

## **Analysis of Dumping as a Major Cause of Import and Export Crises**

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### **Abstract**

*Dumping as one of the unfair trade practices that some countries in the world undertake has become an important issue which has come into focus; specifically over the past two decades. The essence of traditional militarism – as was clearly known and experienced more than 50 years ago in World War I, World War II and the cold war eras – is no longer the means through which countries proclaim their supremacy over others. The resultant by-products of globalization and free trade mechanisms are such that countries around the world are engaging in a different but more sophisticated kind of wars; and dumping is one of its weapons. We attempt in this research paper to shed some light on dumping as the “trade weapon of choice” adopted by many countries and to show that this practice is increasingly contributing to the wide economic gap between rich and poor countries and this have had many dire consequences on the developing Economies.*

### **Introduction**

The evolvement of international world trade took an unexpected turn during the last fifty years, interestingly enough; this was due mainly to enemies of yesterday becoming friends of today which resulted in the formation of new alliances amongst countries. Those alliances were either an extension of the previous ones or a direct consequence of the change in political outlook. Some regimes fell apart and it appears that whatever was lost regime-wise has been gained elsewhere; this is truly portrayed in the geographical integration of most countries in Europe to become what is known today as the European Union (EU) and the disintegration of the former Soviet Union into separate countries; those two examples are the most prominent ones because they were quite recent and they took place almost simultaneously within the last twenty years and the impact of the resultant changes were substantial and their implications are still felt and seen until the present day.

Politics and diplomacy are the heart and soul of international trade without which the latter cannot survive or continue. Geography can be viewed as the tip of its iceberg because it is closely linked to politics. Physical geographical locations do not change per se, what changes in the minds of people (or countries in this context) are the geographical perceptions; those are dynamic, constantly affected by and fed from the changes and developments in the political arenas. Therefore, we assume that geographical perceptions dictate – albeit indirectly – the trends of international world trade and its tools or weapons.

The tools, or to utilize a more tactical term, the weapons of international world trade are being used in the same way traditional war tools and weapons were used more than fifty years ago with one major difference; the former proved to be more subtle and employed more effective ways to gain access and win the world over than the latter, however, the fruits of that success have been reaped in the short-run and were limited to the few countries that were the proponents of such tools, on the other hand, the use of such tools in international trade left a lot to be desired. Many countries are engaging in unfair trade practices (and dumping is one of them) to establish their strong economic supremacy. This takes place at the expense of many developing countries that are unable to reap the benefits of international trade and the resultant collateral outcomes of globalization and free trade since they did not participate in it from the beginning.

It is obvious that the participation of developing countries will not be forthcoming for a long time since many of them are already exhausted politically from the continuous rule of corrupt regimes, civil unrest and many years of military conflict in addition to many other economy-related problems.

It may be a struggle to regain their economic foothold and to some extent their balance in order to support their minimum living requirements, their choices are limited and they have to be dependent on the more powerful and rich countries for long periods of time.

Dumping as the “particular weapon of choice” involves the selling of products at a rate lower than what is considered as the fair market value (in home markets); thereby causing waves of economic controversy amongst the countries participating in world trade. This controversy may as well have a long-term political impact, not just on the affected parties but on the culprit country itself. Countries of the world have opened up to each other as a way to promote the concept of globalization with the pretext that the world is becoming a global village, the sad thing is that many “culprit” countries are just paying “lip service” to this concept since they are operating under the basic rule of “survival of the fittest” which means that powerful Nations put their interests first and foremost, even if the fulfillment of those objectives is done at the expense of weaker countries. It may very well come to the point that by the time those countries realize the consequences of their actions; it may be too late to fix the problems.

Dumping continues to be utilized by culprit countries and in some cases, the World Trade Organization (WTO) has been instrumental and effective in putting a stop to it, however, at other times, it failed to put a stop to dumping actions. Dumping will continue to be an issue because WTO alone cannot fix the problems and some countries are not willing to take actions against the abusers due to other considerations. There are important and interesting questions that need to be answered, such as; how long will victim - countries going to accept those relentless dumping actions without recourse? How long will it take those countries to become strong enough to counter-attack or at least to find the means to protect themselves?” To achieve this absolution, it is going to be a difficult road to travel.

