gaps between private and social costs or benefits) or noneconomic objectives.

Key Terms			
	Second-best world	Infant industry argument	National defense argument
	Externalities	Trade adjustment assistance	Free-rider problem
	Spillover effects	Developing government argument	Tariff escalation
	Specificity rule		Sudden-damage effect



Summary

There are valid arguments for import barriers, though most are quite different from those usually given. One way or another, valid defenses of import barriers lean on the existence of relevant distortions (resulting from gaps between private and social costs or benefits) or noneconomic objectives.

In a second-best world where there are distortions in the domestic economy, imposing a tariff may be better than doing nothing. Whether or not it is better will depend on the details of the specific case. Yet, even when imposing the tariff is better than doing nothing, something else is usually better than the tariff. The specificity rule is a guideline that says: Use the policy tool that is closest to the true source of the distorting gap between private and social incentives. This rule cuts against import barriers, which are usually only indirectly related to the source of the distortion. Thus, many of the main arguments for blocking imports—such as maintaining jobs in an industry, the infant industry argument, and the national defense argument—are really arguments for government policies other than import barriers. The case for tariffs is most secure in the developing government setting. If a country is poor and its government limited in its administrative ability, then tariffs can be a vital source of government revenue to finance basic public investments and services.

Where, then, are the borders that separate good trade barriers from bad ones? Figure bellow maps those borders by summarizing the policy results of the main cases surveyed in this lecture. Note the clear contrast in the answers in the two columns. In the middle column, the answer repeatedly is yes, an import barrier can be better than doing nothing, depending on factors discussed in this lecture. In the right column, the answer is generally no, the import barrier is not the best policy tool except in cases where the exact locus of the distortion is in international trade itself.

A Summary of Verdicts*

Goal to Be Promoted	Can an Import Barrier Be Better Than Doing Nothing?	Is an Import Barrier the Best Policy Tool?
Domestic production	Yes, it can	No
Domestic jobs	Yes, it can	No
An infant industry	Yes, it can	No
A developing government	Yes, it can	No
National pride	Yes, it can	No, unless only self-sufficiency can make the nation proud
National defense	Yes, it can	No
A fairer income distribution	Yes, it can	No
National monopsony power (a large country)	Yes, it can	For the nation, yes (if no retaliation); for the world, no (Chapter 8's nationally optimal tariff)
Antidumping (Chapter 11)	Usually, no	Usually, no
Counter a foreign export subsidy (Chapter 11)	Usually, no	For the nation, no; for the world, yes

Note: Remember that "Yes, it can" does not mean "Yes, it is." To see what separates situations when the import barrier is better than nothing from situations when it is worse, review the text of this chapter.
*In all verdicts except that for national monopsony power, the conclusions refer to a small country, so that the conclusions are not confounded by the possibility of optimal-tariff effects on the terms of trade.

If analysis of economic efficiency indicates that import protection is often a bad policy and seldom the best policy, why do so many countries have so many import barriers? The political economy of trade barriers explains them in terms of the gains for the winners from protection; the losses to those hurt by protection; the costs of engaging in political activities like voting, lobbying, and making campaign contributions; and the way that the political process works.

We can imagine political systems in which protection would be unlikely. If everybody voted directly, the majority would probably vote against a tariff or nontariff barrier because more people would be hurt as consumers than would be helped as producers of the product. Or, if everyone was willing to devote the entire amount that they would gain or lose to political activities like lobbying or campaign contributions, then political representatives would probably oppose protection because the loss to consumers would be larger than the gain to producers.

In reality, some groups are more effective than others at taking political actions to influence the votes of representatives. Producer groups are often more effective than consumer groups because the benefits of protection are concentrated in a small group of producers. The benefits are large enough to spur actions by individual producers, and the free-rider problem is more easily solved in a small group. In addition, support for protection often increases when the losses to the group hurt by rising imports generate sympathy among the rest of the population.

This approach also helps to explain other patterns. The group-size effect can explain the tariff escalation pattern. A few large firms buying intermediate goods make a stronger lobby against protection of the products they are buying than do masses of final consumers, each of whom has too small an interest to go to battle over consumergood import policy. The ability of producer interests to lobby effectively also explains why, in international trade negotiations, each nation treats its own tariff reductions as if they were sacrifices. They are sacrifices for politicians who must answer to wellorganized import-competing producer groups. And the concessions offered by other countries to reduce their trade barriers mobilize well-organized groups of export producers to support the multilateral agreement.

Case-Study 01

Task 1. We agreed to start our class by checking the case-study. You are given 10 minutes to complete it.

Please, read the case study and answer to the questions. The file has been sent to you in our Chat.

Case Study How Sweet It Is (or Isn't)

Do you like to eat things that are sweet? If you do, and if you live in the United States or Japan, then you are a victim of your country's protectionist policies toward sugar. The domestic price of your sugar is about double the world price. For the United States, on average during 2015–2017, the domestic price of raw sugar was $0.27 per pound, while the world price was $0.16 per pound. For the United States, sugar protection costs consumers about $3.5 billion per year.

If you live in either of these countries, have you ever sent a letter to your legislative representative asking him or her to oppose sugar protection, a policy that is clearly against your interests? Have you contributed money or time to a group that lobbies the government to end sugar protection? Do you know anyone who has ever done so? Presumably not. Why not? While $3.5 billion per year sounds like a lot of money, it is only about $11 per person per year. As discussed in the text, the average gain for any one person to oppose this protection is small. It's not worth your effort.

The situation is different for sugar producers. For the United States, the increase in domestic producer surplus is about $1.5 billion per year. These gains are concentrated in a small number of firms. It is worth it for them to actively seek policies that restrain sugar imports. Two companies, American Crystal in North Dakota and Minnesota, and Flo-Sun in Florida, have been particularly active, contributing millions of dollars in recent years to Democratic and Republican congressional candidates and political parties. For Flo-Sun, owned by two brothers, Alfonso and Jose Fanjul, one estimate is that protectionist sugar policies add $65 million per year to their profits. A few million bucks to defend this profit stream is definitely a good investment.

Another group active in lobbying is the American Sugar Alliance, representing major U.S. sugar growers. In addition, the high domestic price for sugar expands demand for corn sweeteners, a close substitute for sugar. Corn farmers in the American Midwest like the sugar protection, and they have a major influence on the positions taken by their states' representatives and senators.

The Coalition for Sugar Reform, which includes food manufacturers that use sugar, consumer groups, taxpayer advocates, and environmental groups, is active in opposing sugar protection. It has some good arguments on its side. As Jeff Nedelman, a spokesperson for the coalition, said, "This is a corporate welfare program for the very rich."* The coalition points out that jobs are being lost as sugar-using firms shift production to other countries where sugar prices are cheaper. Furthermore, by polluting and disrupting water flows, the protected sugar production in Florida is also a cause of serious environmental decline in the Everglades. These are good points, but they are no match for the money and organization of the proponents of protection.

Foreign sugar producers, many of them poor farmers in developing countries, are also hurt by protectionist policies in importing countries. Researchers estimate that the world sugar price would rise by 17 percent if the United States removed its sugar policies. But it is not easy for foreign interests to have an effect on the U.S. political process. Foreigners don't vote, and political opponents can charge that legislators who openly side with foreigners against U.S. workers and companies are "anti-American."

So the sugar protection policies continue. For the United States, the net cost to the country is close to $2 billion per year. It is not that sugar is so large or important a part of the economy that we have to protect it. In the United States, about 15,000 people work growing sugar, and about 14,000 people work in sugar refining. If we shifted to free trade, employment would probably decline by less than 3,000. The small number of people who lose their jobs could be reemployed with little trouble in other sectors of the economy. Instead, we see the pure political economy of protection, with the producer interests in this case much better organized and effective than the consumers are.

DISCUSSION QUESTION

A U.S. company (like Jelly Belly) makes its gourmet jelly beans in the United States, and sugar is about half the cost of production. Can the company change U.S. sugar policy? If not, what are its other options?

*As quoted in "Sugar Rules Defy Free-Trade Logic," *New York Times*, May 6, 2001.

Zuo Zhiye
It can lobby other companies in the same industry to increase the price of the final product at the same time
12:34

Zou Yujie 2007574016
The company could not change America's sugar policy, and it might raise the price of sugar to protect it.
maoyuqing
no. but the company can use the corn sweetener to reduce the cost of production
2007574042李弈乐LiYile
No, the company may actively seek policies that restrain sugar imports.
2007574023GongXirui
Companies that produce jelly beans have a greater demand for sugar, and there are many more companies in the supply chain that demand sugar, all of which drive the market for manufacturing sugar as an initial ingredient to be larger and lead to a policy discourse that still falls to the sugar producers.
2007574041Sun Zhuxuan
I suppose that the company can not change the policy, but it can use other things like corn sweeteners to supersede sugar and reduce the costs.
Zuo Zhiye
Maybe they can improve the recipe? Like choosing a sugar substitute? Have reached to reduce production costs
200718班成轩超ChengXuanchao
Substitutes can be found to reduce raw materials for production

Case-study
FOCUS on Labor How Much Does It Cost to Protect a Job?

Defenders of protection against imports claim that it is needed to protect domestic jobs. Although it sometimes sounds like any people who lose their jobs to increased imports are unemployed forever, we know that that is not true. Workers lose their jobs for many reasons, and nearly all of them then look for and find other jobs. It may take awhile and the new jobs may not pay as much (at first) as the previous jobs did, but they will be reemployed.

Focus on Labor How Much Does It Cost to Protect a Job?

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So the proponents of protection are really saying that restrictions on imports are needed to *maintain jobs in the import-competing industry that is receiving the protection*. We know that import barriers can maintain jobs in an import-competing industry by permitting domestic production at a level higher than it would be with free trade. But we also know from the discussion in the text that the specificity rule shows that an import barrier is not the best government policy to accomplish this objective.

Still, governments do use tariffs and nontariff barriers to prop up domestic production and maintain jobs in import-competing industries. How large are the costs of doing so? We can examine the costs in two ways. First, how much does it cost domestic consumers of the product per job maintained? That is, what is the consumer surplus loss per job maintained? Second, what is the net cost to the country per job maintained?

We can turn to researchers at the Institute of International Economics to provide some estimates. Hufbauer and Elliott (1994) examined 21 highly protected industries in the United States, and Messerlin (2001) examined 22 highly protected industries in the European Union, both for 1990. Their estimates assume that the tariffs and import quotas do not affect world prices, the small-country assumption that is standard for this chapter.* Here is what they found:

	Production Worker Jobs Maintained	Cost per Job Maintained ($ thousands)	
		To Domestic Consumers	To the Nation
United States (21 industries)	191,764	169	54
European Union (22 industries)	243,650	191	99

For the 21 industries in the United States, the jobs maintained by import protection represented about 10 percent of workers in these industries and less than 0.2 percent of the U.S. labor force. For the European Union, the maintained jobs were about 3 percent of workers in the 22 industries and less than 0.2 percent of the labor force.

These estimates show the high cost of maintaining industry jobs through high levels of import protection. For the United States, consumers paid an average of about $169,000 per job maintained, and in Europe about $191,000 per job. Per year, this was over six times the average annual compensation for a manufacturing worker in each country. It would have been much cheaper for domestic consumers to simply pay these workers not to work than it was to maintain their jobs using import protection. For some specific industries the consumer cost per job maintained in the industry is breathtaking:

- For the United States, $600,000 for a sugar job and $498,000 for a dairy products job.
- For the European Union, $512,000 for an autoworker job and $474,000 for a chemical fiber job.

