

Dumping on Free Trade, Optimal Antidumping Duties, and Price Undertaking: Welfare Implication in a Two-Market Equilibrium Analysis



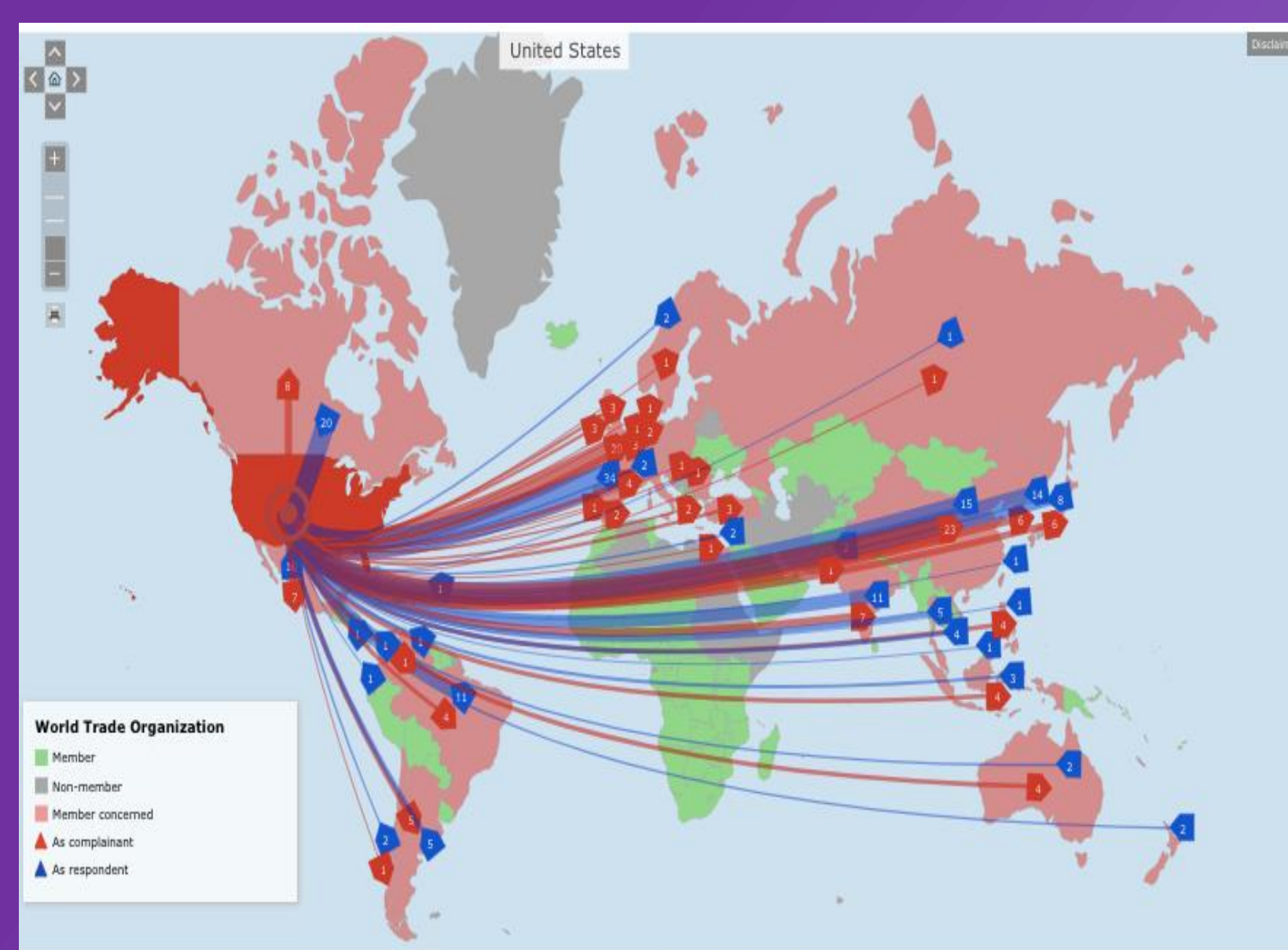
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What is Dumping?