The purpose of this research paper is to analyze and shed light on the reality of dumping and how some countries are advancing their economic interests at the expense of other countries. This paper is divided into six parts; the first part constituted an introduction of the concepts of world trade and its involvement in the latter part of the twentieth century and how old political habits do not die but change its colors. The second part discussed the different types of dumping and their pros and cons. The third part takes us through a literature review of the reality of dumping. The fourth part discusses World Trade Organization (WTO) and its roles and rules vis-à-vis dumping. The fifth part discusses the aftermath of dumping, in other words, the reaction to the dumping and the anti-dumping measures adopted, and the last part of this case study is the conclusion summary.

### ***Types of Dumping and Analysis of Pros and Cons***

*Dumping* is best defined as the unfair trade practice of charging a lower price for a good or product in a foreign market than it is charged for the same good or product in a domestic market. It is selling at less than “fair value” or less than the cost of making the good or product, knowing that it is not beneficial for a country to dump unless it has a comparative advantage.

Referring to WTO agreement, dumping is condemned (but it is not prohibited). If it is done with the aim of driving competitors out of the market. It is illegal in some countries to dump certain products into them, because they want to protect their own industries from such unfair competition. However, dumping is very hard to prove partly because; production costs vary from one country to another.

Additionally, countries dump to drive out domestic producers and therefore increase their market share so that later on, they can increase their prices. Free markets support the practice of dumping as it offers low price products. However, many economists believe that such trade practices do limit domestic industrialization. It is also seen as a way to economic colonization of developing countries by powerful and industrialized nations. Countries dump products to eliminate competition, secure monopoly system and increase their share of international exports. (1)

There are many implications of this practice and all of them are “bad news” because they affect the economy in a big way; one of the major impacts is that dumping hurts a country’s domestic industrial base, which in turn negatively impacts sales volume and revenue. This leads to a lot of other adverse economic implications such as loss of jobs (unemployment) and diminished consumer spending.

These implications have forced some countries to impose strict anti-dumping measures in order to eliminate or and minimize such practice. This will be discussed in more details in chapter 4 of this paper.

We stated earlier that dumping is considered to be an unfair trade practice and that it is unacceptable by many national and International trade laws. In order to understand the concept of dumping further, we need to discuss the different types of the practice:

- 1) **Predatory dumping:** this is considered to be the most unethical type, this happens when companies take over a given market with low priced items only to turn around and increase their prices. In other words, it is taking a product with a low price, look for a vulnerable market, dominate it, and then raise the price. The purpose of this action is driving the home country's foreign competitors out of the market, the company will use its monopoly power to raise prices and get high profits, but in this case product used has to have comparative advantage. (2)
- 2) **Cyclical dumping:** the second type and it takes place during recession periods, when there is unemployment, no income and no money to spend, and the demand for goods and services is low, companies then tend to lower their prices to minimize sales loss and the decline in quantity produced; market price will fall below the full average cost. Companies continue to produce and sell as long as price exceeds average variable cost. If any of these products are exported to other market at the recession prices, then, that will be cyclical dumping. (3)
- 3) **Seasonal dumping:** as the name suggests, is the act of selling products that are seasonal such as clothes, shoes, umbrellas...etc. that were sold at high prices in seasons, and remaining surplus taken to other markets off seasons and sold at below fair market price that obtains at home. An example of that is the dumping of Mexican tomatoes. The overripe case against Mexican tomatoes (1980); as we know, tomatoes are a perishable commodity whose price fluctuates from winter to summer, in 1980, Mexico supplied half of all fresh tomatoes, cucumbers, and eggplants during the U.S. winter season. Florida farmers objected and filed a dumping claim but U.S. Treasury rejected the claim and Florida farmers appealed. (4)
- 4) **Persistent dumping:** this is considered to be the worst type of dumping; it is dangerous, happens regularly and goes on and on. It is the continuous tendency of a domestic monopolist to maximize total profits by selling its commodities at a higher price in the domestic market than international just so to be competitive in those foreign markets. This type of dumping happens because monopolistic companies use price as discrimination tool between markets. Therefore, for that discrimination to take place (I.e. International Price Discrimination), the following conditions must exist: (5)
  - a- Foreign and domestic markets must be separated.
  - b- Demand elasticity of the product must be different in two markets.

The product can be sold with a lower price where the demand elasticity is high and with a higher price where demand elasticity is low.