The net national cost per job was also high in both countries: $54,000 in the United States and $99,000 in the European Union. The net national cost per job was higher than the compensation earned by the typical manufacturing worker. It is worth noting that the average net national costs per job were this high because some of the protection was through VERs and similar policies that permit foreign exporters to raise their prices. Even if we remove these price markups lost to foreign exporters, the net national cost per job was still rather large—an average $18,000 in the United States and $42,000 in the European Union.

If our goal is to maintain jobs in these industries, the specificity rule says we can do better. Just paying the workers to have jobs in which they do nothing would be less costly. Indeed, the cost per person of a high-quality worker adjustment program that offers training and assistance to these workers to find well-paying jobs in other industries would be much less than the net national cost of maintaining these jobs through high import barriers.

*If, instead, the importing country is a large country, then including the effects of a change in the world prices would have almost no effect on the estimates of the cost to consumers per job maintained. For each industry both the numerator and the denominator of the calculation used to obtain the estimate would change by about the same proportion. Ignoring the world price change could result in estimates of the net cost to the country per job maintained that are larger than the costs actually are. If the importing country is large enough to drive down a product's world price when it imposes a tariff or quota, then the gains from the improved terms of trade would be set against the standard efficiency losses.

Questions and Problems

1. A single firm's innovations in production technology often benefit the production of other firms because these other firms learn about the new technology and can use some of the ideas in their own production.

    a. Is there an externality here?

    b. How would an economist rank the following two policies in this situation? Why?

        i. A tariff on imports, to make sure that domestic production using the new technology occurs.

        ii. A subsidy to domestic production, to make sure that domestic production using the new technology occurs.

    c. What third policy (a tax or a subsidy to something) would the economist recommend as even better than these two?

2. What is the specificity rule?

Questions and Problems

Australia has only one firm that makes aircraft. Without assistance from the government, that firm has lost most of its business to imports from the United States and Europe. Which of the following policies would be most costly for the Australian nation as a whole, and which would be least costly?

Policy A: Paying the lone Australian firm a production subsidy per plane, without protecting it against imports.

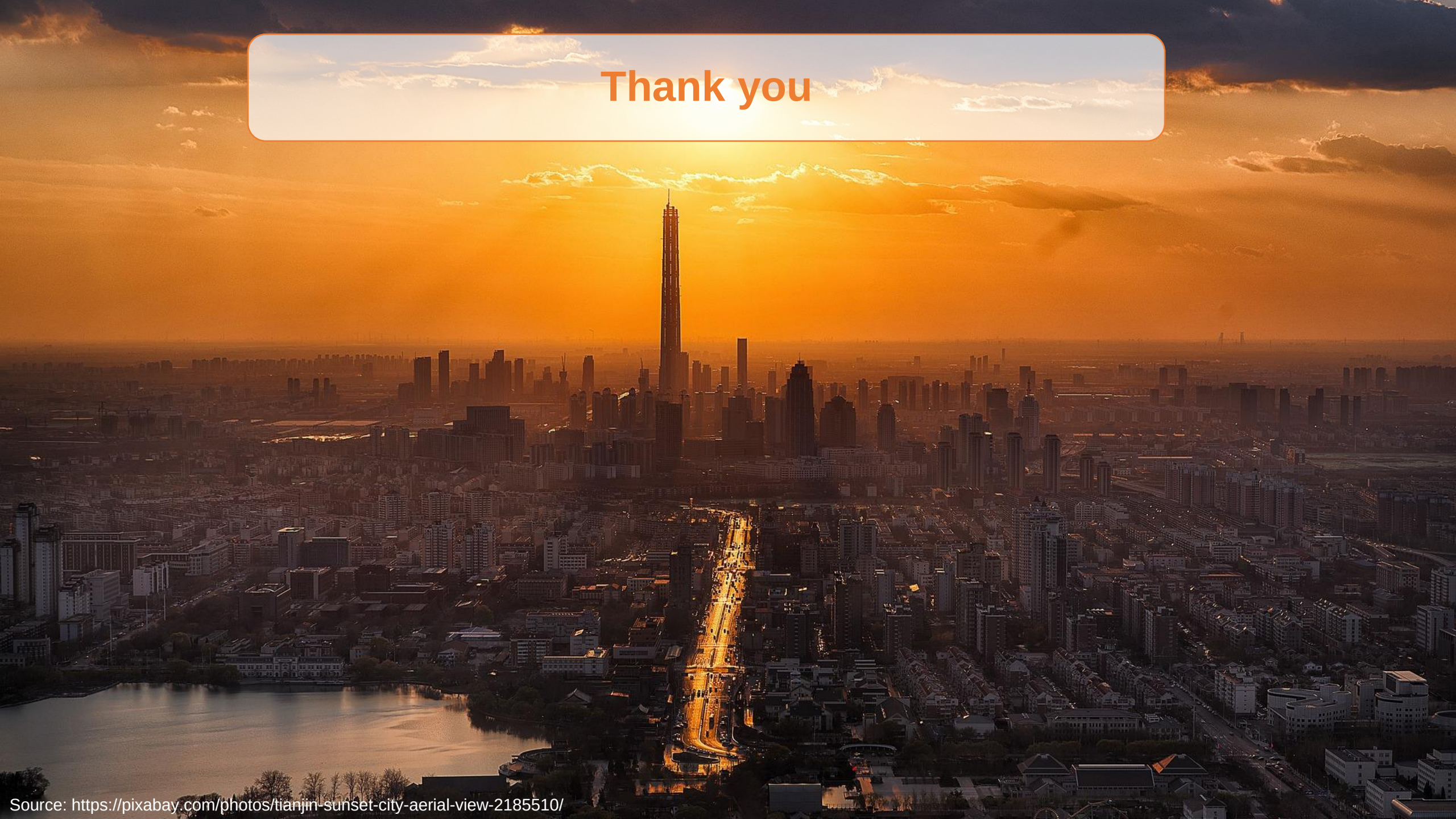
Policy B: Imposing a tariff equal to the production subsidy in policy A.

Policy C: Imposing an import quota that cuts imports just as much as policy B would.

Questions and Problems

- A small price-taking nation imports a good that it could not possibly produce itself at any finite price. Can you describe plausible conditions under which that nation would benefit from an import tariff on the good?
- Can you describe plausible conditions under which a nation would benefit from subsidizing imports of a good?
- “The infant industry argument is not really an argument for a tariff on imports of a product.” Do you agree or disagree? Why?
- Do you favor or oppose the government policy of offering extra adjustment assistance to workers displaced by increasing imports? Why?

Thank you



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Pushing Exports

Controversy over export behavior and export policy rivals the perennial fights over import barriers. On the export side, however, the fight takes on a somewhat different form. Here the fight usually centers on the artificial promotion of trade rather than on trade barriers. This lecture explores how both businesses and governments may push for more exports than their country would sell under ordinary competition.

The underlying policy questions are: Can a country export too much for its own good or for the good of the world? Is that happening today? If so, what should an importing country do about another country's apparently excessive exports?

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DUMPING

Dumping is selling exports at a price that is too low—less than normal value (or “fair market value,” as it is often called). There are two legal definitions of normal value:

- The long-standing definition of normal value is the price charged to comparable domestic buyers in the home market (or to comparable buyers in other markets). Under this traditional definition, dumping is international price discrimination favoring buyers of exports.
- The second definition of normal value arose in the 1970s. It is cost-based—the average cost of producing the product, including overhead costs and profit. Under this second standard, dumping is selling exports at a price that is less than the full average cost of the product.

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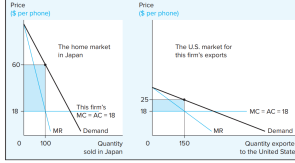


Why would an exporting firm engage in dumping?

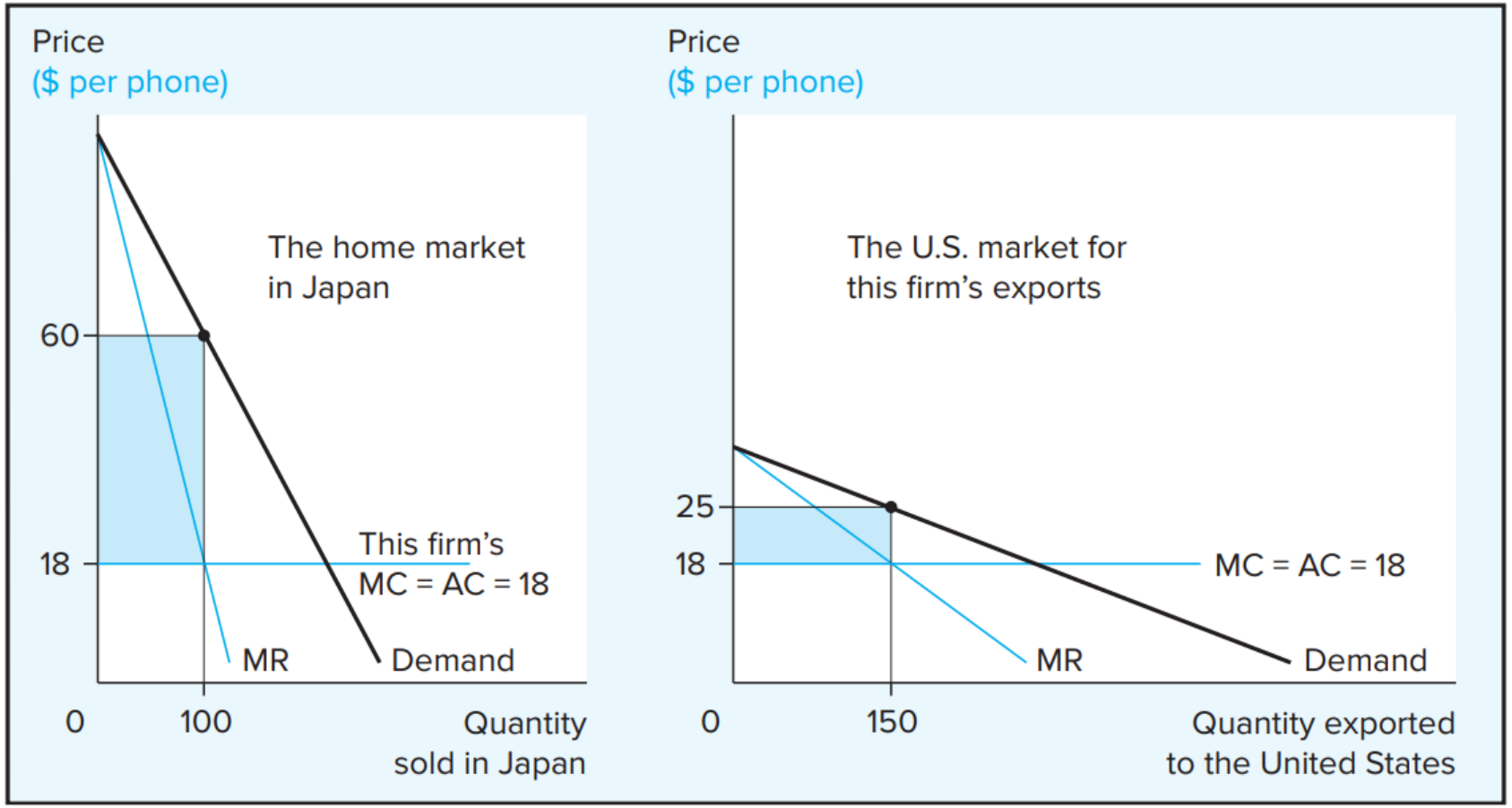
- Predatory dumping
- Cyclical dumping
- Seasonal dumping
- Persistent dumping occurs because a firm with market power uses price discrimination between markets to increase its total profit. A firm maximizes profits by charging a lower price to foreign buyers if

It has less monopoly power (more competition) in the foreign market than it has in its home market and

Buyers in the home country cannot avoid the high home prices by buying the good abroad and importing it cheaply.

