E C O N O M I C S B U L L E T I N

THE POLITICAL INFLUENCE OF EUROPEAN AND AMERICAN ANTIDUMPING DECISIONS: SOME EMPIRICAL EVIDENCE

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Abstract

This paper examines the determinants of recent antidumping decisions administered by the International Trade Commission and the Department of Commerce in the United States and the European Commission in Europe. We use case-specific data for the US and the EU, and political pressure data to investigate the macroeconomic and industry-level determinants of decision given by the antidumping authority. We estimate a Probit model to analyze the decisions of the authorities. Besides the economic factors, we find evidence of the existence of political influence as a motive for implementation antidumping measures.

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1. Introduction

There is a long-standing and extensive economics literature on antidumping. The theoretical work has focused on explaining, among other aspects, the antidumping strategies of competing firms and the interplay among firms and governments administering antidumping procedures. There is also a wide-ranging empirical literature on the impact of antidumping procedures.[1] The analysis provided in this paper contributes to a different branch of the antidumping literature which investigates the determinants of antidumping case outcomes. Studies on the US and EU have focused almost exclusively on the original antidumping decisions, with particular attention to the International Trade Commission's (ITC) and European Commission's (EC) material injury decisions. Starting with Finger et al. (1982), economists have empirically examined the political and economic determinants of U.S. antidumping decisions. Other recent works along these lines include Moore (1992), De Vault (1993) and Hansen and Prusa (1997). For the EU, this issue has been studied by Tharakan (1991) and Eymann and Schuknecht (1996). While results have varied somewhat from study to study, the basic conclusion is that decisions can be explained by the protection of rents to labour and capital, along with some – but generally not a dominant -- role for political influence. Feinberg (2005), after considering the filing decision, examines 473 U.S. antidumping cases filed between 1981 and 1998 and explains the determinants of a favourable outcome for petitioners, finding both macroeconomic and steel industry effects. The main difficulty in this type of analysis is collecting the data at a very disaggregated level of classification (6 standard digit).
Our analysis aims at testing one major proposition: that the determinants of decisions taken by antidumping authorities are both political and economic. The paper is structured as follows: first, we specify a Probit model to analyze the decision from the EU and US; and, second, we analyze our results before finally concluding.

2. Model and data

We specify an agency's decision to protect a domestic firm as a Probit model in the following form:

$$D_i = \begin{cases} 1 & \text{If } D_j^* > 0 \\ & \text{Otherwise} \\ 0 & \end{cases}$$

Where, for i=1,2… n, D_i is the observed dichotomous variable representing the decision of the agency (a value of 1 corresponding to a favorable decision), and D_j^* is a latent variable which may be interpreted as the propensity of the agency to respond in favour of the domestic firm's petition. We further specify the latent variable as: $D_j^* = \beta X_i + \mu_i$ where X is the matrix of the explanatory variables, β is a vector of unknown parameters and μ_i is a random term error. The database comprises the decisions (*DECISION*) given by the EC in Europe and the ITC and the Department of Commerce (DOC) in the US[2]. In our analysis, we specify two kinds of variables: economic and political.

[1] For a comprehensive review of theoretical and empirical work on antidumping, see Blonigen and Prusa (2001), Sadni Jallab Mustapha, Monnet Patrick Bakou, Sandretto René, (2006).

[2] Our data does not include pending cases, see appendix 1.

Economic variables[3]