Those were the different types of dumping that many countries engage in and without ethical consideration of the parties that are injured in the process. We shall see momentarily how dumping is viewed from the perspective of WTO and the degree of their success in resolving the issues that arise from dumping.

### ***World Trade Organization (WTO); Roles and Rules for Dumping***

World Trade Organization (WTO) was established in 1995 as an entity to negotiate trade agreements that cover goods, services and intellectual property. It is committed to lower customs tariffs and other trade barriers. WTO monitors measures that the governments adopted for trade policies and practices to make sure they implement the WTO agreements. It discourages unfair trade practices such as dumping and settles trade disputes amongst member Nations. For example, if a member Country believes that its rights are being infringed upon; Under WTO Agreement, there are laid down procedures to seek redress from the Organization and dumping is condemned, but is not prohibited. More so; when dumping causes or threatens to cause material injury to a domestic industry in the importing country. (6)

“The Anti-dumping Agreement” is the agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (the “AD Agreement”) which governs the application of anti-dumping measures by Members of the WTO, In accordance with the provisions of the AD Agreement, that an imported product is “dumped” and that the dumped imports are causing material injury to a domestic industry producing similar products. (7)

WTO acts as the administrator for any unfair trade practices like dumping. If any member filed a complaint, WTO should investigate to see if there are any violations based on the multi-lateral agreements. It can impose anti-dumping measures if:

1. Dumping is occurring: When the export price for a product is less than its selling price in the exporting country, we know that there is a dumping.
2. The target industry is suffering material injury: The Agreements define material injury as material injury itself or a threat of material injury. The injury is due to Volume effect - when the dumped imports volumes are increased and its effect on the domestic industry. Or Price effect – where products' price that have been imported causes price depression in the local markets or prevents the price increase on the goods.
3. There is a causal link between the two: The dumped imports have caused the alleged injury and the domestic industry is suffering from decline in input, loss of sales and market share, reduced products and decline in productivity.

The WTO agreement allows governments to act against dumping where there is material injury to the competing domestic industry. However, the government should be able to prove that dumping is occurring by *comparing* the export price to the exporter's home market price. And by doing this the government can prove that dumping is threatening its economy.

The Anti-Dumping Agreement allows countries to charge extra import duties on some products to bring prices closer to the normal value. An example of this is the case of shrimps imported from China and Vietnam that are being dumped at US Market. Both countries sell it at less than fair value, with margins ranging up to 113% for China and 26% for Vietnam. The US industry group had asserted that the countries in question sell shrimp in their home countries at prices between 32% and 349% higher than they charge in the US. An alliance of shrimp producers from eight US States has demanded the imposition of tariffs up to 267%. The governments of China and some other countries criticized the decisions, but only Brazil has threatened to contest the ruling in the WTO if duties are indeed imposed. US companies that market, distribute and sell seafood stated that the imposition of duties would hurt consumers of the US' most popular seafood by pushing shrimp prices up. (8)

The WTO provides three methods to determine product's "normal value," based on the price in the exporter's domestic market:

1. The sale must be in the ordinary course of trade, it must be of the like product, the product must be destined for consumption in the exporting country and the price must be comparable.
2. The price charged by the exporter in another country.
3. The combination of the exporter's production costs, other expenses and normal profit margins.

While the export price is based on the transaction price which the foreign producer sells the products at to an importer in the importing country, also, the comparison between the export price and what would be a normal price should be fair enough for both parties.

The WTO listed all the procedures that should be followed to initiate anti-dumping cases, how to conduct the investigations and the chance for all parties to present their cases. If the margin of dumping is only 2% and/or the volume dumped is less than 3% of total import, the investigations should be ended immediately since the effect is very small. In addition to the volume and the price effects of dumped imports, WTO should examine the total impact of dumped imports on the domestic industry such as decline in sales, profits, market share, productivity, wages, output, growth and returns on investments.

The WTO has been playing a significant role in reducing barriers to trade, but lack of effective anti-dumping initiatives still remain a road block to global free trade, and it seems protectionism is the only option to solve this problem. Protectionism builds on the power to tax one party to help the business of another. In most cases of protectionism the governments' primary concern is national income, national spending and national employment, therefore, governments may impose more protectionism measures to protect their respective home base industries from foreign competition, in trying to solve the problem of dumping.

### ***The Reality of Dumping; a Literary Review***

This literature review summarizes relevant writings about antidumping as a form of protectionism.

