

**BE 309E 003**

**International Business and Marketing**

*The impact of The USA's anti-dumping measures against China  
with a case study*

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## Abstract

The recent deepening of economic globalization and the associated trade liberalization has reduced significantly the importance of tariff as a trade barrier. Anti-dumping measures though can be implemented relatively easily and selectively compared to other trade measure. Antidumping investigations, regardless of the final rulings, can lead to almost immediate loss of market share on the part of exporting countries; they have also become the most frequently use trade remedies. Since the start of financial crisis, the trade protectionism started to germinate, particularly, anti-dumping measure were frequently used

China has been the fastest growing economy for 30 years. Last year, China became the world largest exporter. China's economic relations with the United States become more and more important to the world's economic development. But, the filings of contingent measures targeted at China have proliferated at a rapid pace, with anti-dumping actions far more prevalent than other measures. Since 1994, China has been the world's number one anti-dumping target. The United States is (after India) the country that has taken the largest numbers of anti-dumping initiatives against China. So it is crucial to study the US' anti-dumping activities against China.

This thesis discussed the reasons that United States of America is using anti-dumping measures against China frequently. Further, I provide some countermeasures for both Chinese government and firms to deal with anti-dumping investigations. A case study, the Triangle Group, a major Chinese tire producer, is also provided.

Key words: Anti-dumping, Sino-US trade, Dumping, Countermeasures, Triangle Group

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## **Abbreviations and Symbols**

AD Anti-dumping

ASEAN Association of South East Asia Nations

CCC China Compulsory Certification

CDSOA the Continued Dumping and Subsidy Offset Act of 2000

CGE model of Computable general equilibrium

DOT US Department of Transport

ECE Economic Commission of Europe

EU European Union

IMF International Monetary Fund

ISO International Standard Organization

ITC International Trade Commission

MNEs Multinational Enterprises

NME non-market Economy

OE Original Equipment

OTR Off-The-Road

US the United States of America

VER voluntary export restraint

WTO World Trade Organization

## **1. Introduction**

### **1.1 The background of the study**

In the era of economical globalization, the international economic cooperation and trade liberalization result in the diminishing of traditional trade barriers. However, anti-dumping measures as one of the contingency protection measures permitted by WTO are frequently used. The anti-dumping measure is becoming the largest trade barriers threat to international trade.

After acceding into WTO in 2001, China's international trade is increasing rapidly. Last year, China overtook Germany as the largest exporter in the world. China's huge international exports bring in large amount of foreign exchange and increase the importance of China's status in global economy. However, more and more Chinese companies are troubled by the increasing anti-dumping investigations and have become the victims of anti-dumping activities. China has been the world's number one target for anti-dumping activities for 16 years.

The United States are China's closest trade partner—US is China's largest export market and China is the third largest export market for US. For several reasons, the US has launched large numbers of anti-dumping investigations against Chinese products. The anti-dumping activities from US are not only large in numbers, but also large in the products values and punitive tariffs. At the same, US firms are dumping their products into Chinese market; these double impacts are challenging the China's international trade development.

Chinese firms seldom win an anti-dumping lawsuit against US. For many reasons, the US is sophisticated to launch anti-dumping measures against China. Moreover, the impacts of anti-dumping activities from the US are fatal to Chinese industries. It is

interesting to find out the reasons that make US launched anti-dumping investigations against Chinese products. Chinese should find their best options to cope with the international contingency measures. On the other hand, what will be best ways for Chinese government and firms to cope with the problem are cared by lots of people.

While among the anti-dumping activities, some industries are frequently attacked by foreign countries, such as tire industry. In the requirement of the US United steelworkers Union, the US International trade committee started a special safeguard against Chinese bus and light truck tires. The tire special safeguard case from US had almost casted the specific tires out of the US market. It is estimated that the safeguard affected around 100,000 Chinese tire workers, and China is going to loss about 1 billion US Dollar revenue in the US market. China's Tire industry is suffering the most difficulty time ever.