We took into consideration the number of times that the product was incriminated during the period (*PRODUCT-PERIOD*) and the average MFN tariff collected on the product (*TARIFF*). We have included tariff in a non-linear fashion in order to understand the dynamic of the tariff function compared to the opening of antidumping procedures. Indeed, our intuition is that an optimal tariff, which could activate antidumping measure, may exist. This optimal tariff is discussed more deeply below. An overdrawn trade balance could increase protectionist tensions and therefore incite the authorities to pronounce positive decisions (*TRADE-BALANCE*). If the target country has a competition policy, the probability of having a positive decision is weaker. We suppose here that the risk of retaliation is less important when the targeted country does not have a competition policy than the contrary (*COMPETITION*), (Blonigen and Bown, 2003). As noted by Blonigen and Prusa (2003), an important research question is why there are not more antidumping petitions, given the relative ease with which domestic industries can obtain antidumping protection and the possibilities for collusive outcomes even if petitions do not bring formal antidumping protection. U.S. antidumping petitions often involve very specific and narrowly-defined products and annual activity often involves a very small portion (less than 5%) of even manufacturing activity. The threat of retaliation may be one important answer to this research question. The examination of the antidumping example allows us to illustrate the interaction between trade and competition policies. Applying antidumping rules creates conflicts due to the fact that these rules could be part of competition policies focusing on the promotion of competition by (e.g.) the sanction of predatory price discriminations. So far, antidumping activities have been covered within the framework of international trade policy. However, this situation does not create the conditions for a first-best solution. Thus, the phenomenon of antidumping shows both the strategic dimension of competition policies and interdependences and deficiencies resulting from the existence of both policies at the international level. Furthermore, competition policy is based on the principles of non-discrimination, protection, equal opportunities, individual rights and consumer interest. Thus, it seems to be more equitable than trade policy due to the fact that the latter is based on the principle of non-discrimination that nevertheless applies only to producers (Petersmann, E.-U.,1994;UNCTAD 1999). We also integrated two other economic variables: one which captures the labour market (*LUNEMPLOY*), assuming that the more employees there are in the considered industries, the more this industry will be seen as strategic and thus, the more the authorities will be sensitive to their demands for protection; and, the other which is the import penetration rate (*LRIMP*). These two variables should be positively correlated to the decisions made by the regulatory authority.

Political variables

To capture the influence of political factors, we integrated the number of times that a country was incriminated during the studied period (*COUNTRY-PERIOD*). This information could act as a proxy for the level of harassment that a country may face. The level of development of a given country was also captured in our estimations. Indeed, we introduced dichotomous variables concerning the target countries. A dichotomous variable was assigned the value 1 if the country of origin of the exporting firm was a developing country and the value 0 in the opposite case (*LDC*), and another dichotomous variable taking the value 1 if the country of

[3] The data are detailed in appendix 1. All value variables are measured in real terms, and where appropriate, the explanatory variables are included as proportional changes. We used the GDP deflator, built from the GDP series in current prices and GDP in volume at 1997 prices.

origin of the exporting firm was a newly industrialized country and the value 0 in the opposite case (*NIC*). Another variable was also introduced that indicates the number of complaints made against the same product having ended in an antidumping defense accumulated during the period (*PRODUCT-PERIOD*). In addition to these variables, we also considered two other "political" dummies indicating a target country, China, which is of particular concern to the domestic interests of both the U.S. and E.U., and an industry sector, Steel, which is generally viewed as possessing political clout in both economies (respectively *Dummy-China* and *Dummy-Steel*). The decisions of the national antidumping authorities were captured by a dichotomous variable: the value 1 was given in cases in which the national authority implements a defense; and, the value 0 was given where the procedure was closed without a defense being implemented.

3. The role of political factors in the implementation of antidumping measures

More recent research has emphasized the primary importance of economic rather than political criteria. For example, Herander and Schwartz (1984), Baldwin (1985) and Anderson (1993) all find that politics have little to do with ITC decisions. However, as Hansen and Prusa (1997) mentioned, these results need to be revisited and the choice of political variable reconsidered. The *COUNTRY-PERIOD and COMPETITION* variables are used here specifically as a proxy for the level of harassment that a country may face and the risk that retaliations occurred respectively. The *PRODUCT-PERIOD* variable describes the situation where two or more almost identical products, originating in the same country, are subjected to the scrutiny of contingent protection in several countries. Our inquiry will thus attempt to explain why in two or more countries, where producers are not necessarily the same or directly competing against each other but where 'similar' products are produced, 'similar' measures come to be taken against 'similar' importing competition. In particular, we focus on the case of antidumping investigations aimed at protecting domestic manufacturers. By simultaneously incorporating the economic and political factors, we find evidence of both factors in the decision's motivations. The model predicts the endogenous variable in 76.5 % of European cases and 87 % for American cases (Table 1).