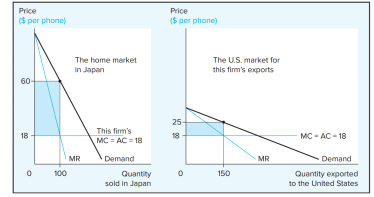
When these conditions hold, the firm can make home-country buyers pay a higher price and thus earn a higher total profit. This is not predatory; it is not intended to drive any other firms out of business. And it can persist for a long time—as long as these market differences continue.

FIGURE 1 Persistent Dumping



The monopolist uses price discrimination to maximize profits in two markets. The firm charges a higher price in the market where the demand curve is steeper. In this case, that is the home market in Japan, perhaps because in its home market the firm is protected from foreign competition. In the more competitive U.S. market, the firm charges a lower price for its exported product. Total profits are the sum of the two shaded rectangles. The price discrimination is viable only if there is no way for consumers in the high-price market to buy the product from the low-price market, and if policymakers in the importing country do not impose antidumping duties.

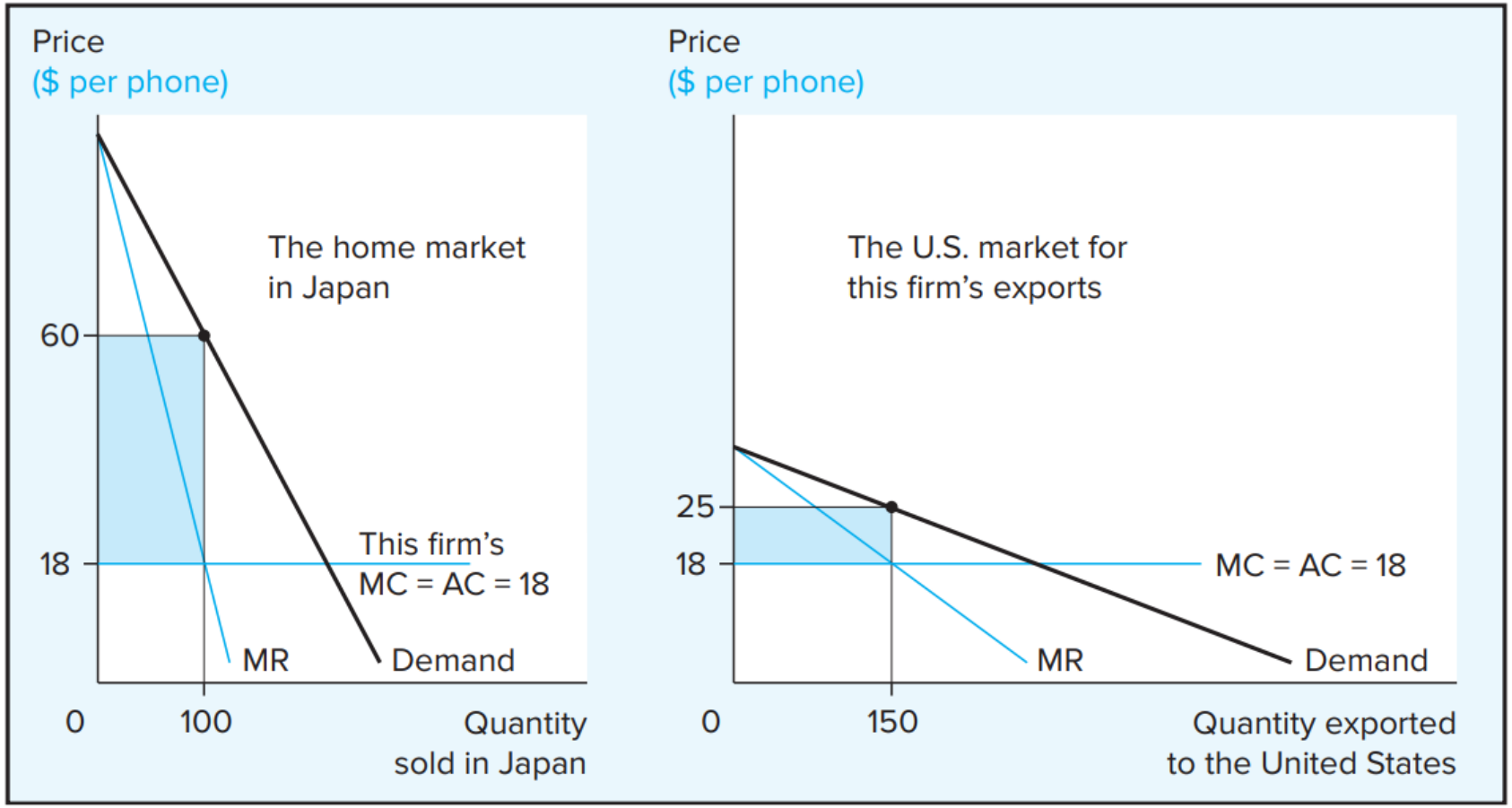
REACTING TO DUMPING: WHAT SHOULD A DUMPEE THINK?



Domestic firms competing against exports dumped into their market are likely to complain loudly to their government, charging that this is unfair. How should the importing country view dumping? What should be its government policy toward dumping?

In one sense the importing country's view is easy. It should welcome dumping and thank the exporting country. After all, we do not usually argue when someone tries to sell us something at a low price. This instinct seems clearly correct for persistent dumping. Compared to the high price in the exporting country, the importing country gets the gains from additional trade at the low export price. The importing country's terms of trade are better. The benefits to consumers are larger than the losses to the importcompeting producers.

Figure 1


Price
($ per phone)
The home market
in Japan
60
18
This firm's
MC = AC = 18
MR
Demand
0
100
Quantity
sold in Japan
Price
($ per phone)
The U.S. market for
this firm's exports
25
18
MC = AC = 18
MR
Demand
0
150
Quantity exported
to the United States

Other two types of dumping: predatory dumping

However, the other two types of dumping may not be so simple. There is a sound economic reason for the importing country to view predatory dumping negatively. Although the importing country gains from low-priced imports in the short run, it will lose because of high-priced imports once the exporting firm succeeds in establishing its monopoly power.

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Other two types of dumping: Cyclical dumping

Cyclical dumping is the most complicated kind of dumping for the importing country. Most cyclical dumping is probably the normal working of well-functioning, competitive global product markets. When demand declines, the market price falls in the short run. A firm will continue to produce, sell, and even export some amount of the product, as long as the revenue earned at least covers variable cost. This is exactly what we want to happen when there is a decline in demand. Production declines somewhat in many countries as the world price falls. There is an efficient global “sharing” of the decline in demand. Once the recession ends, demand, price, and global production will recover. (If instead too much production capacity continues to exist, then eventually there will need to be an efficient global sharing of capacity reduction before price can recover.)

ACTUAL ANTIDUMPING POLICIES: WHAT IS UNFAIR?

Our discussion suggests that dumping is often good for the country importing the dumped exports but that two types of dumping could be bad for the importing country. Predatory dumping can be bad if it is successful, but success is probably rare. Cyclical dumping can sometimes unfairly harm the importing country, but much of the time it is probably the normal working of the competitive market. The implication is that the importing-country's government policy toward dumping (its antidumping policy) should examine each case and consider benefits and costs before imposing antidumping duties or other restrictions on dumped imports. In fact, actual government policies are not at all like this.

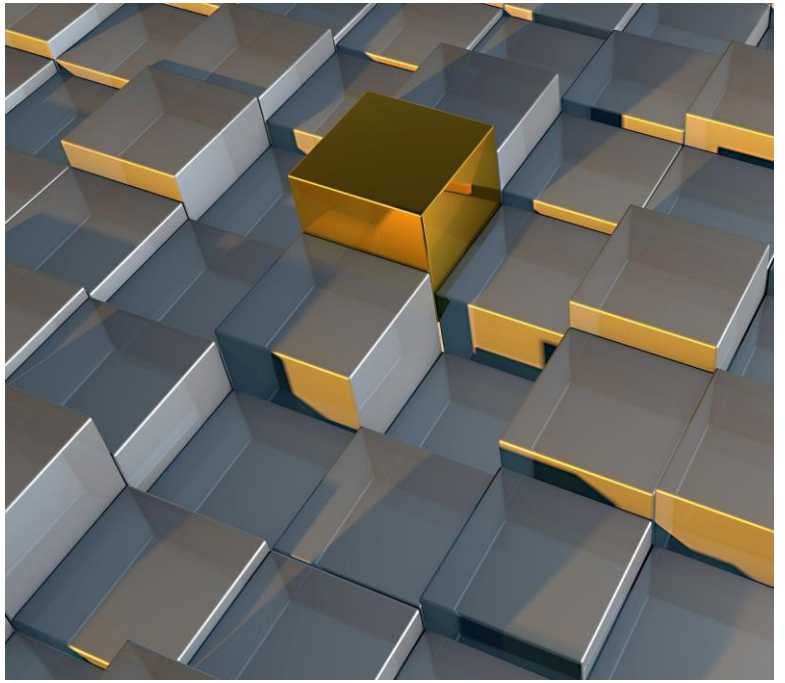

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Figure 2
Top 11 Initiators of Antidumping Cases

	Number of Cases Initiated		Number of New Antidumping Measures	Antidumping Measures in Effect	Average Antidumping Duty Imposed*
	1986–1990	2012–2016	2012–2016	June 2017	
India	0	187	132	276	77%
Brazil	6	170	120	176	53
United States	184	148	85	315	89
Australia	156	81	48	63	59
Argentina	0	68	39	90	85
Turkey	12	65	34	156	11
Canada	100	58	39	22	82
European Union	182	56	31	115	43
Pakistan	0	47	16	20	35
Indonesia	0	46	18	27	NA
China	0	43	41	95	54
World	736	1,260	782	1,675	NA

Notes: NA: Not available.

*For India, average 1992–2002, source Ganguli (2008); for the European Union, the United States, Canada, and China, average 2002–2004, source Bown (2010); for other countries, average 1995–1999, source Congressional Budget Office (2001).

Other sources: Zanardi (2004); World Trade Organization, "Report (2017) of the Committee on Anti-Dumping Practices," G/L/1193. October 25, 2017; World Trade Organization, "Antidumping: Statistics on Antidumping," www.wto.org/english/tratop_e/adp_e/adp_e.htm.

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Under current antidumping policies in the United States and a growing number of other countries, we get the following results:

1. The procedure is biased toward finding dumping.
2. The injury test considers only harm to import-competing producers. There is no consideration of whether predation or some other source of harm to the country is involved. There is little or no consideration of the benefits to consumers of the lowpriced imports.
3. Overall, the process is biased toward imposing antidumping duties, even though this usually lowers the well-being of the importing country. Antidumping duties also generally lower world welfare.