## **1.2 Problem statement**

The Anti-dumping measure is initially used to prevent monopoly in domestic markets, but recently it has always been abused. As China is the top anti-dumping target, I would like to discuss the reasons. The anti-dumping measures have affected Chinese firms doing the regular international business. In several ways, anti-dumping measures influenced Chinese export firms. While standing in the view of Chinese export firms, I will think about the countermeasures for them to cope with the anti-dumping investigations. So my next research topic is about the countermeasures for firms to deal with the US' unfair anti-dumping actions. A single firm is inadequate to deal with the anti-dumping measures which usually are targeting at a whole industry. So during the process of anti-dumping investigation, industry associations are playing very essential role. Industry associations are the bridges which are connecting government and firms. So, how to unite the firms, industry associations and government is critical to cope with the anti-dumping issues. What is

more important, the three parties need to find ways to prevent anti-dumping issues.

My case study will talk about the Chinese second largest tire maker—Triangle Group and its situation in foreign contingency measures. In the attacking of foreign contingency measures, Chinese tire industry and Triangle Group is in its most difficult time. In order to get more information about the firm, I visited firm during my field work. After having the interview of a market manager in the Triangle Group, I had clearer view about the firm. How to face the contingency measures and achieve a sustainable development of Triangle Group will be discussed.

### **1.3 The structure of this thesis**

The main content of my thesis are divided in the following 6 parts: introduction, methodology, theoretical part, empirical part, analysis part and conclusion.

The theoretical part is mainly talking about the current research on anti-dumping measures and the theories that I am going to use in my thesis. In the methodology part, I will state the main philosophical position when doing my research. And I will talk about the research design in my thesis. My empirical part is going focus on the situation of anti-dumping activities from US, and my case study about the Triangle Group in the world contingency measures. The main problems that I'm going to discuss in the analysis part are about the reasons of the US' initiating of anti-dumping investigations and the solutions for Chinese government and firms to deal with anti-dumping activities. Especially, I'll discuss about how the Triangle Group will survive in the world intensive contingency activities.

## **2. Theoretical Part**

### **2.1 Introduction**

#### **2.1.1 Introduction of WTO**

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

The WTO provides a forum for negotiating agreements aimed at reducing obstacles to international trade and ensuring a level playing field for all, thus contributing to economic growth and development. The WTO also provides a legal and institutional framework for the implementation and monitoring of these agreements, as well as for settling disputes arising from their interpretation and application. The current body of trade agreements comprising the WTO consists of 16 different multilateral agreements (to which all WTO members are parties) and two different plurilateral agreements (to which only some WTO members are parties).

Over the past 60 years, the WTO, which was established in 1995, and its predecessor organization the GATT have helped to create a strong and prosperous international trading system, thereby contributing to unprecedented global economic growth. The WTO currently has 153 members, of which 117 are developing countries or separate customs territories.

#### **2.1.2 Anti-dumping actions with in WTO framework**

If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be “dumping” the product. Is this unfair competition? Opinions differ, but many governments take action against dumping in order to defend their domestic industries. The WTO agreement does not pass judgment. Its focus is on how governments can or cannot react to dumping—it disciplines anti-dumping actions, and it is often called the “Anti-Dumping Agreement”. (This focus only on the reaction to dumping contrasts with the approach of the Subsidies and Countervailing Measures Agreement.)

The legal definitions are more precise, but broadly speaking the WTO agreement allows governments to act against dumping where there is genuine (“material”) injury to the competing domestic industry. In order to do that the government has to be able to show that dumping is taking place, calculate the extent of dumping (how much lower the export price is compared to the exporter’s home market price), and show that the dumping is causing injury or threatening to do so.

GATT (Article 6) allows countries to take action against dumping. The Anti-Dumping Agreement clarifies and expands Article 6, and the two operate together.

### **2.1.3 Introduction of antidumping**

The economic crisis from 2008 brought depression to the world economy and it will face great challenges on the way to recovery. The economic crisis affected on the economic development of almost every country. Companies which are acting hardly in the recession usually prefer to be protected, as a result, protectionism in the international trade are increased. Simultaneously, the antidumping policy has been frequently used as the most important trade policy in many countries especially during the economic depression.

Article 6 of the General Agreement on Tariffs and Trade (GATT) establishes that dumping occurs when:

... The price of the product exported from one country to another

- (a) is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country, or,
- (b) in the absence of such domestic price, is less than either (i) the highest comparable price for the like product for export to any third country ordinary course of trade, or (ii) the cost of production of the product in the country of origin plus a reasonable addition for selling cost and profit.