We show that the relationship between average tariffs and a positive decision seems to be U-shaped (see Figures 1 and 2), with both very low and very high tariff sectors having a higher probability of a positive antidumping decision. One may expect that low tariff sector industries would be judged to be in greater "need" of protection. The analysis of tariffs in a perfectly competitive market demonstrates that when a large country imposes a relatively small tariff, or if it imposes an optimal tariff, then domestic national welfare will rise, but foreign national welfare falls. The partial equilibrium analysis shows further that national welfare losses to the exporting nation exceed the national welfare gains to the importing nation. The reason is that any tariff set by a large country also reduces world welfare. If we assume that nations are concerned about the national welfare effects of trade policies, then the tariff analysis provides a rationale for antidumping initiations on the part of large importing nations. However, if large importing nations like US or EU set optimal tariffs on all or many of their imported goods, the effect internationally will be to reduce national welfare of its trading partners. If the trade partners are also concerned about their own national welfare, then they would likely find the optimal tariffs objectionable and would look for ways to mitigate the negative effects. One effective way to mitigate the loss in national welfare, if the trade partners are also large countries, is to retaliate with optimal tariffs on your own imported goods. The results concerning the *TARIFF* variable in the US are similar to the EU results; the relationship is U-shaped with both very high and very low tariff rates

leading to a greater likelihood that the authorities will make a positive decision. The more the tariff is raised on a particular sector, the more the product is deemed to be "sensitive" and the more the antidumping duty will be raised. Therefore, politically strong sectors will be protected by both antidumping and tariffs.

The sectoral import penetration rate variable (LRIMP) must be considered for at least three reasons; firstly, an increase in the rate of import penetration means (or can be perceived to mean) more rigorous foreign competition. Secondly, the proof of material injury requires evidence that the industry has experienced a sharp increase in imports. Thirdly, the WTO antidumping code reinforces the obligation for the reporting country to establish a causal relationship between the dumped imports and the damage suffered by the complainant industry. When we look at the sectoral import penetration rate in the explanation of these decisions, it appears to be a very significant factor in both the EU and the US. The sectoral import penetration rate variable is a good proxy for injury experienced by domestic firms, which is a fundamental determinant of the decisions taken by the authorities. Indeed, the higher the import penetration rate, the greater the likelihood of a positive decision.

We find that the sectoral unemployment rate *(LUNEMPLOY)* also increases the probability of a positive decision, but only in the EU. Indeed, the larger the sectoral employment rate, greater the likelihood there is to be a positive decision. However, concerning the US, the larger the sectoral unemployment rate, the less the likelihood there is to be a positive decision. This apparently counter-intuitive result was earlier found by DeVault (1993), who interprets it as suggesting that an industry with many employees is a strong industry, which does not need to be defended by antidumping measures. More intuitively, we find that the greater the total trade balance *(TRADE-BALANCE)* is with the target country, the more likely the decision will be positive. Surprisingly, if the target country is a newly industrialized country, the less likely it is the decision given by the authorities will be positive. This may reflect the lessened concern over the threat that exporters from these countries pose to domestic interests.

Our estimation reveals that the more a targeted country is the object of inquiries in the period, the greater the probability that the decisions taken by the national authorities will be positive. This result demonstrates the role of political factors, as noted by DeVault (1993)[4]. Our estimation also highlights the fact that if the target country has a well-established competition policy *(COMPETITION)*, the regulator has less incentive to make a positive decision, which could be interpreted as a political influence. We find strong positive effects in cases involving China and the Steel sector, suggesting non-economic factors may play a role in these cases. This relationship confirms the American and European practice, which consists of defending the sectors that would otherwise be a victim of unfair trade. (Finger and Murray, 1990)

We were interested in the direct channel by revealing the interaction which exists between the lobbies and the reglementary authority. The variable *'PRODUCT-PERIOD'* is an important political factor in explaining these decisions. Indeed, the number of complaints made against the same product having ended in an antidumping defense accumulated during the period is also very significant and a frequently targeted product has a higher probability of having antidumping duties implemented on each occasion. We also found evidence of political dimension, both in EU and US in the decision making process in the sense that the

[4] However, we also find that the more a product is the object of inquiries over the period the less likely it is that a decision will be positive , which is contrary to our expectations.

COUNTRY-PERIOD variable is significant and illustrates the fact that AD authority may be influenced by the number of times a country is incriminated. Therefore, there is a clear risk that political pressure through political channels can lead bureaucrats to impose antidumping duties to protect politically powerful industries with little economic evidence of injury.