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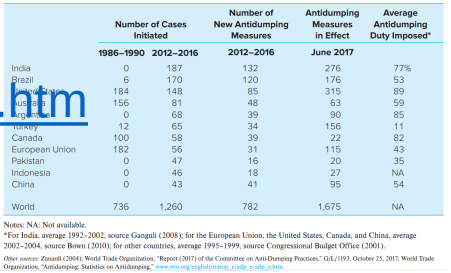

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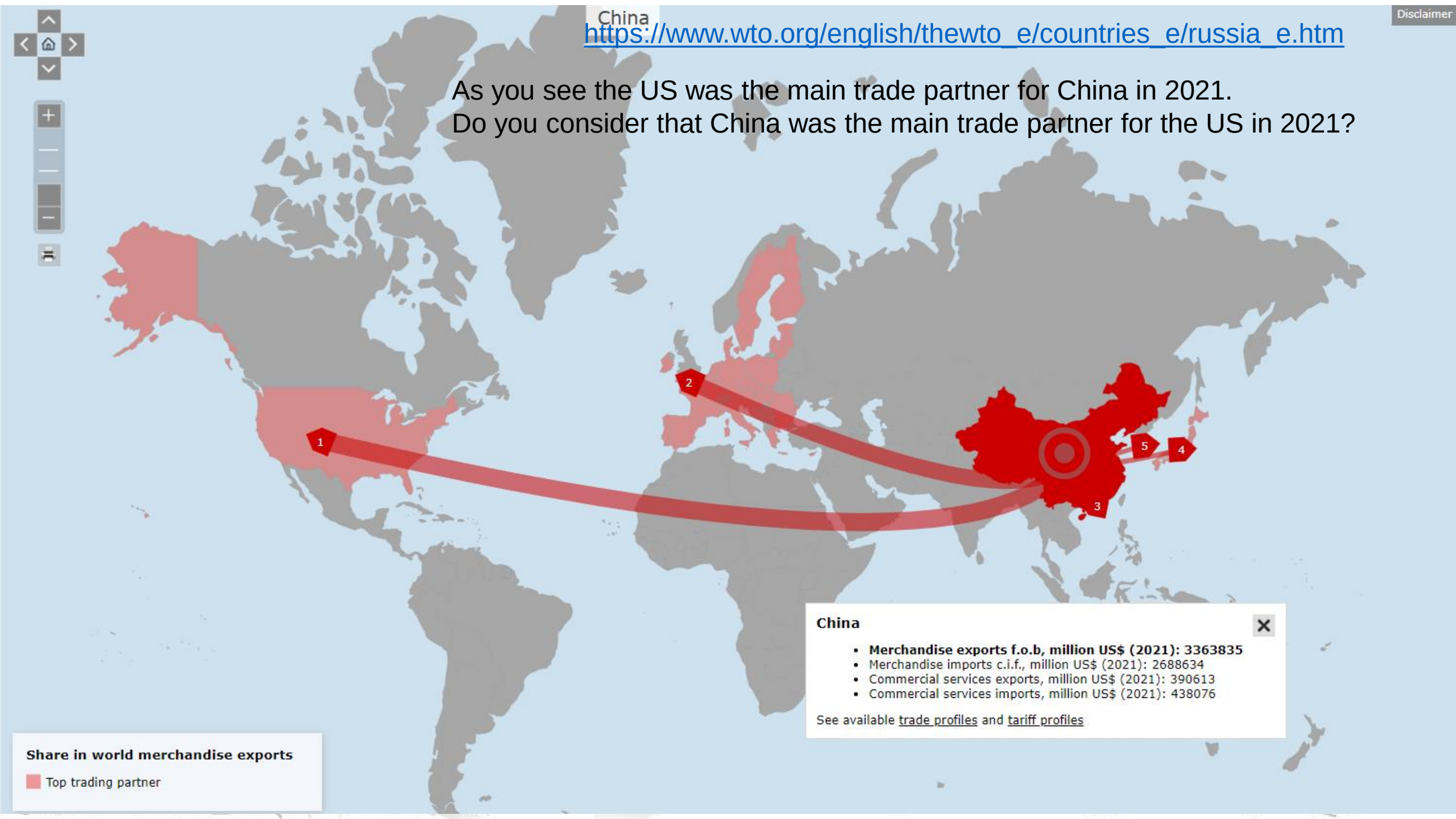
*For India, average 1992–2002, source Ganguli (2008); for the European Union, the United States, Canada, and China, average 2002–2004, source Bown (2010); for other countries, average 1995–1999, source Congressional Budget Office (2001).
Other sources: Zanardi (2004); World Trade Organization, "Report (2017) of the Committee on Anti-Dumping Practices," G/L/1193. October 25, 2017; World Trade Organization, "Antidumping: Statistics on Antidumping," www.wto.org/english/tratop_e/adp_e/adp_e.htm.

If an exporting country's government believes that an importing country's government violated the WTO's rules in deciding to impose an antidumping duty, it can complain to the WTO. By early 2018 there had been 124 such complaints, including 54 about the laws and procedures of the U.S. government. As of early 2018, panels had been convened and reached decisions in close to half of these 124 cases. Usually, the panels found errors by the importing countries, including using inappropriate procedures, determining dumping margins (or subsidy rates) in a manner inconsistent with WTO rules, and determining injury using incomplete information or biased analysis. In some of the cases the importing country implemented changes (like revoking the duties) to bring their practices in line with WTO rules, but in others they have not (yet). While the WTO dispute settlement procedure can provide some guard against misuse of antidumping duties, the process is too slow to minimize the effects of such misuse

Anti-dumping

If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be "dumping" the product. The WTO Agreement does not regulate the actions of companies engaged in "dumping". Its focus is on how governments can or cannot react to dumping — it disciplines anti-dumping actions, and it is often called the "Anti-dumping Agreement".


China
Disclaimer
https://www.wto.org/english/thewto_e/countries_e/russia_e.htm
As you see the US was the main trade partner for China in 2021.
Do you consider that China was the main trade partner for the US in 2021?
1
2
3
4
5
China
Merchandise exports f.o.b, million US$ (2021): 3363835
Merchandise imports c.i.f., million US$ (2021): 2688634
Commercial services exports, million US$ (2021): 390613
Commercial services imports, million US$ (2021): 438076
See available trade profiles and tariff profiles
Share in world merchandise exports
Top trading partner

PROPOSALS FOR REFORM

Although there are exceptions, the current practice of retaliation against dumping is usually bad for the world and for the importing country. Yet this practice is fully consistent with current WTO rules. Three possibilities for reform are discussed in the following slides.

- antidumping actions could be limited to situations in which predatory dumping is plausible
- the injury standard could be expanded to require that weight be given to consumers and users of the product
- antidumping policy could be replaced by more active use of safeguard policy,

1. Antidumping actions could be limited to situations in which predatory dumping is plausible.

This reform would focus on the type of dumping that is most likely to be bad for the world and for the importing country. It would also align antidumping policy with antitrust policy (as it is called in the United States; it is called competition policy, antimonopoly policy, or similar names in other countries). Pro-competition policies usually forbid any predatory action to gain monopoly power. This reform would try to limit the scope of antidumping policy. However, the procedures in a country could still be biased toward finding both dumping and something potentially predatory about it.

Second, the injury standard could be expanded to require that weight be given to consumers and users of the product

This change would shift the discussion toward injury to net national well-being, not just injury to domestic import-competing producers. Some countries, including the European Union, Canada, and Thailand, already have a “public interest test” in their antidumping regulations. This reform would try to limit the scope for antidumping actions in a general way rather than by focusing on one type of dumping.

Third, antidumping policy could be replaced by more active use of safeguard policy

Third, antidumping policy could be replaced by more active use of safeguard policy, another kind of increased import protection allowed by WTO rules. Safeguard policy is the use of temporary import protection when a sudden increase in imports causes injury to domestic producers. The intent is to give some time for import-competing firms and their workers to adjust to the increased import competition.

Defenders of antidumping policy often state that antidumping policy facilitates trade liberalization because it allows protection for industries that are hurt more than expected by increasing imports. This is really an argument for safeguard policy. Safeguard policy is better because:

- There is no need to show that foreign exporters have done anything unfair.
- The interests of consumers can be considered in the process that leads to the decision of whether or not to impose a safeguard, and what form it will take if imposed.
- The focus is on adjustment by the import-competing producers.
- There is pressure to adjust because the import protection is temporary.

Case-study 01
Antidumping in Action

Here are three examples of antidumping in real life. One sad moral of these tales is that any exporter that succeeds in building market share is at risk of being accused of dumping, and defense against this charge will be very difficult.

The file has been sent to you in our Chat. Please, share your answers to the case-study question.

Case Study Antidumping in Action

Dumping laws and antidumping procedures sound technical and boring. The firms that use antidumping complaints to get protection from imports like it that way. Nobody else is much interested in what's going on. Yet the stakes are large. Maybe we should follow the money—now that's more interesting.

Here are three examples of antidumping in real life. One sad moral of these tales is that any exporter that succeeds in building market share is at risk of being accused of dumping, and defense against this charge will be very difficult.

A GAME OF CHICKEN

When it comes to chicken, Americans prefer white meat. South Africans prefer dark meat. Sounds like the basis for mutually beneficial trade. And it would be, if it weren't for those pesky dumping laws.

U.S. chicken producers noticed the differences in demand. They began exporting dark-meat chicken to South Africa. This created extra competition for South African chicken producers, but South African consumers gained more than local producers lost. That's the way trade works. In addition, U.S. chicken producers were happy. The price they received for their dark-meat exports was somewhat higher than the price they could get in the United States. This added to their profitability.

South African chicken producers scratched back. They charged U.S. producers with dumping by exporting dark-meat chicken at a price less than production cost. This is an ideal situation for a biased antidumping authority because there is no one way to determine this production cost. (What comes first, the dark meat or the white?) In 2000, the South African government determined that the U.S. firm Tyson was dumping by a margin of 200 percent (its export price was only one-third of its estimated production cost) and Gold Kiss was dumping by an incredible 357 percent margin. Something is fowl in South Africa. Good-bye gains from trade.

WHAT'S SO SUPER ABOUT SUPERCOMPUTERS?

In 1996 the Japanese company NEC won the contract to supply a supercomputer to a university consortium funded by the U.S. National Science Foundation, to be used for weather forecasting. This was the first-ever sale of a Japanese supercomputer to an agency of the U.S. government. It seemed to be a major setback for Cray Research, then the major U.S. supercomputer maker. But Cray thought it saw unfair trade.

With encouragement from the U.S. Department of Commerce, Cray filed a dumping complaint. NEC guessed that it was not likely to win with the Department of Commerce also acting as the judge, and it refused to participate in the case. Based on information provided by Cray, the U.S. government imposed antidumping duties on NEC supercomputers at the super rate of 454 percent (and at the almost super rate of 173 percent for supercomputers from Fujitsu, the other major Japanese producer). With these antidumping duties in place, no one in the United States would be buying NEC or Fujitsu supercomputers.

Not so super for U.S. users of supercomputers. Or for anyone in the United States who wanted accurate weather forecasts. NEC supercomputers were simply the best in the world for this purpose.