Under the article 6 countries may levy antidumping duties against the dumped imports if it is found that they cause or threaten material injury to the domestic industry making the like product. Thus the GATT determines that antidumping measures may be taken if three conditions are satisfied, i.e. the existence of dumping, the existence of injury, and a causal relationship between two. The Agreement on Implementation of Article 6 of GATT 1994 (hereinafter the WTO Antidumping Agreement, as it is often called) further specifies this definition. The Agreement imposes binding obligations on the WTO signatory countries with respect to their national antidumping laws (Gunnar Niels 2000).

## **2.2 The theory of dumping**

### **2.2.1 Traditional dumping theory**

Viner (1923) was the first to present a comprehensive theoretical treatise on dumping. At that time, dumping had already become a common theme in international trade but little economic theory existed, and the term dumping as used for anything ranging

from selling in different countries at different prices, to exporting at prices that less efficient foreign competitor could not cope with (Viner, 1923, pp.1-5).

Viner distinguished between three types of dumping:

- sporadic dumping — including unintentional dumping and disposal of casual overstock
- short-run or intermittent dumping, lasting for months or years at a time — including such diverse actions as dumping to develop trade connections and buyers' goodwill in new markets, as well as predatory dumping to monopolize the importing market
- long-run or continuous dumping — to maintain full production from existing plants or to obtain the economies of larger-scale production without cutting domestic prices

He then applied an economic norm: "From the point of view of the importing country as a whole, there is a sound economic case against dumping only when it is reasonable to suppose that it will result in injury to domestic industry great than the gain to customers" (Viner, 1923, p.138). This led Viner to object to intermittent dumping because it last long enough to injure domestic producers without providing consumers with a constant, long-run supply to cheap goods.

### **2.2.2 Modern dumping theory**

With the emergence of dumping as a substantial issue in the domestic and international politics of international trade, new literatures of dumping started to develop which are distinctive from the traditional theories of dumping.

Brander and Krugman's (1983) reciprocal dumping paper is one of the most wildly cited papers in modern dumping theory, and in modern trade theory of that matter. Brander and Krugman develop a model of oligopolistic competition between national

monopolists in each of their segmented national markets, with iceberg trade costs of serving the market which is foreign to a given national monopolist. The model is strongly symmetric, in that the firms produce identical products under identical production and transport costs, and face identical national demand functions in the two markets. Thus, even though the usual basis for price discrimination (i.e. differences in demands) is not present, Brander and Krugman are able to show that there will be two-way trade in the common product, and that each firm will sell at a higher price in its domestic market than in its export market – that is, there will be ‘reciprocal dumping’. The key assumption here is market segmentation, which supports an equilibrium in which each firm faces higher marginal costs (due to transportation costs) and higher marginal revenues (due to smaller market share) in its export market. On the one hand, this trade is wasteful, in that identical products are paying positive transportation costs to reach foreign market, but on the other hand, competition lowers prices to consumers. As Brander and Krugman show, the welfare effects of reciprocal dumping involve the interaction of these two effects. The last substantive contribution is to show that welfare must improve with reciprocal dumping if both national markets are characterized by free entry. This model has been the basis of fairly extensive theoretical and empirical work (Douglas R. Nelson, Hylke Vandenbussche, 2005).

Brander and Krugman’s model has been extensively used in analyzing the economic effects of anti-dumping, as well as the incentives for political economic interaction in the context of anti-dumping.

While Brander and Krugman developed a model which is concerning about oligopolistic market, there are other literatures focus on dumping in a context of competitive market. Dumping which occurs in a competitive market is cost dumping instead of price discrimination. Since cost dumping is not the only form of dumping, or even the most important form, these analyses must be seen as complementary to the monopoly price discrimination and oligopoly models of dumping.