It is structured to guide the reader from more general works that position the subject in its broader context to more specific studies that address more arcane, technical aspects of antidumping as a form of protectionism. The review begins by analyzing some important books in the field of International Political Economy that surveys information provided by international organizations. Next, the review focuses on how the subject of antidumping fits into the general literature about protectionism. From here, the review shifts to the antidumping literature itself.

### **A. General International Trade Literature**

One classic work in the literature at the intersection of economic and political analysis on international trade issues is *International Economics: Theory and Policy* by Krugman and Obstfeld (2003) (9). After an extensive discussion of free trade models, the authors analyze the subjects of dumping and antidumping in a chapter about the imperfections of international trade. They explain the concept of dumping and antidumping as protectionism from an economic point of view and discuss some of its history and overall economic implications. Yet they neither endorse nor oppose antidumping and put antidumping into a greater context (10), this is why this book serves as a first starting point and is quoted for different clarifications throughout this paper.

A more specific book on trade is *The World Trading System: Law and Policy of International Economic Relations* by Jackson (11). He explains trade law and policy as the interplay of international law, national law, political science and economics. Apart from clarifying the trade details, he dedicates one of his fourteen chapters to “Unfair Trade and the Rules of Dumping” (12). Besides giving the basic insights on antidumping policies and laws as well as the determination of injury, Jackson offers two more specific, interesting aspects. Firstly, he states that anti-dumping is a response to unfair trade practices. Unfair means, as already mentioned; that practices interfere with or distort free-market economic principles. Especially in the case of predatory pricing, dumping is considered as unfair. According to their critics, large foreign companies use market leverage and sell their products at a very low price to drive small domestic firms out of business and thus reduce competition in order to be able to reap monopoly profits. Secondly, Jackson brings up the question of interface problems, problems that emerge when different economic systems trade with each other. One interface problem concerning antidumping involves the determination of whether a product has been sold at “less than fair value” because variable costs need to be determined, which is especially complicated in non-market economies. (13) Like Krugman and Obstfeld, Jackson sets antidumping into the frame of trade and explains its mechanisms.

### **B. General International Political Economy Literature**

The next task in the literature review is to show where the topic of dumping and antidumping is situated within International Political Economy literature. In his book *The Challenge of Global Capitalism: The World Economy in the 21st Century*, Gilpin (2000) (14) writes about trade protectionism in his chapter about the insecure trading system. He addresses the tension between trade liberalization and trade protectionism, its pros and cons. According to Gilpin, the proponents of free trade are faithful to free-market economy principles. They base their argument on the idea of comparative advantage and their belief that free trade benefits exceed its costs. The only exception to free trade is based on the infant industry argument. The opponents of free trade are 18th century mercantilists that equated trade surplus with military power. The 19th century economic nationalists who associated manufacturing with military power and national autonomy were also against free trade. Contemporary critics of globalization either consider trade as a threat to domestic welfare, the environment, and human rights or want to protect their high-tech industries (15). This tension still exists and there are sustainable arguments for and against protectionism.

In the complementary book of Gilpin (16) “Global Political Economy: Understanding the International Economic Order,” he emphasizes the role of the state in the international political economy. He writes about dumping in two different contexts. The first concerns international trade, where oligopolies can use dumping to increase their long-term domination of a market (17). Secondly, Gilpin mentions antidumping regulations when writing about the evolution of the world trading system (18) and the conflicts between major powers resulting from the United States’ misuse of antidumping as a protectionist device (19). Gilpin’s coverage on dumping demonstrates that it is an important issue in contemporary international political economy, especially when it is connected with protectionism.

The book of Hoekman (20) entitled “The Political Economy of the World Trading System: The WTO and Beyond” does not directly touch upon the topic of antidumping. Nevertheless, it shows one very remarkable aspect of it.

Hoekman illustrates in a bar chart of the major cases dealt with by WTO Disputes Settlements between 1995 and 1999 that antidumping agreement cases were the sixth most important ones after cases concerning national treatment on internal taxation regulation, general most-favored nation treatment, general elimination of quantitative restrictions, schedules of concessions and intellectual property. According to WTO statistics, the profile of dumping has grown since 1999. Again, antidumping is a topic in international political economy that cannot be circumvented.

Victimized countries react towards dumping and those actions are referred to as “anti-dumping” measures that they undertake in order to protect themselves.

