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Antidumping Reform Crucial to U.S. Competitiveness

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The Cato Institute today published its 13th policy paper on the topic of antidumping. Economic Self-Flagellation: How U.S. Antidumping Policy Subverts the National Export Initiative describes with compelling anecdotes and data how the outdated assumptions a 90-year-old law—one purported to "level the playing field" and protect U.S. companies from "unfair" foreign competition—conspire with its overzealous application to erode the competitiveness of U.S. firms.

During the decade from January 2000 through December 2009, the U.S. government imposed 164 antidumping measures on a variety of products from dozens of countries. A total of 130 of those 164 measures restricted (and in most cases, still restrict) imports of intermediate goods and raw materials used by downstream U.S. producers in the production of their final products. Those restrictions raise the costs of production for the downstream firms, weakening their capacity to compete with foreign producers in the United States and abroad.

In all of those cases, trade-restricting antidumping measures were imposed without any of the downstream companies first having been afforded opportunities to demonstrate the likely adverse impact on their own business operations. This is by design. The antidumping statute forbids the administering authorities from considering the impact of prospective duties on consuming industries—or on the economy more broadly—when weighing whether or not to impose duties.

That asymmetry has always been insane, but given the emergence and proliferation of transnational production and supply chains and cross-border investment (i.e., globalization)—evidenced by the fact that 55% of all U.S. import value consists of raw materials, intermediate goods, and capital equipment (the purchases of U.S. producers)—it is now nothing short of self-flagellation.

Most of those import-consuming, downstream producers—those domestic victims of the U.S. antidumping law—are also struggling U.S. exporters. In fact those downstream companies are much more likely to export and create new jobs than are the firms that turn to the antidumping law to restrict trade. Antidumping duties on magnesium, polyvinyl chloride, and hot-rolled steel, for example, may please upstream, petitioning domestic producers, who can subsequently raise their prices and reap greater profits. But those same "protective" duties are extremely costly to U.S. producers of auto parts, paint, and appliances, who require those inputs for their own manufacturing processes.

President Obama acknowledges as much. On August 11, 2010, at a White House signing ceremony, the president offered the following rationale for a bill that he was about to sign into law:

> The Manufacturing Enhancement Act of 2010 will create jobs, help American companies compete, and strengthen manufacturing as a key driver of our economic recovery. And here's how it works. To make their products, manufacturers—some of whom are represented here today—often have to import certain materials from other countries and pay tariffs on those materials. This legislation will reduce or eliminate some of those tariffs, which will significantly lower costs for American companies across the manufacturing landscape—from cars to chemicals; medical devices to sporting goods. And that will boost output, support good jobs here at home, and lower prices for American consumers.

Higher input prices stemming from antidumping measures are only the first assault on these downstream firms. The next wave usually takes the form of stiffer competition from firms in countries where there are no antidumping duties on the critical input. As a result, the foreign competition often operates at a cost advantage in the United States and in other markets that enables it to sell profitably at lower prices than U.S. firms can charge.

Accordingly, the profits of downstream firms are squeezed by both higher costs, due to import restrictions, and lower revenues, due to lost sales. As a consequence, countless U.S. producers in downstream industries—including firms that were once thriving in the United States and foreign markets—have suffered severe losses, contraction, and bankruptcy.

Again, the administration is well aware of this connection. Indeed, the U.S. Trade Representative launched a formal complaint against China in the WTO for that country's restrictions on exports of certain crucial raw materials, providing the following rationale:

> China maintains a number of measures that restrain exports of raw material inputs for which it is the top, or near top, world producer. These measures skew the playing field against the United States and other countries by creating substantial competitive benefits for downstream Chinese producers that use the inputs in the production and export of numerous processed steel, aluminum and chemical products and a wide range of further processed products.

Moreover, the USTR demonstrates an appreciation for the fact that restrictions on upstream products generate downstream costs that compound at successive stages in the production supply chain:

> These raw material inputs are used to make many processed products in a number of primary manufacturing industries, including steel, aluminum and various chemical industries. These products, in turn become essential components in even more numerous downstream products.

If you need more evidence that the antidumping status quo is weighted heavily against import-consuming U.S. industries, consider this gem: three of the nine mineral raw materials that are the subject of the U.S. case against China in the WTO (magnesium, silicon metal, and coke) are simultaneously subject to U.S antidumping restrictions. That's right! With our own import restricitons firmly in place, the United States is suing China to remove its export restrictions on the same products. That sounds like an excellent use of resources.

As a final indignity, many U.S. exporters suffer the wrath of foreign antidumping restrictions and other forms of protectionism that are often the result of persistent U.S. opposition to antidumping reform, as well as outright retribution for specific U.S. antidumping actions. Among recent victims are U.S. exporters to China of automobiles, fiber optic cable, chicken, grain, and paper. In countless ways, the antidumping status quo subverts U.S. competitiveness and is an albatross around the neck of the U.S. economy.

To bestow real and enduring benefits upon the U.S. economy, the antidumping law should be reformed to—at a minimum—give legal standing to manufacturers and workers in consuming industries; require the administering authorities to conduct an analysis of the economic impact of prospective antidumping duties and to deny imposition if the costs exceed a certain threshold; and require that any antidumping duties imposed not be excessive.

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