The first contribution is Wilfred Ethier's (1982; Chapter 6) paper, based on competitive markets, price uncertainty, factor market imperfection and sticky wages. As a result of wage stickiness, firms adjust to shocks by layoffs rather than wage adjustment, but that makes worker consider both wage and security of employment in making their decision about where to work. This model generates (one-way) dumping as firms sell traded good below cost in the bad state and above cost in the good state. Firms in a country with more inflexible labor market institutions will engage in dumping to smooth out production. As Ethier points out, the other side of this is that the country with more flexible labor market institutions has an incentive to adopt anti-dumping protection as a response to the dumping. Interestingly, one implication of the model is that trade adjustment assistance will tend to increase dumping from abroad and, thus, support greater labor market uncertainty at home.

James Anderson (1992) developed an alternative account of dumping in a competitive environment based on an essentially political economic argument: in a two-period model, if exporting firms face the risk of a voluntary export restraint in the importing market, and the share in the VER (i.e. the number of licenses) is a function of the period-one market share, competitive firms will dump in the first period to secure larger share in the first period market and, thus, large shares in the quota-restricted market. Unlike Ethier's model, where the periods are linked by the presence of a labor market distortion, in Anderson's model the intertemporal linkage is induced by the risk of a VER. Drawn on his earlier work on the option value of quotas (Anderson, 1987), Anderson argues that exports beyond the one-period optima ("free trade") level secure an option for quota-constrained exports. Thus (proposition 1) firms will increase exports such that sales below current marginal costs occur. Anderson also considers the implications of VER risk-induced dumping policy in the exporting country under both exogenous and endogenous VER risk. If the government is solely concerned about export profits, it may be induced to offer an export subsidy because firms will fail to consider the positive, intertemporal externality for other national

firms from its own exports. Not surprisingly, the case of a national income maximizing government is more complicated. Finally, Anderson introduces anti-dumping enforcement into the analysis considering three possible outcomes: termination with no duty; imposition of an anti-dumping duty; and VER. The key result here is that, with a sufficiently high probability of a VER, increased anti-dumping enforcement can result in increased dumping. In his second paper on the domino dumping model, Anderson (1993) develops a political economy model in the context of which he studies anti-dumping policy in the importing country. (We reproduce a third paper on this topic, in the section on political economy, so we leave this topic for later.)

A third analysis of dumping based on intertemporal linkage is developed by Richard Clarida (1993) in his model of 'Entry, Dumping, and Shakeout'. In this paper the intertemporal linkage is induced by firm-level technological learning. Simplifying Jovanovic's (1982) evolutionary model of industry structure to permit an open economy analysis in Ricardian general equilibrium, Clarida considers an economy in one sector of which firms must produce in the first period to determine their productivity. The information gleaned by production in the first period has value for both low-productivity firms (who should not produce in the second period) and high-productivity firms (who should). This leads to excess entry and sales below average cost (i.e. cost dumping) in the first period. The model provides a competitive rationalization of dumping from new producers (i.e. newly industrialized countries) in times of high demand for the product (Douglas R. Nelson, Hylke Vandenbussche 2005).

### **2.3 Economic effects of dumping**

The implementation of anti-dumping law generally involves the determination of two

maters of fact: a dumping margin, and the presence of injury. The first of these is straightforward enough, though often involving a wide variety of potential biases. The second issue is considerably more complex, both in its legal implementation and in more general economic interpretation. With respect to the law, in many countries (including the USA), injury refers to the domestic industry competing with imports and does not include consumers, while in others (including the EU and Canada) there is a public ('community') interest clause, but domestic industry remains of the economic effects of dumping, it is obviously important to consider issues of market structure, terms of competition and possibly even more general macroeconomic condition.

The paper of Robert Willig nicely complements the Viner and Haberler papers, which lay out the classical analysis, by presenting an overview of the link between contemporary work in industrial organization and the effects of dumping and anti-dumping. Willig distinguishes between market expansion dumping, cyclical dumping, state trading dumping, strategic dumping and predatory pricing dumping. He discusses the consequences of the first three under the heading of 'non-monopolizing dumping', and then considers each of the last two categories separately. In each case he considers both the consequences of the dumping and the consequences of anti-dumping.

In implementing the US anti-dumping law, the US International Trade Commission has developed a partial equilibrium methodology for evaluating the effects of dumping on domestic industry that has been widely employed.