### ***Reaction of Countries Victimized By Dumping Through Anti-Dumping Measures***

When dumping takes place, the first thing that comes to mind is whether this tool is to be construed as ethical competition. Interestingly enough, there are different points of view regarding this issue and this issue continues to be debated. Many governments are strict in terms of actions undertaken towards dumping in order to protect their domestic industries. WTO agreement vis-à-vis dumping is not about making judgment calls, rather; it is concerned about how governments deal with the issue of dumping, hereto referred to as “Anti-Dumping Agreement.” (21)

The official definitions are more accurate, as mentioned previously; WTO agreements allow governments to adopt “anti-dumping” actions to counteract dire consequences affecting domestic industries. On the other hand, the government should show clearly how dumping is taking place and identify the relevant cost implications.

Anti-dumping actions, as mandated by GATT were adopted by many countries such as the United States and its strategic partners through the formulation of anti-dumping laws in their effort to lessen the adverse impact on their local industries. Anti-dumping actions involve charging extra import duties for a product from a specific exporting country in order to bring the price closer to the original value of the product. The simple truth is that anti-dumping actions are in violation of GATT and other subsequent WTO rules which tend to promote and advocate free trade and non-tariff barriers. However, anti-dumping tariffs are binding and not discriminatory among trading partners. (22)

As previously demonstrated, there are three methods that WTO adopts in calculating the “normal value” of a product. The underlying fact is that, WTO tries to narrow down as much as possible the range of potential options available for such calculations, in order to avoid going into unnecessary details. Further, the scope of dumping to be calculated for a certain product may not be sufficient. Anti-dumping is only applied if dumping is believed to be causing harm to the local industry of the importing country. Therefore; a detailed analysis and investigation should be conducted in all its specificity by evaluating all relevant economic factors to determine the precise outcome of dumping. (23)

Initiation of an anti-dumping case is detailed but it is shown with the utmost clarity how this can be executed in order to give the opportunity for victimized countries to show-case their evidence. It is a must that the initiation of the case expires after 5 years of its imposition unless the investigation clearly demonstrates that ending this measure could lead to injury.

Also, initiation of an anti-dumping case where the margin of dumping is somewhat less than 2% of the export price is not common, other conditions are set; based on analyses and investigations showing the volume of dumped product to be too small (i.e. less than 3% of total imports of that product, on the other hand, investigations may be initiated if several countries – each supplying less than 3% of the imports – together account for not less than 7% of total imports.

The agreement states that all member countries must inform the WTO Committee on Anti-Dumping Practices regarding all anti-dumping actions as frequently as twice a year. Once possible cases are identified, then, all members are encouraged to negotiate with and consult each other or use the dispute settlement procedure of WTO. (24)

### ***Conclusion***

Undoubtedly, dumping has negative connotations; whether it is used in the context of international economic, environment or otherwise, not to mention the fact that it is not ethical. In those cases, the outcome is the same, dumping is taking place and the targeted party is hurt and injured.

Notwithstanding the fact that countries are constantly and primarily required to make decisions that are in line with their national interests and security, those decisions need to be done with due diligence and careful consideration of the pros and cons in order to minimize the bad outcomes. Sadly, it will never be a win-win situation for the parties involved; on the contrary, dumping will cause damage to some countries and there may be no magical remedies.

There may be the situation where the victimized countries are not able to stop the continuous barrage of “dumping” attacks by the “culprit” countries; It is ideally assumed that countries all over the world are advocating the concepts of globalization, promotion of free trade, free economic mobilization, world peace and other friendly concepts, yet when it comes to the individual countries’ interests and security, the concept of the “survival of the fittest” rules supreme. Therefore, Dumping can be considered as the manifestation of “political and economic selfishness” of some Nations over the others.

Dumping will continue to be used by countries and the resultant issues will continue to become more complicated and it may become very difficult to eliminate dumping totally, even the international entities such as GATT and WTO are powerless and weak to prevent dumping, or become effective enforcement agencies in fights against dumping. even with the availability of the dispute settlement procedures, the relief for victimized countries may not be forthcoming in a long time because, the process of investigation is long and complicated and until the verdict is known, the victimized country will continue to pay the price and its economy will continue to suffer for a long-time from dumping. This type of sophisticated economic war performed by one country against another will not cease, until countries of the planet “dump” the simple notion of greed which is the root of the problem.

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