There's one more twist in this wired tale. Hey, maybe it isn't dumping after all. In 2001, Cray was in financial trouble, and its technology was lagging. In exchange for a $25 million investment by NEC and a 10-year contract to be the exclusive distributor of NEC supercomputers in North America, Cray asked the Department of Commerce to end the antidumping duty.

AMERICAN STEEL: THE KING OF ANTIDUMPING

If antidumping were like the Super Bowl, the American steel industry would be the winner. In early 2018 half of all antidumping duties in effect in the United States were on steel products. As a comparison, steel accounts for about 1 percent of U.S. imports. How did an industry that employs only about 140,000 workers become the king of antidumping?

In the first half of the 20th century, the American steel industry was the world leader in output and productivity. In 1950 the United States produced about half of the world's total steel output. Since then the situation has changed dramatically. Steel producers in other countries increasingly have sourced high-quality raw materials globally (for instance, iron ore from Australia and Brazil). These foreign firms focused on raising productivity and lowering costs. They often had support from their national governments. At the same time, the managers of the large integrated American steel producers made poor decisions, including lagging innovation of technological improvements and payment of uncompetitive high wages and benefits to unionized workers. By 2018 American steel firms accounted for only about 5 percent of world production. Two-thirds of U.S. production was by minimills, another source of competitive pressure on the large integrated American firms (often called Big Steel).

American steel firms fought back. A large part of their strategy was the use of political lobbying and U.S. trade laws to attack imports. In the 1980s, to head off a large number of steel dumping complaints, the U.S. government forced the European Union and other countries to impose voluntary export restraints (VERs). As these VERs ended, on one day in 1992 American steel firms filed 80 dumping complaints against 20 countries. (Note that American steel producers buy about one-eighth of all steel imported into the United States, in the form of raw steel that they use to make finished steel products. Amazingly, raw steel is apparently never dumped into the United States, but all kinds of finished steel products are.)

American steel firms are well organized. Statisticians at steel-producer organizations and at individual steel firms closely examine each month's trade data. When they see an increase of imports in a specific steel product, the American firms are likely to file a dumping complaint. The American firms "lose" or withdraw some of these complaints. But they don't really lose. For instance, in 1993, American firms filed dumping complaints against exporters of carbon steel rod. In the early months of the investigation, the price of this product in the United States increased by about 25 percent. Eventually, the American firms lost the cases or withdrew the complaints. An executive of a foreign-owned steel firm commented,

"But who says they lost? I would say they won. Whatever they spent in legal fees, they probably recouped 50 times in extra revenue. That is the great thing about filing: Even if you lose, you win."*

Since the early 1990s there have been several other bursts of dumping cases filed by American steel firms. In the aftermath of the Asian crisis of 1997, demand collapsed in the crisis countries (especially Korea, Thailand, Indonesia, Malaysia, and the Philippines). Steel firms that had been selling to the crisis countries shifted sales to other countries. In 1998 imports of finished steel into the United States rose rapidly and prices for steel products typically fell by 20 to 25 percent. A strong case can be made that 1998 was a fairly typical down phase in the global cycle of a competitive industry. Still, American firms swung into action. They filed four major dumping cases in 1998 and four in 1999. The International Trade Commission found injury to U.S. steel firms in six of these cases, and the Department of Commerce found dumping margins of up to 185 percent. In the large case involving cold-rolled steel, imports declined by 20 percent in the months after the case was filed, even though the U.S. firms eventually "lost" the case when no injury was found.

As prices remained relatively low around the world, the U.S. steel firms continued to find new dumping. They brought five major cases in 2000 and six major cases in 2001.

In early 2002 President Bush imposed new general tariffs of up to 30 percent on imports of steel, and the number of new dumping cases decreased. Under pressure from U.S. steel users and an adverse WTO ruling, he removed these tariffs in late 2003. But then global steel prices rose by more than 50 percent during 2004, driven by rapidly rising demand in China and other developing countries. With strong world prices continuing into 2008, there were few new antidumping suits in the United States.

*Mr. Nicholas Tolerico, executive vice president of Thyssen, Inc., a U.S. subsidiary of Thyssen AG, a German steel company. Quoted in *The Wall Street Journal*, March 7, 1998.

—Continued on next page

Zou Yujie 2007574016

In 2013，when domestic demand for steel was strong in America，the dumping of low prices helped the American industry. In addition to anti-dumping policies，the United States can also fight back in other ways like political lobbing，trade laws and force other countries to impose voluntary export restraints.

11:52

Zuo Zhiye

It may be that the domestic steel supply in the United States will not meet the strong domestic demand in 2013, and it will take time for steel companies to adjust production. As a result, the two steel dumping cases alleged by the United States in 2013 did not result in the imposition of anti-dumping duties

2007574085lei xinyi

Because the development of domestic industries in the United States needed a lot of steel at that time, the use of low-priced foreign steel could reduce the cost of domestic production and stimulate the development of downstream industries of steel. At the same time, because of the foreign market after the impact, the steel industry is in a depressed state, and it is less likely to have a domestic impact.

12:01

2007574023GongXirui

2013 U.S. steel imports began to grow rapidly, also due to strong U.S. demand (especially domestic demand for steel for oil, gas and auto production), and low price access is beneficial to the U.S. The two proposals may be aimed at these industries, and the largest of these are tubular products used in oil production.

王渝然WangYuran

because of the slowing demand for steel and excess capacity in the rest of the world and strong demand in the United States(especially domestic demand for steel used in oil,natural gas,and auto mobile production).

Yile Qin

steel imports into the United States began to grow rapidly at the beginning of 2013 and it can use steel at a low price, in addition, global crisis hit in 2008 influences the rest of the world, so other countries have less ability to obtain market share.

2007574042李弈乐LiYile

In 2013, when the domestic steel demand in the United States is strong, the United States can choose other ways to fight back besides anti-dumping policies.

200718班ChengXuanchao

in 2013，the dumping of low prices helped the American industry when domestic demand for steel was hign in America， In addition to anti-dumping policies，the United States can also fight back in other ways like political lobbing and force other countries to impose voluntary export restraints.

EXPORT SUBSIDIES

Governments promote or subsidize exports more often than they restrict or tax exports. Some government efforts to promote exports are not controversial according to international precepts (although there are questions about how effective they are). Government agencies like Export.gov of the U.S. Department of Commerce provide foreign-market research, information on export procedures and foreign government regulations, and help with contacting buyers. Government agencies sponsor export promotion events like trade fairs and organized trips. Governments establish export processing zones that permit imports of materials and components with easier customs procedures and low or no tariffs.

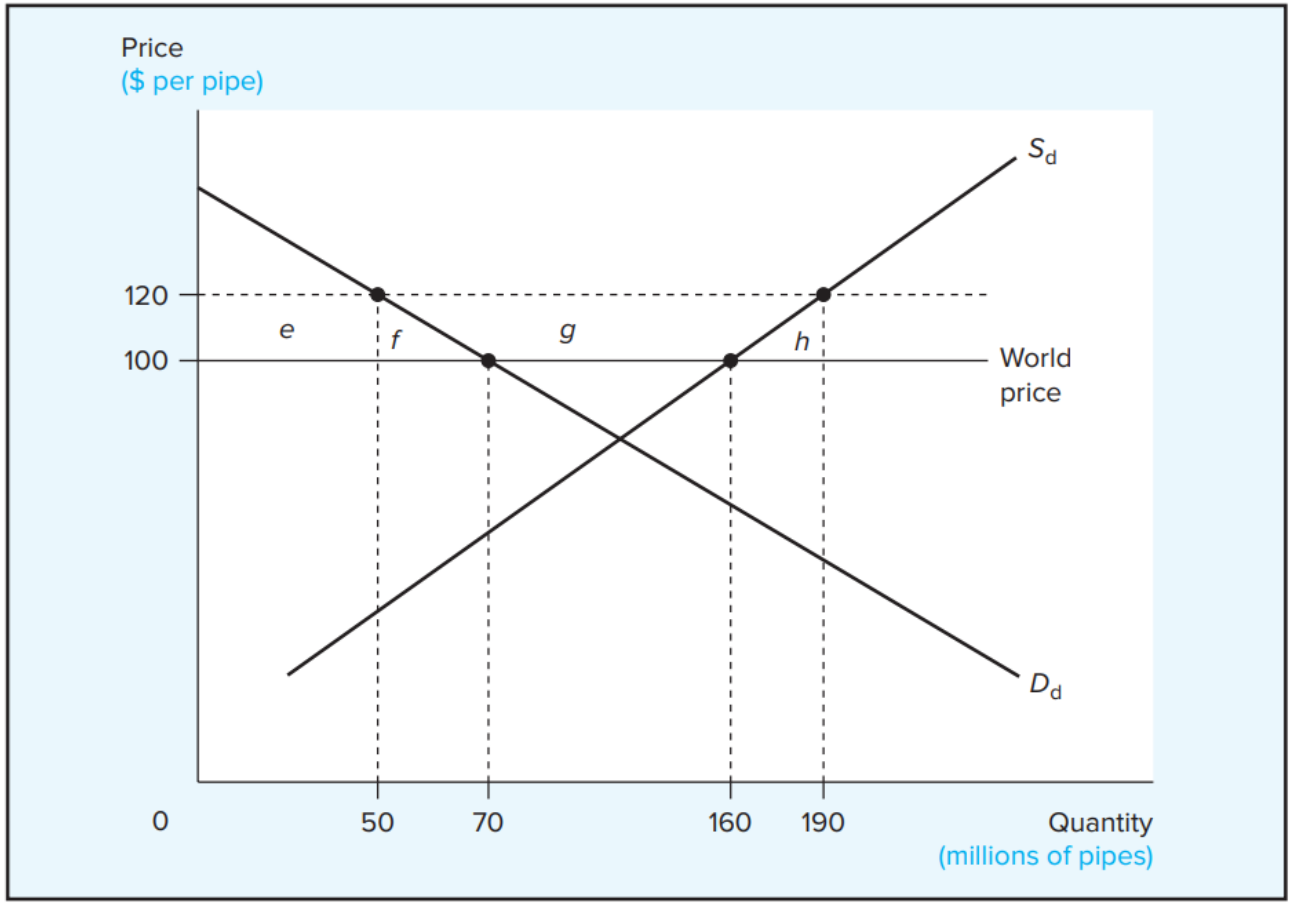
Effects

What are the effects on the country whose government offers the export subsidy? Let's examine the effects for a competitive industry, using our standard supply-and demand framework. We will reach the following conclusions:

1. An export subsidy expands exports and production of the subsidized product. In fact, an export subsidy can switch the product from being imported to being exported.
2. An export subsidy lowers the price paid by foreign buyers, relative to the price that local consumers pay for the product. In addition, for the export subsidy to work as intended (the government subsidizes only exports, not domestic purchases), something must prevent local buyers from importing the product at the lower foreign price.
3. The export subsidy reduces the net national well-being of the exporting country

1. An export subsidy expands exports and production of the subsidized product. In fact, an export subsidy can switch the product from being imported to being exported.