Richard Boltuk's (1991; Chapter 9) 'Assessing the Effects on the Domestic Industry of Price Dumping' develops the ITC methodology in detail. The approach involves comparative static evaluation of the effect of dumping in a partial equilibrium model permitting imperfect substitution, along Armington (1969) lines, between the imported good and the domestic product. The core question asked is: how different would the price and quantity of the domestic product be if the exporter of the like

product had been required to charge the same price in its home market and in the US market? In this convenient paper, Boltuck clearly exposit the theory and then explains the implementation of the theory in the CADIC spreadsheet program.

Kenneth Kelly and Morris Morkre (1998) apply an extension of the above methodology to 105 anti-dumping cases, 57 countervailing duty cases and 12 cases in which both dumping and subsidy were alleged, between 1980 and 1988. This is by far the most extensive study of this sort done for the case of Title VII cases. The extension involves applying an Armington model to non-dumped imports, as well as the domestic and dumped imports in the CADIC/COMPAS approach. Using reduction in industry revenue as their measure of injury to the US industry, the authors find that, in the great majority of cases, the reduction in this measure is less than 10%. Interestingly, the author also find that the still industry, whose cases by themselves constitute a sizable share of the total number of Title VII cases (62 of 174 total cases), was less affected by dumping than the average. The authors conclude that dumping is, thus, not a particularly serious problem for the US economy. This, of course, does not necessarily mean that anti-dumping is not a serious problem for an importing economy. The next several sections present fundamental work that analyses precisely this question.

## **2.4 Economic Effect of Anti-dumping**

After having analyzed the economic effects of dumping, we now turn to the literature that has engaged in the economic analysis of anti-dumping laws. From the paper of Finger, he points out that the rhetoric of AD law is to combat unfair imports from abroad, while the reality is ordinary protection. In this article the history of US AD laws is scrutinized to look for its intended scope and to trace the origins of the rhetoric surrounding the contemporary AD laws.

The paper by Leidy and Hoekman (1990; Chapter 13) was one of the first to point out that the definition of dumping and the role of market structure at home and abroad are crucial in determining an exporting firm's response to AD laws. They show, among other things, that a price-based AD law gives an incentive to foreign exporters to sell more in their own home market ('home market effect') and ship less to their export market, in order to lower the home price and to raise the price in the export market. This lowers the dumping margin even before any duty is levied. The mechanism that triggers dumping in this paper is a floating exchange rate.

Staiger and Wolak's paper (1992: Chapter 14) assumes a market structure where the domestic market is competitive and the foreign market is monopolized. In a period of low foreign demand, the foreign firm dumps its excess capacity on the home market. The authors show that an AD law will force the foreign firm to engage in a larger capacity choice than under free trade. As a result, the foreign export volume is lower in the case of AD law. This paper also identifies conditions under which a self-enforcing agreement between complaining import-competing firms and defendants can take place, in which the foreign firm sticks to a low level of exports in return for an agreement by the domestic firm not to file an AD complaint.

The paper by Reitzes (1993; Chapter 15) assumes a market structure with one foreign firm that is a monopolist in its own market and competing with a home firm in its export market. In a two-period model with protection if decided upon taking place in the second period, Reitzes shows that the presence of an AD law affects first-period prices. The conclusion is that depending on the mode of competition (price versus quantity competition) and the market share of the foreign firm, stick to a low level of exports in return for an agreement by the domestic firm not to file an AD complaint.

Aderson, Schmitt and Thisse's paper (1995) is one of the first to explicitly model the competition between governments of a home and foreign country as to whether to

impose AD law or not; in contrast to previous papers, the governments were not explicitly modeled and tariff setting was 'rule-based'. They show that when governments care about social welfare the only equilibrium is one where no AD law is imposed by either country and that this result holds both under Cournot and Bertrand competition assumed in the market.

The paper by Gallaway, Blonigen and Flynn (1999; Chapter 17) is the first to use a CGE model to estimate the welfare effects of AD/CVD cases in the USA. Their analysis finds that the welfare cost of this type of trade protection amounts to \$4 billion in 1993, which is much higher than was previously thought.