Table 1: Dependant variable: Regulatory Agency decisions in United States and European Union

Explanatory variables	*Dependant variable: Regulatory Agency decision 1998-2002*			
	United States		*European Union*	
Number of Observation	*259*		*285*	
Percent correctly predicted	*87%*		*76.5%*	
Explanatory variables	*Coefficient*	*t-statistic*	*Coefficient*	*t-statistic*
Constant	*105.8*	*2.271***	*8.186*	*3.613****
TRADE-BALANCE	*1.326*	*2.997****	*0.177*	*2,824****
TARIFF	*-5.9625*	*2.125***	*-11.674*	*-1.653**
TARIFF2	*31.831*	*1.984***	*97.632*	*1.995***
COUNTRY-PERIOD	*0.004*	*0.025*	*0.359*	*1.845**
PRODUCT -PERIOD	*0.296*	*2.269***	*0.315*	*2.064***
COMPETITION	*-1.105*	*-2.147***	*-0.482*	*-1.973**
NEW INDUSTRIALISED COUNTRY	*2.124*	*-2.075***	*0.147*	*-2.321***
LESS DEVELOPED COUNTRY	*-0,317*	*-2,197*	*-0.231*	*-1.914**
LRIMP	*0.477*	*1.995***	*11.283*	*3.473****
LUNEMPLOY	*6,424*	*-2.674**	*9.662*	*4.209****
DUMMY_CHINA	*7.148*	*4.798****	*4.172*	*3.178****
DUMMY_STEEL	*8.876*	*6.759****	*3.478*	*3.369****

***=Significant 1%. **= Significant 5%. *= Significant 10%

4. Conclusion

Besides the economic factors, we find evidence of the existence of political influence and that of indirect capture. Indeed, we find that political pressure, measured by the number of antidumping cases involving the product for the period and the number of antidumping cases involving the country in the period, as well as the "political" dummy, *China*, and an industry sector, *Steel*, which is generally viewed as possessing political clout in both economies, has an important influence on ITC-DOC and EC decisions. These variables appear to be positively and significantly related to an industry's prospects for protection. One reform that might be considered would be to only sanction, in the form of antidumping measures, cases of dumping which lead to a threat of monopolization of the market. Taking into account the factors of world competition and the WTO definition of dumping would likely be found to have major responsibility for the current intensification of the use of this form of administered trade protection.

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Appendix 1: Description of the variables used for the estimations[5]

Variable	*Characteristics*	*Tested hypothesis*	*Source*
DECISION	Dichotomous variable identifying the decision: 1 if the Authority takes a positive decision; 0 if not.		Annual and semiannual reports of the European Commission to the European Parliament on antidumping activities. Annual and semiannual reports of the USDOC and USITC on antidumping activities[6].
Number of antidumping cases involving the product for the period 1998-2002 *PROD-PERIOD*	Numeric variable at the product level	The more a product is a target of inquiries for the period, the more the authorities will tend to give a positive decision.	Annual reports of the European and American authorities. Notifications deposited in the Secretariat of the WTO, (document quoted *G/AD/N/year/ EEC*[7] Bureau of Census, ITC, DOC).
Average MFN Tariff (calculations of the WTO Secretariat HS Classification) *TARIFF*	Average tariff in percentage (product level, HS 6)	Decisions tend to be positive when the tariff is above a threshold.	Calculations made by the WTO Secretariat; DG Trade, Electronic database TARIC; and, Tariff Schedule of the United States, USITC.
Number of antidumping cases involving the country in the period *COUNTRY-PERIOD*	Numeric variable	The more a country is a target of inquiries in the period, the more the authorities will tend to give a positive decision.	Calculations of the authors from the various reports of the European Commission. Annual reports of the American authorities
DUMMY-CHINA		Political influence	
DUMMY-STEAL		Political influence	
Target Countries having a competition policy. *COMPETITION*	Dichotomous variable taking the value 1 where this is positive and 0 where it is not, (economy-wide)	If the target country has a competition policy, the probability of having a positive decision is weaker. Risk of retaliations.	I.Wooton, M.Zanardi, 2005
Unemployment rate UNEMPLOY *LUNEMPLOY*=LogUNEMPLOY	Numeric variable at the industry level	This variable must be positively correlated to the decision taken by the regulatory authority.	Eurostat, OLISNET (OECD.), Handbook of International Trade Annual Survey of Manufactures, Bureau of Census.
Import penetration rate *LRIMP* =Log RIMP	Numeric variable at the industry level	This variable must be positively correlated to the decision taken by the regulatory authority.	Eurostat, OLISNET (OECD.), Handbook of International Trade OLISNET (OCDE.), USITC, Trade Data Base.
Total trade balance *TRADE-BALANCE*	Total exports less total imports.	An overdrawn trade balance increases protectionist tensions and can incite the authorities to pronounce positive decisions.	European Commission, DG Trade U.S. Bureau of Census[8].
NIC- LDC New industrialized and less developed countries.	Dichotomous variable taking the value 1 in the positive case, 0 in the negative case.	Does the level of development of the target countries influence the decisions?	The annual and semiannual reports of the United States on the antidumping activities.. WTO notifications G/AD/N/(year)/USA