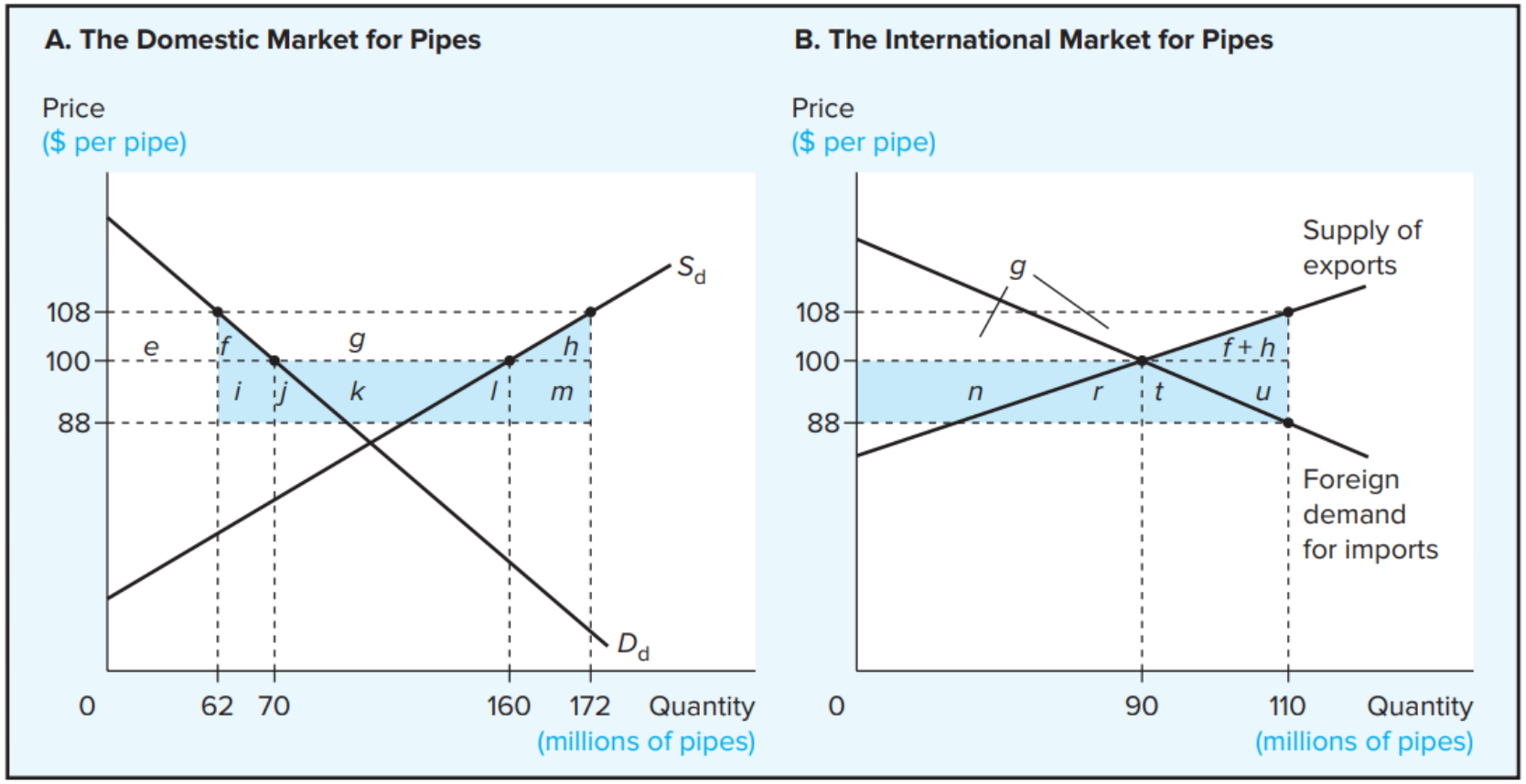
FIGURE 3 Export Subsidy, Small Country, Exportable Product



With free trade at the world price of $100, this small country exports 90 million steel pipes. If the country instead offers an export subsidy of $20 per unit exported, revenue per unit exported rises to $120, and the exporting firms must receive this amount as the selling price from domestic buyers as well. Domestic production rises from 160 to 190 million, domestic consumption falls from 70 to 50 million, and the country exports 140 million pipes. Domestic producers gain surplus equal to area e + f + g, domestic consumers lose surplus equal to area e + f, and the cost to the government of paying the export subsidy is area f + g + h. The net loss in national well-being because of the export subsidy is area f plus area h.

2.

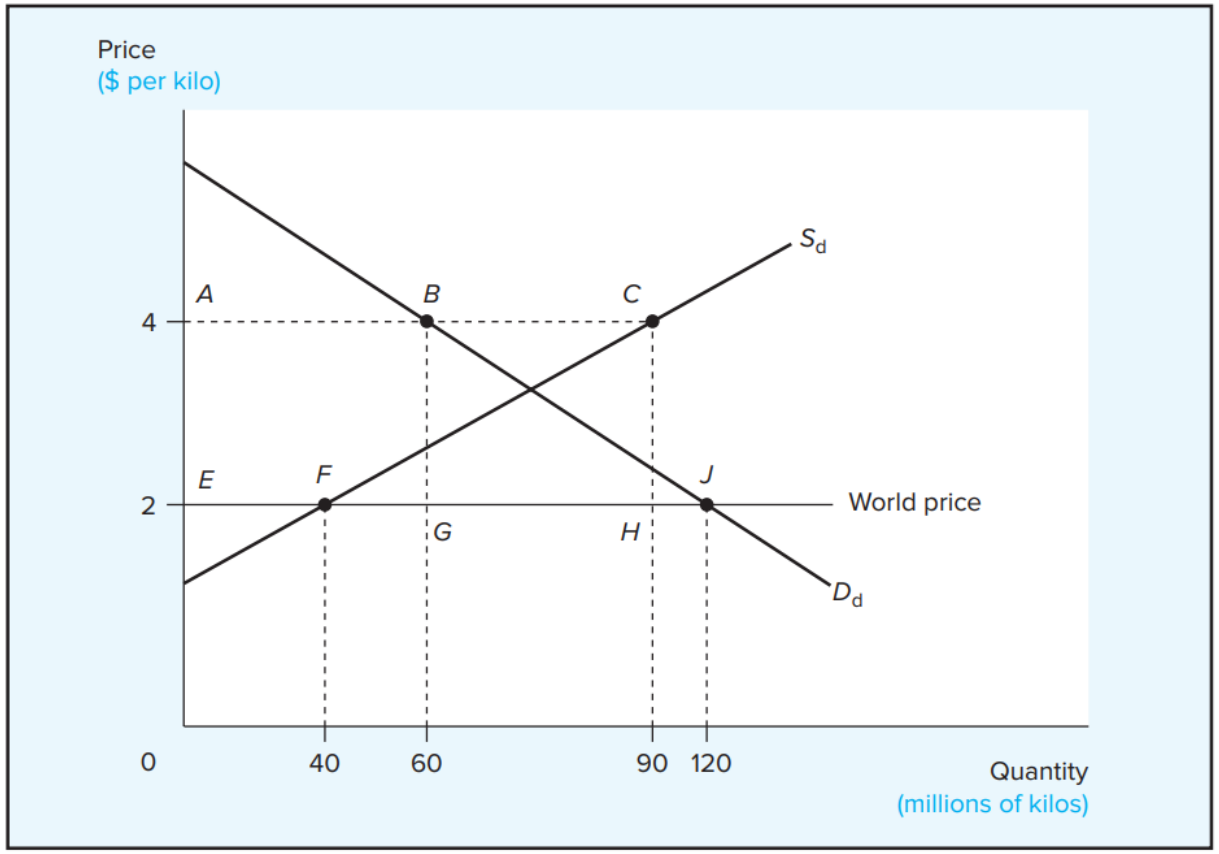
FIGURE 4 Export Subsidy, Large Country, Exportable Product



With free trade at the world price of $100, this large country exports 90 million steel pipes. If instead the country offers an export subsidy of $20, its extra exports drive the world price down to $88. The revenue per unit received by the exporting firms is $108, and domestic buyers pay a price of $108. The net loss of well-being for the exporting country is area f + h + i + j + k + l + m. The export subsidy both distorts domestic production and consumption and worsens the exporting country's international terms of trade. The inefficiency created for the world is area f + h + u.

3. Switching an Importable Product into an Exportable Product

FIGURE 5 An Export Subsidy Turns an Importable Product into an Export



With free trade and no export subsidy, this small country imports 80 million kilos of butter. If instead the country's government offers an export subsidy of $2 per kilo, the revenue per unit received by producers doubles to $4. The country becomes an exporter of 30 million kilos of butter. The net loss of national well-being is the sum of a production deadweight loss of area FCH and a consumption deadweight loss of area BJG.

WTO RULES ON SUBSIDIES

As a result of the agreements reached in the Tokyo Round and Uruguay Round of trade negotiations, the WTO now has a clear set of rules for subsidies that may benefit exports. The WTO rules divide subsidies into two types:

- Subsidies linked directly to exporting are prohibited, except export subsidies used by the lowest-income developing countries. Example: A firm receives a tax break based on the amount that it exports.
- Subsidies that are not linked directly to exporting but still have an impact on exports are actionable. Example: Low-priced electricity is provided to assist production by local firms in an industry, and some of this production is exported.

If an importing country's government believes that a foreign country is using a prohibited subsidy or an actionable subsidy that is harming its industry, the importing country can follow one of two procedures: • File a complaint with the WTO and use its dispute settlement procedure. • Use a national procedure similar to that used for dumping (used more often).

If the importing country can show the existence of a prohibited or actionable subsidy and harm to its industry, it is permitted to impose a countervailing duty, a tariff used to offset the price or cost advantage created by the subsidy to foreign exports.

SHOULD THE IMPORTING COUNTRY IMPOSE COUNTERVAILING DUTIES?