The paper by Vandebussche, Veugelers and Konings (2001; Chapter 18) considers the relationship between labor market imperfections and AD. It analyzes to what extent unionization of industries affects the likelihood and type of AD measures decided upon. A theoretical model is developed and empirical evidence is provided that higher union power is associated with higher probability of AD filings. Also, they find that the average bargaining power of unions in industries that file for AD protection is significantly higher than in industries that did not file for AD protection.

## **2.5 Theory of Tariff**

In several countries, dumping is regarded as an unfair competitive practice, and usually, the firms that claim to have been injured by foreign firms who dump their products in the domestic market at low prices can appeal, through a quasi-judicial procedure, to the Commerce Department for relief. And an antidumping duty will be imposed after their complaint is ruled. So taking about the economic effects of antidumping policy are mainly in form of antidumping duty.

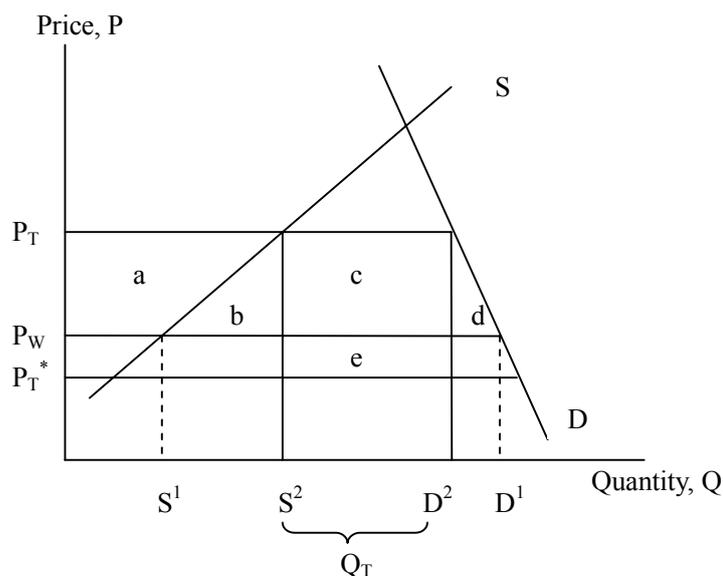
### Cost and Benefits of Tariff

Here, the model from the book *International Economics*, Paul R. Krugman and Maurice Obstfeld (2006) illustrate the costs and benefits of introducing a tariff for the import countries (see Figure 1).

After the import country introduce an import tariff, the domestic price will change from the former world price ( $P_W$ ) to price after tariff ( $P_T$ ). Domestic production rises from  $S^1$  to  $S^2$ , while domestic consumption falls from  $D^1$  to  $D^2$ . The gain of domestic producers from tariff is the area a, while the loss of consumers are marked in the areas of a + b + c + d. The government revenue from the tariff is import quantity ( $D^2 - S^2$ ) multiply by tariff which is marked by the areas of c + e.

The welfare cost of import country after the introduction of tariff is Consumer loss – producer gain – government revenues, or, replacing these concepts by the areas in Figure 1,  $(a + b + c + d) - a - (c + e) = b + d - e$ .

Figure 1 Costs and benefits of a tariff for the importing country



Source: Paul R. Krugman and Maurice Obstfeld, *International Economics*.

That is, there are two “triangles” whose area measures loss to the nation as a whole and a “rectangle” whose area measures an offsetting gain. A useful way to interpret these gains and losses is the following: The loss triangles represent the efficiency loss that arises because a tariff distorts incentives to consume and produce, which the rectangle represents the terms of trade gain that arise because a tariff lowers foreign export prices.

The area “e” is depending to which extent the domestic country can affect the world prices, can disappear in a “small country” case. So the benefits of a country impose tariff is depend on how large the area “e” is, or in another words, how much world price can be declined by a tariff.

## **2.6 Summary on the theory**

In this Chapter, I introduced the theories of dumping and anti-dumping. The reasons that countries want to initiate anti-dumping measures are part of my research questions, so I put the WTO regulations about anti-dumping measures in the start of the chapter. As I planned to focus on the effects of anti-dumping measures, later I listed the modern theories about economic effects of dumping and anti-dumping measure. The main result of anti-dumping measures is a punitive duty, so it is important to use the theory of tariff to analyze the effects of anti-dumping measures.

