

## Trade Finale

- Part I: Trade Relief for U.S. Firms
- Part II: Natural Resource Economies

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- Part I: Trade Relief for U.S. Firms
  - Anti-Dumping Protections
  - Other Protections
  - Strategy & Protectionism
  - Ethics & Protectionism

## What is “Dumping”?

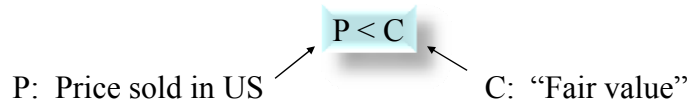
- Definition When a foreign firm sells its output below cost in your market
- Purpose of Anti-Dumping laws
  - Prevent “predatory pricing” -- unfair competitive practice to knock local firms out of the market
- Operation
  - WTO allows *temporary* tariffs against this behavior
  - Firm/industry petitions their national government
  - Government decides whether dumping is occurring
  - If affirmative finding, government can impose punitive tariffs in the amount of the “dumping margin”

## U.S. Anti-Dumping Petitions in Practice

- Regularly used
  - 248 AD tariffs in place for U.S. industries through 2009
  - 38 new petitions per year on average (1978-2009)
  - Steel, tomatoes, salmon, paper clips, paint brushes...
- Significant, lasting protection
  - Average U.S. AD tariff is 57%
  - Average duration > 9 yrs
- Petitioning Procedure
  - Stage I: U.S. Commerce Dept determines if dumping occurring (affirmative decision 93% of time!)
  - Stage II: U.S. International Trade Commission determines whether dumping has caused or will cause “material injury” to the domestic industry (confirms 66% of time!)

## Ask and You Shall Receive

- US Commerce Decision Rule: Dumping occurring if



- Dumping Margin =  $C - P$ . This is the tariff imposed.
- Commerce Dept methodologies
  - P is easily observed, but...
  - C is estimated by Commerce Dept
    - Method #1: Price charged outside U.S.
    - Method #2: Estimated costs
  - Commerce chooses any *individual* price (P) in U.S. over last year and compares with *average* estimate of C

## Dumping or Price Discrimination?

- Price Discrimination

When a firm charges different prices for the same product

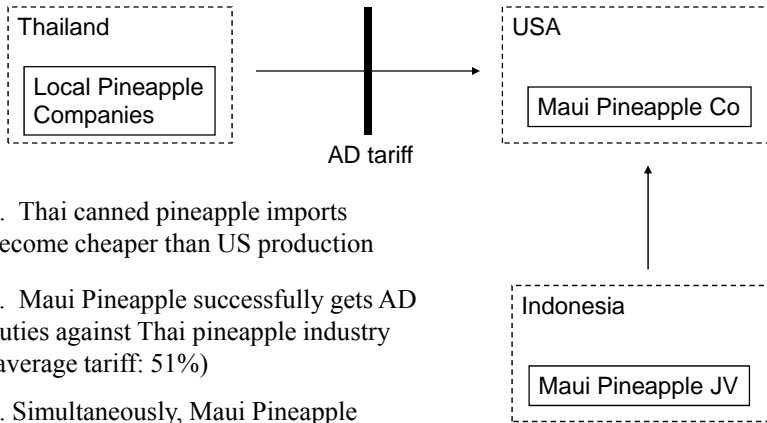
- Are firms dumping or just engaging in price discrimination?
  - Example: Are airlines "dumping" economy class tickets on students?
- Why would firms price discriminate?
  - Different income levels
  - Different consumer tastes
- Why would firms engage in dumping?
  - They lose profits for sure in short run (by definition)
  - Can they really gain those profits back later?