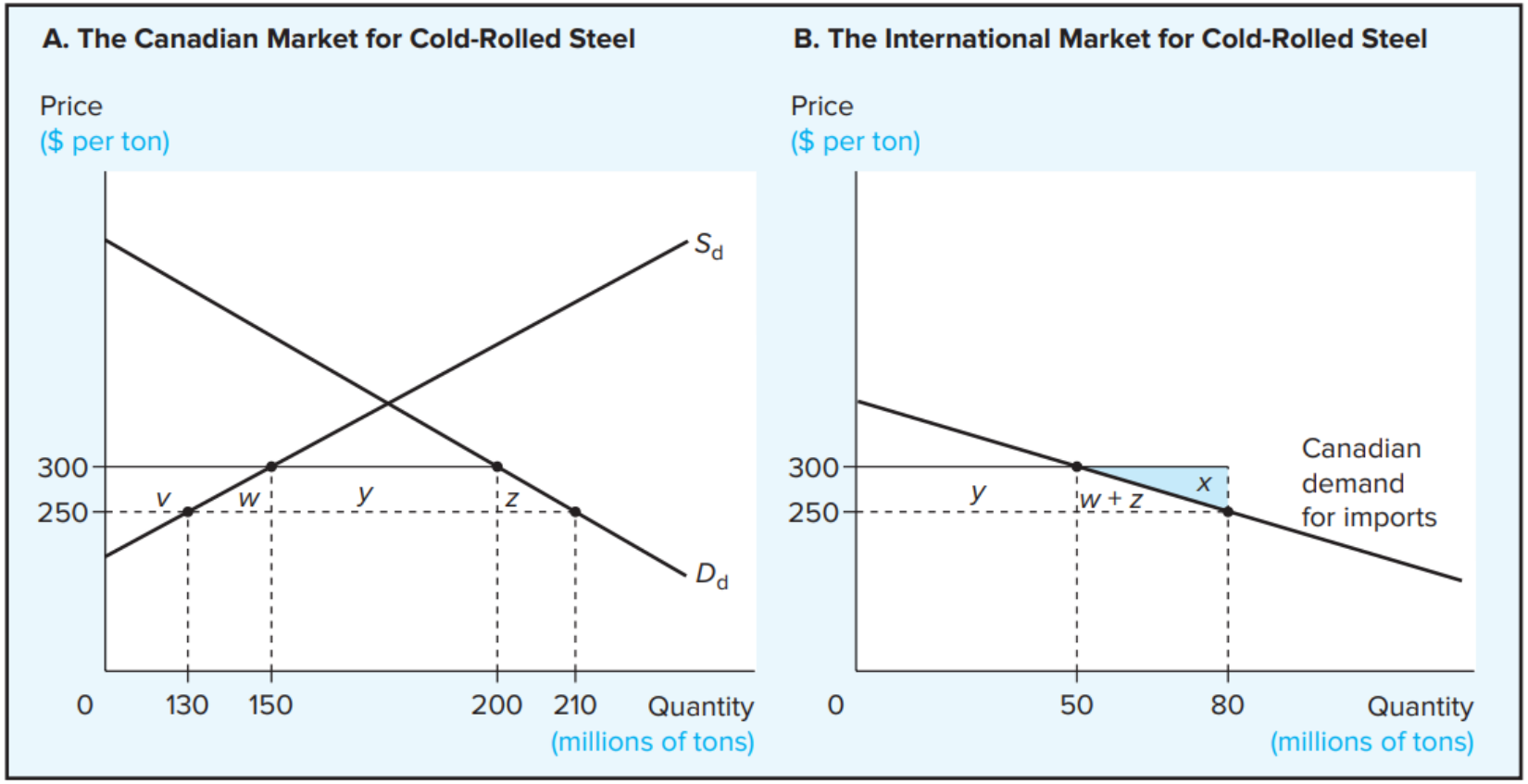
How should the importing country respond to subsidized exports? Should the country simply enjoy the bargain? Or should the importing-country government heed the complaints from import-competing producers about unfair competition and impose a countervailing duty on the subsidized exports?

If the exporting country is large enough to affect world prices, then the export subsidy lowers the price that the importing country pays for these exports. As we saw in Figure 4B, the importing country overall is better off, but the import-competing industry is harmed. By WTO rules, the importing-country government is permitted to impose a countervailing duty. What happens if it does so?

We will focus on two different measures of well-being, one for the importing country and one for the world. We will make comparisons among three different situations:

- (1) free trade,
- (2) export subsidy with no countervailing duty, and
- (3) export subsidy plus countervailing duty.

FIGURE 6 A Foreign Export Subsidy and a Countervailing Duty



The diagram shows the effect of (1) a Brazilian export subsidy on steel to Canada and (2) a Canadian countervailing duty on imports of subsidized steel exports from Brazil. An odd pattern results: Each policy in turn brings a net loss to the country adopting it, yet for the world as a whole the Canadian countervailing duty undoes the harm done by the Brazilian export subsidy.

Conclusion

Because export subsidies are bad for the world as a whole, and retaliating against them is good for the world as a whole, WTO rules are wise to allow importing countries to impose countervailing duties. However, it turns out that subsidy complaints and countervailing duties are much less frequent than dumping complaints and antidumping duties. During 2012–2016, only 166 subsidy cases were initiated in the world, and in mid-2017, there were only 154 countervailing actions in effect.

The United States has been the largest user of countervailing duties, with 81 of these new cases and 91 of the countervailing duties in force. The European Union and Canada also make some use of countervailing duties. China, and India are the countries most frequently charged with subsidizing exports. Steel products are the most frequently involved. Countervailing duties also tend to be lower than antidumping duties. For instance, for the United States the average countervailing duty is about 10 percent.

STRATEGIC EXPORT SUBSIDIES COULD BE GOOD

In the previous section we assumed competitive supply and demand, and we reached the conclusion that an export subsidy harmed the exporting country. For some industries this competitive assumption is wrong. Suppose instead that the real-world market in question features the clash of two giant firms, each of which could supply the whole market. The economics of an export subsidy looks very different if international competition in the industry consists of an oligopolistic duel between two firms for the global market. In this battle of giants, an export subsidy can be either good or bad, both for the exporting country and for the world.

To see the possibility of a good subsidy, let us imagine a simplified case inspired by the continuing real-world competition between Boeing of the United States and Europe's Airbus.

FIGURE 7 A Two-Firm Rivalry Game with No Government Subsidies: Airbus versus Boeing

Payoff matrix, with no subsidies:

Airbus gains this / Boeing gains this	Airbus produces	Airbus does not produce
Boeing produces	–8 / –8	0 / 100
Boeing does not produce	100 / 0	0 / 0

When two competing firms face each other with identical choices and no government help, there is no clear result to the game if both must decide simultaneously. Each would like to be the only producer, but if both decide to produce, both lose. Knowing this, both may decide not to produce.

FIGURE 11.8 A Two-Firm Rivalry Game with Government Subsidies: Airbus versus Boeing

A. Payoff Matrix, with European Government Subsidies to Airbus

Boeing gains this \ Airbus gains this	Airbus produces	Airbus does not produce
Boeing produces	2 / −8	0 / 100
Boeing does not produce	110 / 0	0 / 0

B. Payoff Matrix, with Government Subsidies to Both Firms

Boeing gains this \ Airbus gains this	Airbus produces	Airbus does not produce
Boeing produces	2 / 2	0 / 110
Boeing does not produce	110 / 0	0 / 0

A. If the European government gives Airbus a subsidy of 10, to ensure Airbus a profit of 2 even with full competition, Airbus will choose to produce. Knowing that Airbus will produce, Boeing will choose not to produce. Airbus wins profits of 110. Because the airplane is built, consumers gain some surplus from the new product, and the world as a whole gains well-being.

B. In this case, with each government offering a subsidy to its firm of 10, both firms will produce the airplane. For each country the cost of the subsidy (10) is greater than the gain to the firm (2). Each country loses by offering its subsidy, unless gains in national consumer surplus (not pictured here) are larger than this net loss of 8.

Conclusion

These simple examples bring out the two key points about an export subsidy or similar type of subsidy in a global duel between two exporting giants:

1. The subsidy might be a good thing for the exporting country, as shown in panel A in Figure 8, but
2. The case for giving the subsidy is fragile, depending on too many conditions to be a reliable policy.

Case-study 03
Global Governance Dogfight at the WTO

Global Governance Dogfight at the WTO

In October 2004, the U.S. government filed a complaint with the World Trade Organization that the European Union had given and continued to give massive subsidies to Airbus in support of Airbus's production of civil aircraft. Later the same day the European Union filed a complaint that the U.S. government had given and continued to give massive subsidies to Boeing in support of its production of civil aircraft. The dogfight over airplane subsidies had moved to the WTO, with combat in the form of the two largest WTO dispute cases ever.

The story began in the late 1960s, when several national governments in Europe decided to offer infant industry support to a new airplane producer. The development of Airbus was slow, but in the 1980s it achieved a share of global deliveries of new civil aircraft (seating more than 100 passengers, distinct from smaller "regional" aircraft) of 10–20 percent. As the leading U.S. firm, Boeing complained to the U.S. government about the subsidies that Airbus was receiving. The U.S. government began discussions with the European Union. These talks culminated in a 1992 bilateral agreement to restrain subsidies offered by both sides:

- Direct government support for new airplane development (usually called launch aid) limited to no more than one-third of the total development cost, and only in the form of loans with minimum required interest rate and maximum repayment period.
- Indirect government support (for instance, research support offered through defense contracts) limited to no more than 4 percent of a firm's civil aircraft sales.
- No production or marketing subsidies, and limits on government financing assistance to airplane buyers.

The limit on launch aid restricted the major way that European governments have helped Airbus, and the limit on indirect support restricted the major way that the U.S. government has helped Boeing.

Airbus sales continued to grow. By the mid-1990s, Airbus had about 30 percent of new deliveries and in 2003–2004, Airbus had more than half. Boeing and the U.S. government became increasingly unhappy with continued Airbus subsidies. They stated that assistance that might have been suitable when Airbus was an infant was no longer appropriate when Airbus is grown up and clearly successful. In 2004 the U.S. government and the EU held discussions to consider revisions to the 1992 agreement but made no progress. In September the U.S. government announced that it was terminating the 1992 agreement as it filed the complaint under the general WTO subsidy rules.

The U.S. government complaint focused on the billions of dollars of launch aid from European governments to Airbus since its birth. The U.S. government argued that launch-aid loans provide subsidies because they have artificially low interest rates and pay-back terms that are conditional on future Airbus sales of the plane being developed. The U.S. government also complained that Airbus received billions of dollars of other government subsidies, including other low-cost loans, public investments to assist Airbus in its production, and R&D contracts that benefit its civil aircraft production. The United States specifically alleged that Airbus received $6.5 billion in subsidies in support of the development and production of the new superjumbo A380.

For its complaint the EU alleged that Boeing received billions of dollars in R&D contracts from the U.S. National Aeronautics and Space Administration and the U.S. Department of Defense, with the results of this research benefiting its civil aircraft production. The EU also stated that Boeing received other subsidies, including billions of dollars of tax breaks from federal, state, and local governments.

The WTO cases moved slowly. After filing the two complaints in October 2004, the U.S. government and the EU negotiated to attempt to resolve the issues, but they made little progress. In May 2005, the U.S. government asked the WTO to create a panel to hear and judge the case about its complaint, and the next day the EU responded by asking the WTO to create a panel for its complaint. For the U.S. complaint, the panel issued its report five years later, in June 2010. The U.S. government and the EU both appealed certain issues of law and legal interpretations in the panel decision, and the appeal report was adopted in June 2011. For the EU complaint, the panel issued its report almost six years later, in March 2011. Again, both sides appealed, and the appeal report was adopted in March 2012.

In the final ruling for the U.S. complaint, the WTO determined that the EU had provided actionable subsidies to Airbus that had harmed Boeing. The $15 billion of launch aid included substantial subsidies, and Airbus had received about $5 billion of other subsidies. The WTO recommended that the EU withdraw the subsidies or revise them to end the harm to Boeing. In the final ruling for the EU complaint, the WTO determined that the United States had provided subsidies to Boeing totaling at least $5 billion, mostly actionable R&D subsidies (about $3 billion) that had harmed Airbus and prohibited export tax subsidies ($2 billion). The WTO recommended that the U.S. government withdraw the subsidies or revise them to end the harm to Airbus.

In December 2011, the EU informed the WTO that it had brought its policies into compliance. The U.S. government disagreed, and in April 2012, the WTO formed a panel to examine EU compliance. The panel issued its report in September 2016, and both sides appealed. The appeal report issued in May 2018 found that the EU had not removed the launch-aid subsidies and was still in noncompliance. This finding opens the way for the United States to request approval to impose billions of dollars of retaliatory trade sanctions.

Similarly, the U.S. government reported compliance in September 2012. The EU disagreed, and the compliance panel formed in October 2012 issued its report in June 2017. Both sides appealed, but the appeal report had not yet been issued as of mid-2018.

Thus, 14 years after the cases were filed, there is no resolution. It is not clear what this protracted and expensive dogfight has accomplished.

