"No Gain without Pain": Antidumping Protection hurts Exports

Protection is often viewed as a powerful instrument to help domestic firms to raise their sales at the expense of foreign importers. But this view is now being challenged by recent research showing that the effects of protection really depend on the international orientation of the firms i.e. whether they are exporters or not. Protected firms that are well integrated in global value chains (GVC) may actually lose sales whenever the imports of inputs are subject to protection. This observation may not come as a surprise but it is important to realize that trade policy has not kept pace with this aspect of globalisation.

The main reason is that many of the current WTO rules governing trade protection stem from an era where trade models predicted that all domestic firms would benefit from import protection (see section below). Traditional theory models assumed that all firms in the protected industry are import-competing and only sell domestically. However, in recent years an increasing number of papers have shown that even within narrowly defined industries, firms can be very different: some firms only produce for the domestic market others mainly export or sell both domestically and internationally. Thus, the question that can be raised is whether all domestic firms benefit from import protection given that some of the protected firms may be exporters.

Konings and Vandenbussche (2012) look into this question by using French firm-level data. They consider whether all French firms that get import protection benefit from the protection. Their findings suggest that protectionist measures have a heterogeneous effect on domestic firms covered by the antidumping protection.
Winning and Losing Firms from Protection

Traditional trade theory predicts that all firms in the protected industry are import-competing firms, that sell domestically. Based on this view of the world, one would expect all firms in the domestic industry to benefit from the import protection since protection raises consumer price for the protected product which then raises demand for all domestic substitute products. Also, newer trade theories, introducing a representative firm and economies of scale in production, predict that an import-competing firm benefits from import protection in the form of higher domestic sales. These higher domestic sales reduce costs due to economies of scale allowing the firm to set a lower price in export markets and have higher export sales (Krugman, 1984). Hence, both the traditional and the new trade models predict that import-protection is beneficial for the import-competing industry and its firms. However, the latest trade theories recognize that firms are heterogeneous in nature and that there is a fundamental difference between the activities of exporters and non-exporters within the same industry (see Bernard et al. (2010) as one of the most recent papers documenting this).

Which firms benefit from Import protection?

There is a small but growing number of papers that analyse empirically the heterogeneous responses of firms to trade policy. In a forthcoming paper in the Review of World Economics, we (Konings and Vandenbussche , 2012) analyse the effects of protection on exporters and non-exporters. To this end we use "program evaluation" where we compare French protected firms to similar but unprotected "matched" firms. This technique which has often been used in labor economics is now also finding its way to assess trade policy issues (Cadot et al., 2011). Our findings show that purely domestic French firms without any international activity benefit from import protection and see their domestic sales rise, while exporters and especially those belonging to a global network, lose
sales relative to unprotected firms. More in particular we find that AD protection raises firm-level domestic sales of non-exporters by 5%. For exporters, we find that AD protection lowers their exports abroad by about 8% and this fall is not compensated by an increase in exporters’ domestic sales which also fall by around 4%. At the product-level extra-EU French exports drop by 36% while total extra-EU exports fall by 21%. We verified that these results are not driven by retaliation policy, endogeneity or the choice of control group.

Case Evidence
The empirical finding that trade policy hurts exporters appears largely consistent with case evidence available in the literature. For example, Isakson (2007) describes in detail a European antidumping case of imported leather shoes in the EU where the imposition of a duty was heavily supported by relatively small Italian shoe producers mainly selling locally, but was strongly opposed by large and more “globalized” EU shoe producers like the Danish Ecco firm. The reason for Ecco to oppose the protection was the fact that it imported shoes from China and after branding and labelling in Europe, exported the shoes. As a result of the AD duty, the importing of shoes became more expensive, resulting in losses on domestic and exported sales. Other European manufacturers like Diesel, Adidas, Hush Puppies and Puma also opposed the shoe tariffs in that same case for the same reasons. There are plenty of other cases that illustrate that multinationals often oppose the antidumping protection they receive.

Alternative Explanations?
An alternative explanation that may come to mind for the fall in exports that French
exporters experience, could be related to reduced market access abroad. This could result from retaliatory action of targeted trade partners outside the EU. Such retaliatory actions are difficult to capture empirically since they may or may not occur in the same sector and may take some time to materialize (Prusa, 2001; Blonigen and Bown, 2003). Konings and Vandenbussche (2012) find that despite the statistical significance, the economic significance of exports going to targeted countries is low. Exports to target countries represent only 1% of the total export value of products in our AD cases. This suggests that while retaliation adds to the fall in exports, it cannot explain the decrease in exports observed during antidumping protection.

A more plausible explanation can be found in the trade theory of heterogeneous firms. Since exporters are more likely to be integrated in global value chains, these are typically firms that engage more in the fragmentation of production through importing and outsourcing. The empirical evidence recently available shows that import protection affects firms in the same domestic industry differently. The difference lies in the international orientation of firms. The “winners” of antidumping protection are the non-exporters. The “losers” of antidumping protection are the exporting firms. Their domestic sales and exports fall during protection.

**Policy Relevance**

From a policy point of view our results are highly relevant. When trade policy does not take into account the negative externality it has on protected firms’ exports, this will have negative long-run consequences for any country using protection as an instrument to protect its domestic import-competing sector. Firms today no longer operate within the confines of one country or market but
their operations increasingly become international. While import protection laws may have been an effective way to temporarily boost a country’s trade surplus and current account two decades ago where firms mainly sold domestically, it is no longer the case today. In a world that is increasingly globalized, exporters’ success seems to positively depend on the free entry of imports rather than the other way round.

References