### Example: Micron Technology

- Micron is a producer of DRAM computer chips in Idaho



### Example: Maui Pineapple



1. Thai canned pineapple imports become cheaper than US production
  2. Maui Pineapple successfully gets AD duties against Thai pineapple industry (average tariff: 51%)
  3. Simultaneously, Maui Pineapple starts JV in Indonesia...
- Thai canned pineapple imports to US fall by \$50M, Indonesian canned pineapple imports to US rise by \$50M

## The Byrd Amendment

- The Byrd Amendment (2000)
  - Changes AD procedure in U.S. so that all revenues from AD tariffs must be given to petitioning industry!
  - Senator Byrd acting at behest of steel industry
  - Byrd puts amendment into unrelated appropriations bill
- What incentives does this create for petitioners?
- Other countries object via WTO
  - DSB rules 11/2004: Byrd Amendment breaks WTO rules
  - DSB lets petitioning countries impose retaliatory tariffs
  - Canada, Europe, Chile, etc pick US products to target
  - US Congress voted (2/2006) to eliminate Byrd Amendment in 10/2007

## Other Protections

- The Escape Clause (“Section 201”)
  - Temporary protections for industries from “serious injury”
  - Foreign competition does not have to be “unfair”
  - Petition US Intl Trade Commission
  - US President must sign off and is usually reluctant
  - Example: Steel industry protections from Session #13
- Countervailing Duties (“CVD”)
  - Tariffs to offset foreign *subsidies*
  - Same procedure as AD but harder standard in practice
  - 1 CVD application in US for every 5 AD applications
- Alternative mechanisms to Anti-Dumping, but rarely used
  - WTO allows these mechanisms, but has tighter regulations

## Strategy & Protectionism

### Problem

- Losing comparative advantage

### Options

#### *Market*

- Move some/all operations abroad
- Adjust niche
- Exit entirely

#### *Non-Market*

- Create local protections within current law
- Impact international trade laws

### Non-Market Example

- Lumber, cement and steel duties to protect US lumber, cement, and steel industries
- What are the ethical considerations? What would you do?

## Ethics & Protectionism

### Winners

- #1: Workers in local industry
- #2: Other input suppliers to local industry
- #3: Shareholders

### Losers

- #1: Downstream industries  
e.g. Lumber duties hurt construction firms
- #2: Consumer  
e.g. Houses cost more
- #3: Workers/suppliers/shareholders in other countries  
e.g. Forestry workers in Canada

### Ethics

- What is the net gain?
- Is that your concern?
- Is your responsibility to current workers, shareholders or broad public interest?

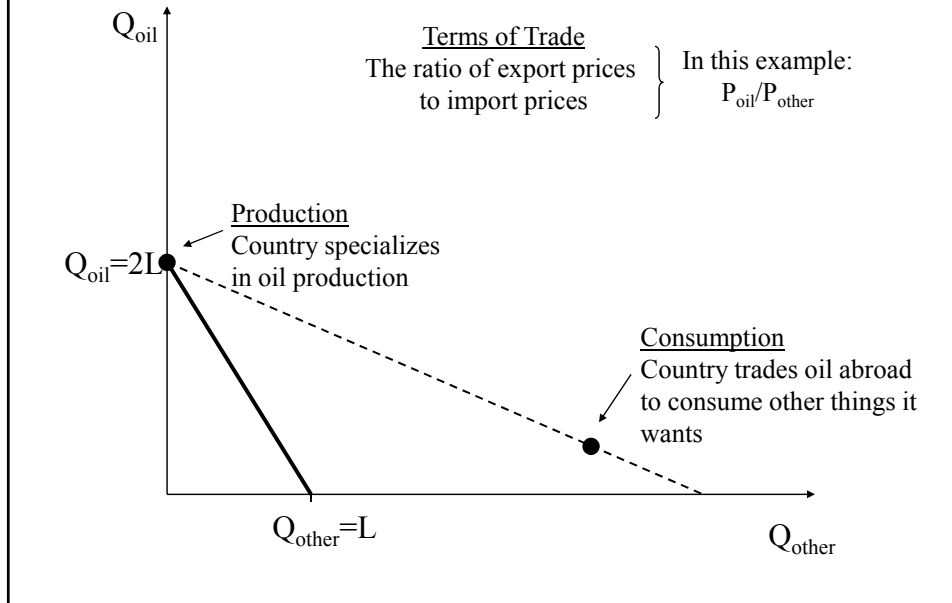
## The Future of Anti-Dumping

- Anti-Dumping reform is on the agenda for latest, ongoing round of WTO negotiations (Doha round)
- Use of AD provisions are a growing phenomenon
  - Percentage of affirmative judgments and average dumping margins have risen in U.S.
  - Developing countries increasingly using AD
    - India is biggest AD user since 2000
- What will happen?
  - Who is more likely to satisfy “ $P < C$ ” criteria on average? Poor countries exporting to rich countries or vice versa?
  - Will industrial lobbies block further trade reform if AD provisions are weakened?