“A situation of international price discrimination, where the price of a product when sold in the importing country is less than the price of that product in the market of the exporting country.” (WTO, 2018)



What we might call a sale at home, becomes dumping when done internationally.



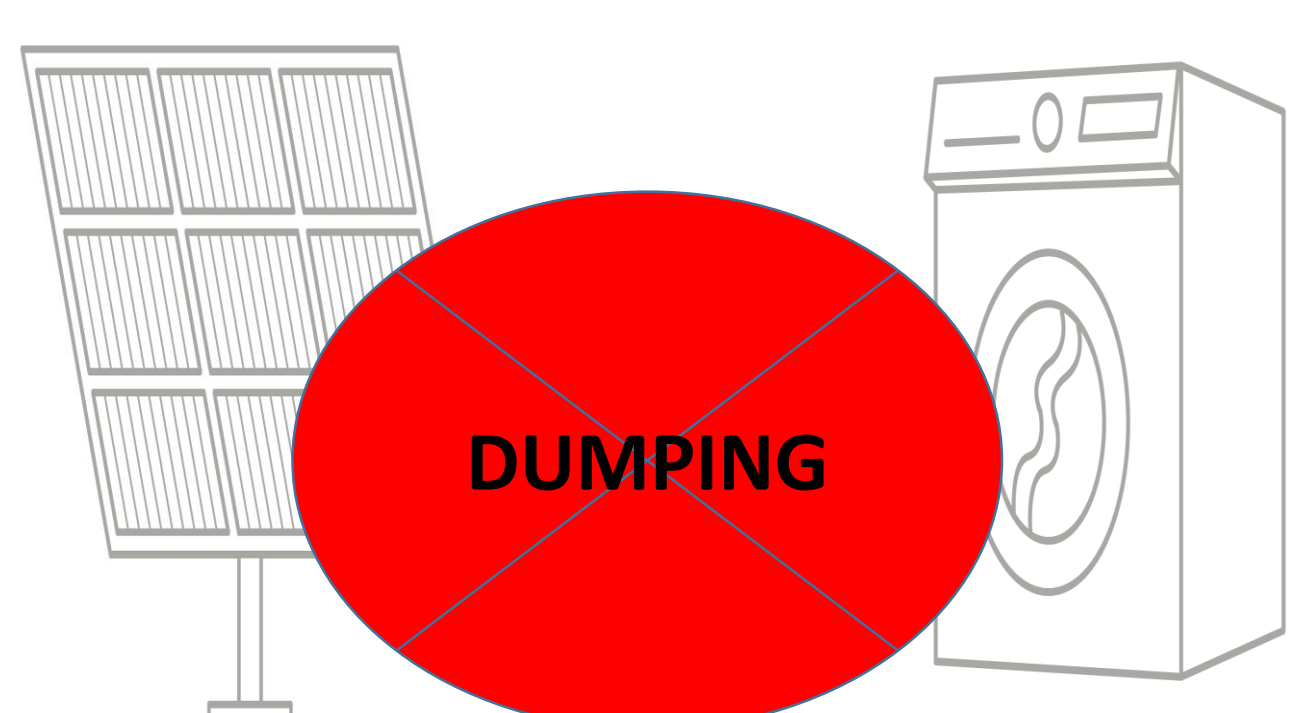
Some Recent Cases of Dumping

Solar Panels

❖ Taiwan and China

Washing Machines

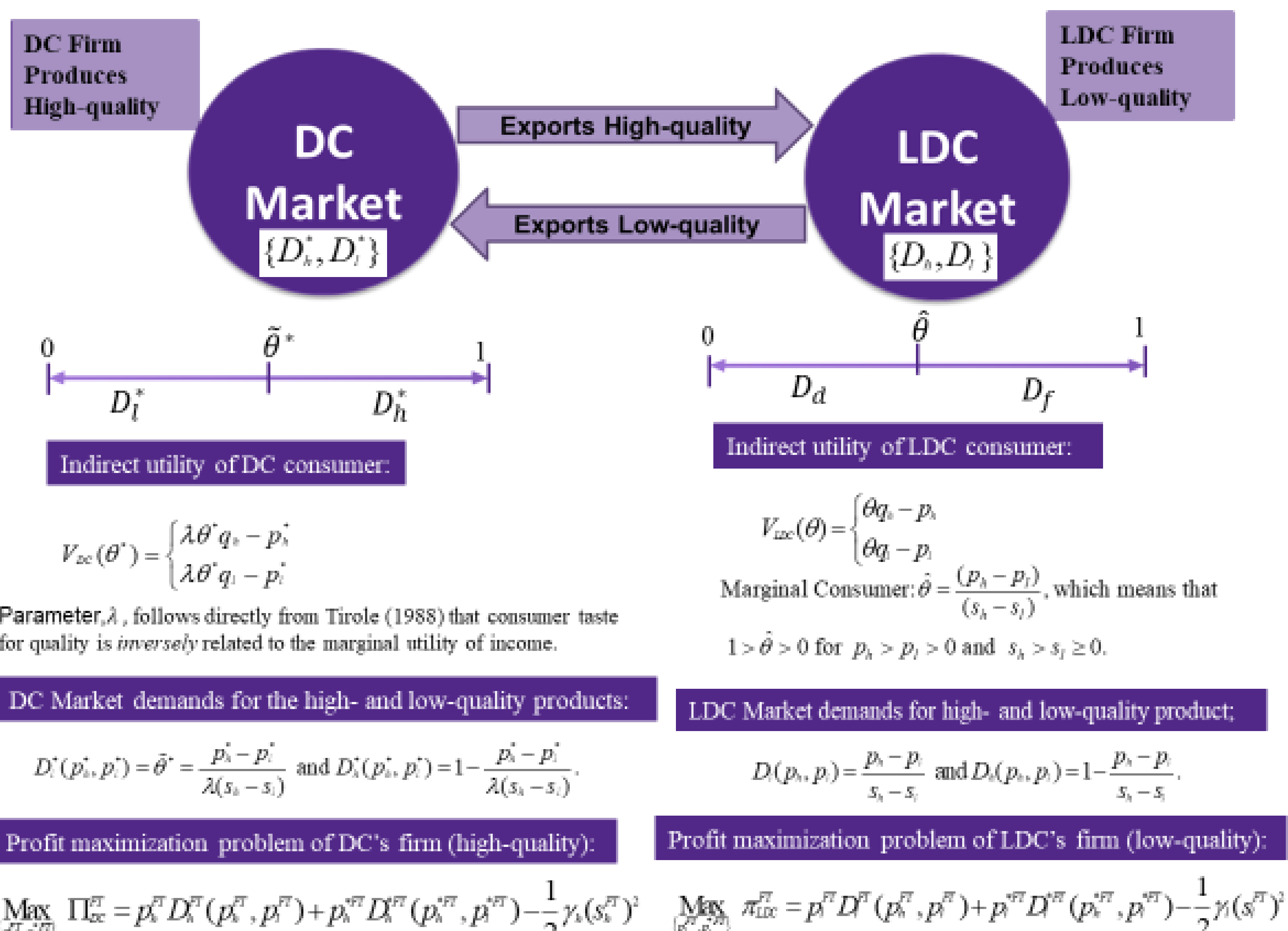
❖ Mexico



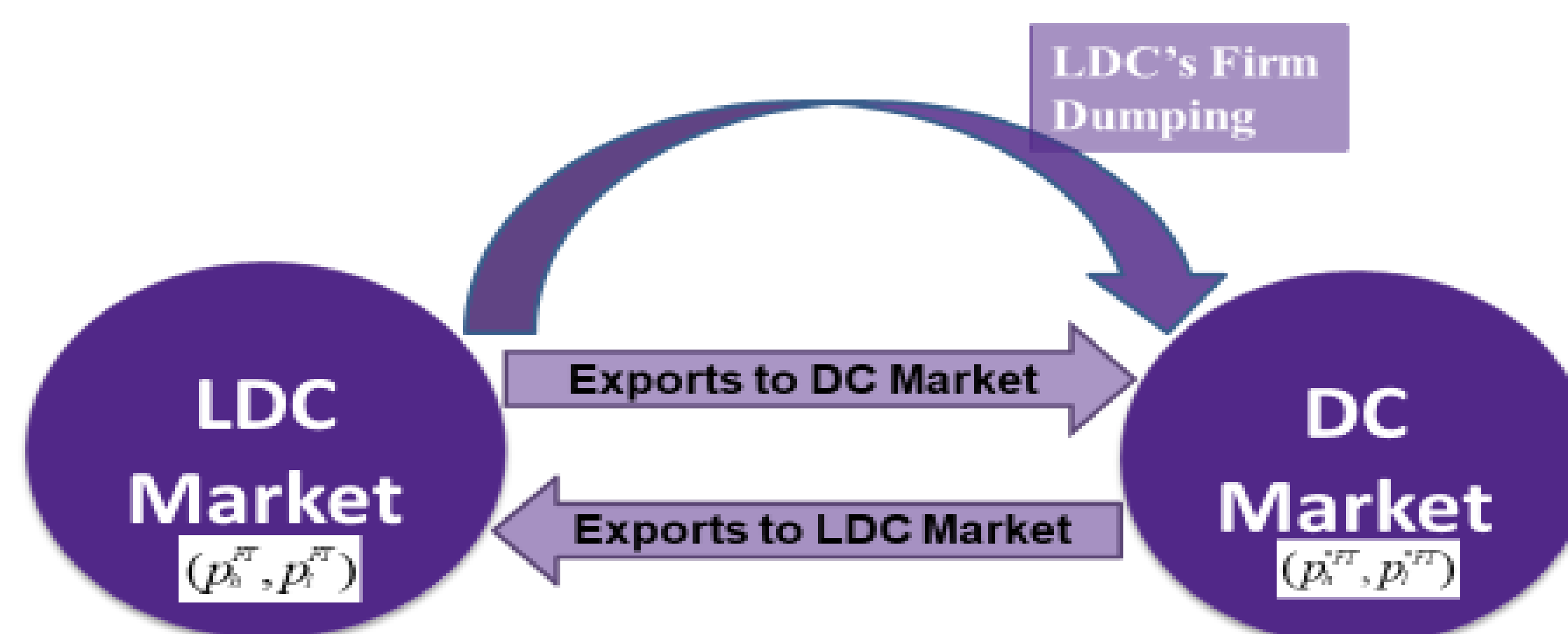
Research Questions

- Does Dumping Occur under Free Trade?
- Who Dumps?
 - ❖ Developed vs. Developing Country
- How to Respond?
 - ❖ Anti-dumping Duty vs. Price Undertaking

Two- Market Equilibrium Model of Vertical Product Differentiation



Dumping Occurs under Free Trade



Findings indicate that;

YES, Dumping Occurs!!

$p_h^{FT} > p_l^{FT} \Rightarrow$ DC's Firm Does not Dump

$p_l^{FT} < p_l^{FT} \Rightarrow$ LDC's Firm Dumps in DC Market

DC's Policy Options to LDC Dumping



- ❖ Social Welfare of the DC is higher under Anti-dumping Duty
- ❖ AD Duty also enhances Global Welfare

Conclusion

- ❖ It is profitable for an LDC firm to dump its low-quality product in DC market.
- ❖ Although dumping is profitable to the LDC exporter, the overall welfare of the LDC decreases when its exporting firm is charged with an AD duty.
- ❖ It is welfare improving for LDC government to restrain its exporting firm not to dump but to negotiate or accept a price undertaking (PU).
- ❖ Anti-dumping action against LDC dumping firm is welfare improving both to DC and the world.

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