Case-study 03
Agriculture Is Amazing

Please,

Case Study Agriculture Is Amazing

I don't want to hear about agriculture from anybody but you . . . Come to think of it,
I don't want to hear about it from you either.
President Kennedy to his top agricultural policy adviser

Agriculture is another world. Sometimes it seems as if the laws of nature have been repealed. From the late 1980s to the late 1990s, the desert kingdom of Saudi Arabia grew more wheat than it consumed, so it was a net exporter of wheat. Wheat is exported by other countries with unfavorable soils and climates, including Great Britain and France. And crowded, mountainous Japan has often been a net exporter of rice.

All this happens because governments are more involved in agriculture than in any other sector of the private economy. In 2016 government policies in industrialized countries provided about $228 billion of support to farmers, equal to about 19 percent of farmers' revenues. Government policies in the European Union (EU) provided $100 billion (21 percent of farm revenues), in the United States $33 billion (9 percent), and in Japan $42 billion (an amazing 48 percent of the revenues of Japanese farmers). The farmers' political lobbies in these countries are remarkably powerful, especially relative to the small role of agriculture in the economy (only about 2 percent of gross domestic product).

Close to half of the increased farm income is provided through price supports. In one typical form of *price support*, the government sets a minimum domestic price for the agricultural product, and the government buys any amounts that farmers cannot sell into the market at the minimum (support) price. Domestic farmers receive at least the minimum price when they sell, and domestic consumers pay at least the minimum price when they buy. All of this sounds domestic—domestic minimum price, domestic farmers, domestic consumers. Yet something that starts "domestic" transforms itself on the way to the global markets.

The support price is almost always higher than the world price for the agricultural product. If the country would import the product with free trade, the price support requires that *imports be restricted*. Otherwise, cheap imports would flood into the country and undermine the price support. If the support price is not too high (less than or equal to the no-trade price for the country), then the price support is actually a form of import protection. The analysis of this type of price support mirrors that of import barriers presented in Chapters 8 and 9. Interesting, but not amazing yet.

If the country would export the product with free trade, but the support price is above the world price, then the country's farmers produce more than is purchased by domestic consumers. The government must buy the excess production at the high support price. The government could just destroy what it buys or let it rot, but that would be remarkably wasteful. The government could give it away to needy domestic families, but there are limits to how much can be given away before this free stuff starts to undermine regular domestic demand. The government could turn to the export market, which sounds like an excellent way to dispose of the excess national production. Perhaps it is, but the government will take a loss on each unit exported. This loss, the difference between the support price that the government pays and the lower world price that it receives, is an *export subsidy* from the government. Foreign buyers will not pay the high domestic support price; they buy only if the government offers a subsidized export price.

In this case, in which an exporting country sets a support price that is above the world price for the

product, the price support policy is actually a combination of import protection and export subsidy. The analysis mirrors that accompanying Figures 11.3 and 11.4. We are getting closer to amazing.

Price supports can also *switch agricultural products from being importable to being exported*. Wheat is an example for Britain, France, and other EU members. Butter and other dairy products in the EU are other examples of products that have become exports because of generous price supports. With free trade, wheat, butter, and other dairy products would be imported into the EU because the world prices of these products are lower than the EU's no-trade prices. (More simply, the EU has a comparative disadvantage in these products.) The EU's support prices are so high that EU farmers produce much more than is sold in the EU. The EU uses export subsidies to export some of its excess production. The analysis of this case mirrors that for Figure 11.5. Now that's pretty amazing. Domestic price supports morph into a combination of import protection and export subsidies that transform the country from an importer to an exporter of the products.

It takes a lot of government money to create amazement. The EU's Common Agricultural Policy (CAP) covers a broad range of agricultural products (including wheat, butter, and other dairy products). CAP spending represents over 40 percent of all EU fiscal expenditures. And the amazement brings a large national cost. The inefficiency of the CAP is equal to a loss of about 1 percent of the EU's gross domestic product.

Agriculture has also been another world for WTO rules. In contrast to the rules for industrial products, governments had been permitted to use import quotas and export subsidies. But things are changing. The agricultural provisions of the Uruguay Round trade agreement made agriculture less different, especially for developed countries. Governments converted quotas and other nontariff barriers into tariff rates, a process called *tariffication*. Each developed country reduced its budget outlays for export subsidies by 36 percent and its volume of subsidized exports by 21 percent. Each developed country reduced its domestic subsidies to agriculture by 20 percent, with exceptions. The requirements for developing countries were less stringent.

The effects of these changes are not as large as one might expect. Most developed countries have maintained import protection through artful implementation of the agreement. Generally, highly protected products remain highly protected. The reduction of export subsidies has had some impact, especially in reducing subsidization of exports by the EU. The effects of the general reduction in domestic subsidies are moderate because major subsidy programs in the United States and the EU were exempt from the cuts.

Still, there is ongoing pressure to reduce the use of subsidies in agriculture. Countries can use the WTO dispute settlement process to examine excessive agricultural subsidies. Decisions in 2005 in two major cases—EU export subsidies for sugar and U.S. subsidies to cotton—found subsidies that violated WTO rules and agreements. And, as noted in the box, "The WTO: Beyond Tariffs," in Chapter 9, WTO members in 2015 agreed to phase out export subsidies for agricultural products.

DISCUSSION QUESTION

For the European Union, can a tariff or import quota turn butter into an EU export product? If not, why can a price support turn butter into an EU export product?

Summary

Dumping is selling exports at less than normal value—a price lower than the price in the home market or lower than the full average cost of production. Exporters may engage in dumping to drive foreign competitors out of business (predatory dumping), during recessions in industry demand (cyclical dumping), to unload excess inventory (seasonal dumping), or to increase profits through price discrimination (persistent dumping). The importing country benefits from the dumped exports because it pays a lower price for its imports. But the importing country could be hurt by predatory dumping (higher prices in the future) or by cyclical dumping (importing unemployment).

Key Terms

Dumping
Normal value
Predatory dumping
Cyclical dumping
Seasonal dumping
Persistent dumping
Price discrimination
Antidumping duty
Safeguard policy
Export subsidy
Consumption effect
Production effect
Countervailing duty
Strategic trade policy

Questions and Problems

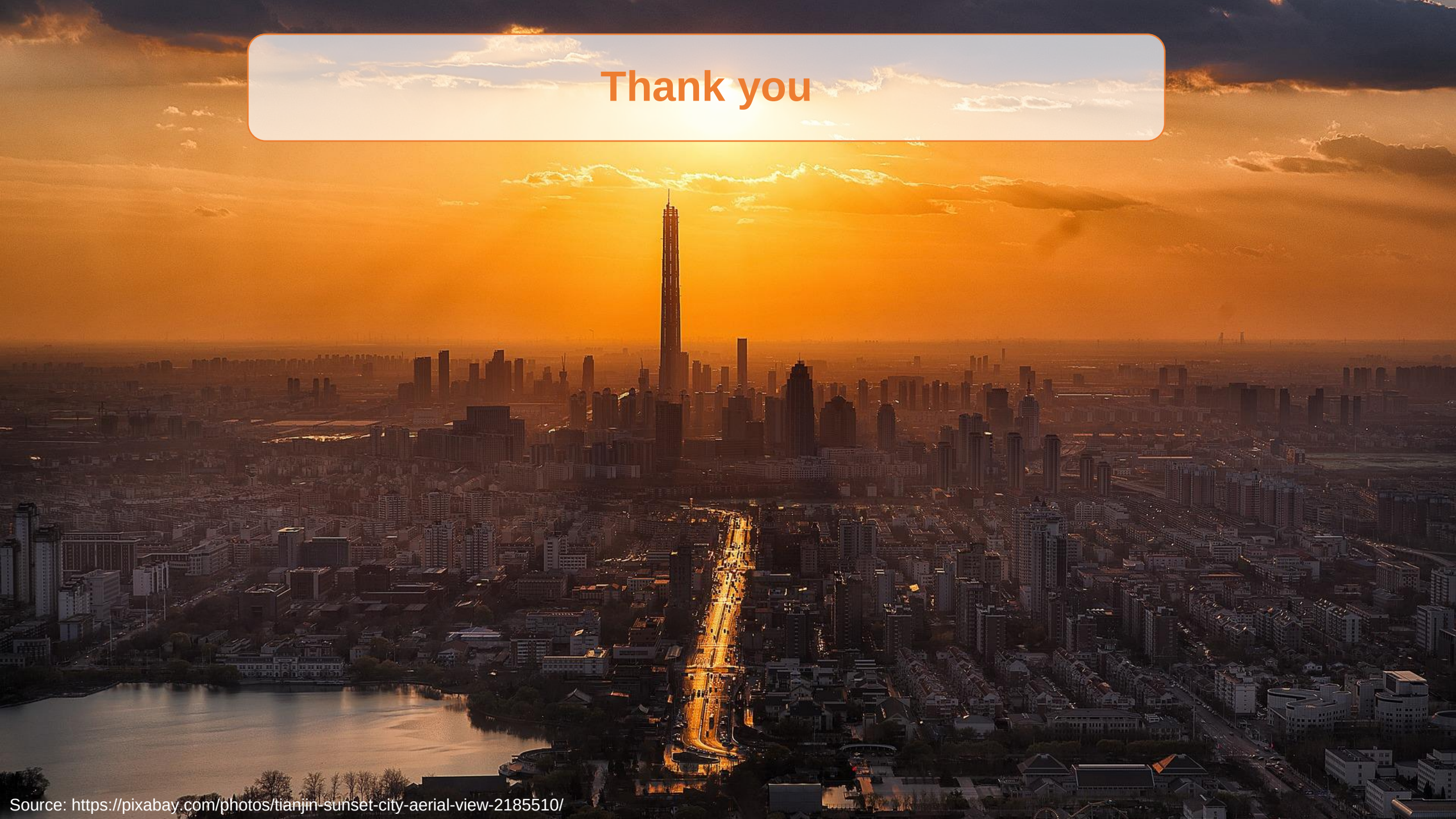
1. What are the two official definitions of dumping?
2. Which of the following three beverage exporters is dumping in the U.S. market? Which is not? How do you know?

	Banzai Brewery (Japan)	Tipper Laurie Ltd. (UK)	Bigg Redd Inc. (Canada)
Average cost	$10	$10	$10
Price charged at the brewery for domestic sales	10	12	9
Price charged at the brewery for export sales	11	11	9
Price when delivered to the U.S. port	12	13	10

Questions and Problems

3. What is persistent dumping? Does an exporter lose profit because of the low export price? Does persistent dumping harm the importing country?
4. What is a countervailing duty?
5. What would happen to world welfare if the United States paid exporters a subsidy of $5 for every pair of blue jeans they sold to Canada, but Canada charged a $5 countervailing duty on every pair imported into Canada? Would the United States gain from the combination of the export subsidy and import tariff? Would Canada? Explain. (In your answer, assume that the blue jeans market is perfectly competitive.)
6. In the Airbus-versus-Boeing example in Figure 7, what strategy should the EU governments follow if the upper-left box (a) gives Airbus and Boeing each a sure gain of 5 or (b) gives Boeing a gain of 5 and Airbus a gain of 0? In each case, should the EU offer a subsidy to Airbus? Explain.
7. You have been hired to write a defense of the idea of having a government plan to subsidize the expansion of an export-oriented industry, taking resources away from the rest of the economy. Describe how you would defend such an industrial targeting strategy as good for the nation as a whole

Thank you



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