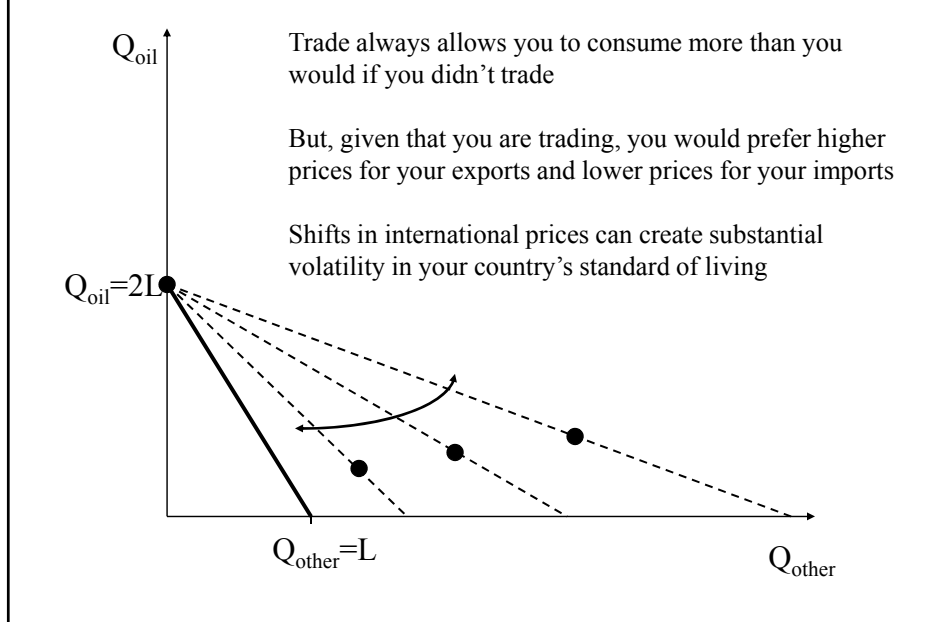
## Trade Finale

- Part II: Natural Resource Economies
  - Volatility
  - The Dutch Disease
  - Oil & Global Risk

## The Terms of Trade



## Volatility & The Terms of Trade



## Resource Dependence & Concentration

Income	<u>Dependence</u> Primary Product Export Share (%)	<u>Concentration</u> Number of Equivalent Products
Poor	76.6	5
Lower Middle	56.1	11
Upper Middle	52.9	10
High	26.4	28

Source: *Handbook of International Trade And Development Statistics 1995*

## Resource Exposure & Economic Performance

- Fact #1: Increased volatility in growth
  - Agricultural economies: Cote d'Ivoire, El Salvador
  - Oil economies: Nigeria, Russia, Venezuela, Gulf states
  - Mineral exports: Peru, Congo, Botswana
- How big is this volatility effect?
  - Contributions of resource dependence, autocracy, and income in 1970 to future volatility in annual growth rate

Variable	Scale of Variable	Increase in Volatility
Resource Exports as % of GDP	1 standard deviation	16%
Autocracy	Shift from full democracy to full autocracy	31%
Income per-capita	Doubling	- 13%

## Resource Exposure & Economic Performance

- Fact #2: Slower growth
  - Greater concentration in natural resources in 1970 predicts slower growth from 1970-1995 (Sachs & Warner, 1997)
  - True even when you control for a range of other factors such as initial income, institutional variables, and shifts in terms of trade
  - Of the 23 developing countries most reliant on primary exports in 1970, only 2 grew faster than 2% per year from 1970-1995
- Why would countries “blessed” with natural resources tend to grow slower?