[5] All the Data are available upon request.
[6] See, http://ec.europa.eu/index_en.htm for the EC, www.commerce.gov for the DOC and www.**usitc**.gov for the ITC.
[7] See http://www.wto.org/english/tratop_e/adp_e/adp_e.htm
[8] http://www.census.gov/foreign-trade/balance/index.html

Figure 1: Relation between Tariff (t) and the probability to have a positive decision (d) in E.U.

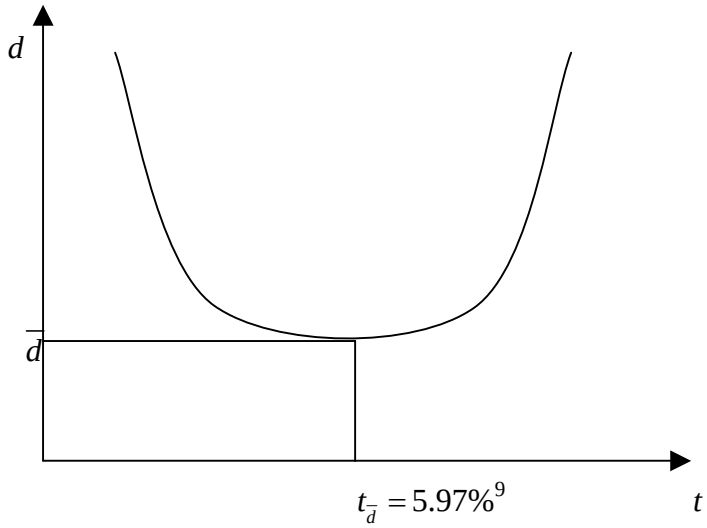
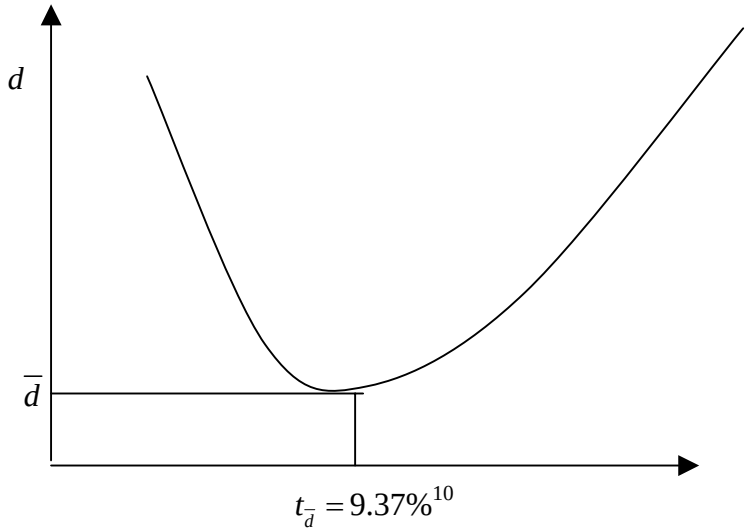


Figure 2: Relation between Tariff and the probability to have a positive decision in U.S.



[9] Indeed, $f(X) = -11.674d + 97.632d^2 + C$ where C represents the other estimated coefficients. If we optimize $f(X)/d$, we get $\bar{d}$ =5.97%.

[10] Indeed, $f(X) = -5,96d + 31,8d^2 + C$ where C represents the other estimated coefficients. If we optimize $f(X)/d$, we get $\bar{d} = 9,37\%$.