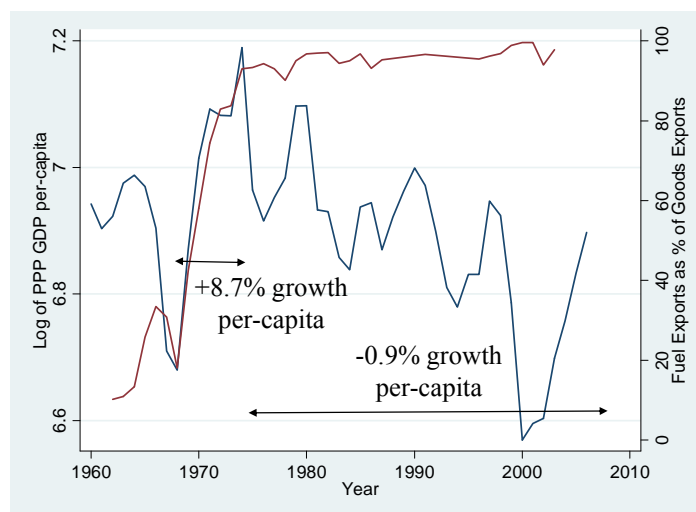
## The Dutch Disease

- Step #1: You get lucky?
  - You discover oil, diamonds, etc, OR
  - You already produce a commodity, and its price rises
- Step #2: Deindustrialization
  - Your currency appreciates in value
  - Your manufactured goods become less competitive internationally, leading to deindustrialization
- Step #3: Poor opportunities for growth
  - You are wealthier initially, but...
  - You shift from manufacturing toward natural resource industry, where there is less opportunity for growth

## The Political Dutch Disease

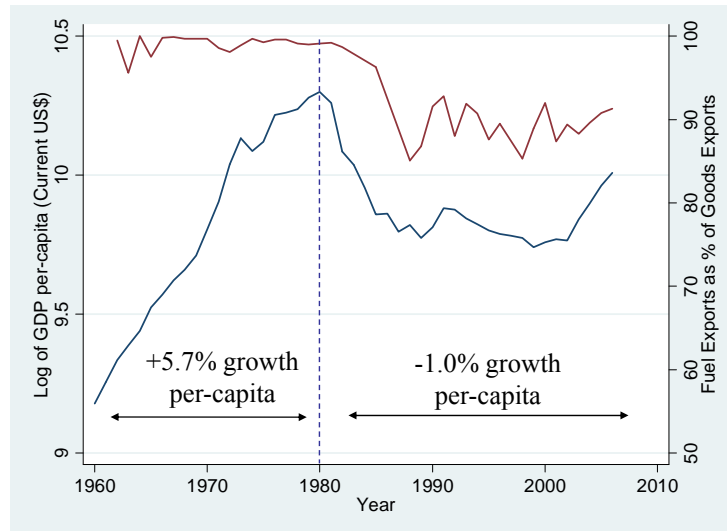
- Problem #1: “Party while you’re rich”
  - Invest badly, borrow on the basis of expected future income
  - Then commodity prices fall and economy is in trouble
- Problem #2: “The Grabbing Hand”
  - Economy becomes increasingly concentrated in natural resource production through deindustrialization
  - Increasing incentives to control the natural resource sector, leading to political instability
- Problem #3: Entrenched Vested Interests
  - If stability can be achieved, natural resources can support *vested interests* over long periods of time
  - Autocracy as concentration of political *and* economic power
  - Decision makers may be opposed to broader industrial growth

## Example: Nigeria



- Growing population but limited resource; little diversification
- Lots of political instability

### Example: Saudi Arabia



- Growing population but limited resource; little diversification

### Global Risks: Oil

- Oil is an essential input to many sectors, has few close substitutes
  - ⇒ Mismatch of demand and supply leads to huge price changes
  - ⇒ Disruptions to supplies pose large risks for global economy
- Identify all examples of sustained & massive growth changes
  - Takeoff: annual growth rate rises  $\approx +5\%$
  - Collapse: annual growth rate falls  $\approx -5\%$

	<i>Structural Breaks in Growth by Decade (Number of Countries)</i>			
	1960s	1970s	1980s	1990s
Takeoffs	7	5	8	6
Collapses	1	27	9	5