## 3. Methodology

### 3.1 Introduction

This thesis is based on a broad base of literature and juristic writing. The literature consists of textbooks and articles, especially on anti-dumping and general economics. In this section, I'll present out the methodology which is used for writing the master thesis.

In the social science, most of the issues and research topics are categorized and referred to as paradigm. As Walliman (2006) argues that the usefulness of the term paradigm is that it offers a way of categorizing a body of complex beliefs and worldviews.

Methodology has a more philosophical meaning, and usually refers to the approach or paradigm that underpins the research.

There are many ways of thinking, and categorizing, the wide variety of methods available for designing, carrying out and analyzing the result of research. Different kinds of research approaches produce different kinds of knowledge about the phenomena under study.

The most common paradigms that new researchers are those termed quantitative and qualitative. These terms are often presented as competing alternatives, and this should alert you to the political and contested nature of knowledge construction. As Oakley (1999: 155, emphasis in original) comments, paradigms:

are ways of breaking down the complexity of the real world that tell their adherents what to do. Paradigms are essentially intellectual cultures, and as such they are fundamentally embedded in the socialization of their adherents: a way of life rather than simply a set of technical and procedural differences.

## **3.2 Philosophy Position**

Mark Easterby-Smith, Richard Thorpe, and Paul R. Jackson (2008) provides the key idea of positivism is that the social world exists externally, and that its properties should be measured through objective methods, rather than being inferred subjectively through sensation, reflection or intuition.

According to Collis and Hussey (2003), the term paradigm refers to the progress of scientific practice based on assumptions of people about the world and the nature of knowledge, which in context of the research stands for a way to conduct it.

The two traditional philosophy positions are positivism and social constructionism which are also two contrasting views of how social science research should be conducted.

### **3.2.1 Discussion of Positivism**

Positivism is an approach that seeks to apply the natural science model of research to investigations of social phenomena and explanations of the social world (Denscombe 2002).

Here also has the definition of positivism concluded by Loraine Blaxter, Christina Hughes and Malcolm Tight (2006):

This is the view that social science procedures should mirror, as near as possible, those of the natural sciences. The researcher should be objective and detached from the objects of research. It is possible to capture 'reality' through the use of research

instruments such as experiments and questionnaires. The aims of positivist research are to offer explanations leading to control and predictability. Positivism has been a very predominant way of knowing the social world; what Guba and Lincoln (2005) refer to as the 'received view'. This can be seen by the ways in which many still perceive positivist. While there are many varieties of positivism (see Crotty 1998), quantitative approaches that use statistics and experiments are seen as classic examples.

### **3.2.2 Discussion of Social Constructionism**

The new paradigm which has been developed by philosophers during the last half century, largely in reaction to the application of positivism to the social sciences, stems from the view that 'reality' is not objective and exterior, but is socially constructed and given meaning by people. The idea of social constructionism then, as developed by authors such as Berger and Luckman (1966), Watzlawick (1984) and Shotter (1993), focuses on the ways that people make sense of the world especially through sharing their experiences with others via the medium of language.

Alan Bryman and Emma Bell define social constructionism:

Constructionism is an ontological position (often also refer to as constructivism) which asserts that social phenomena and their meanings are continually being accomplished by social actors. It implies that social phenomena and categories are not only produced through social interaction but that they are in a constant state of revision.

So with respect to the research question, I post out my philosophy position as positivism. Positivism methods usually incorporate the assumption that there are true answers, and the job of the researcher is either to start with a hypothesis about the

nature of the world, and then seek data to confirm or disconfirm it, or the researcher poses several hypotheses and seeks data that will allow selection of the correct one.

### **3.3 Research strategy and research design**

#### **3.3.1 Research question development**

The research question, as Yin (2003) possessed, had to be concrete to be able to be examined, and to be conducted from a theoretic level to an operative level. This phase, designing a concrete question, is one of the most important and difficult ones in the research process. Jacobsen (2002) continues with the point of view that almost everyone knows what or whom s/he wants to examine, and have the big picture of the theme, but to design a clear question can be harder. And it is the question that is most important since the question will clarify the upcoming research and what and how things are going to be examined.

According to Trochim (2006) there are three basic types of questions that research projects can address. Descriptive study is designed primarily to describe what is going on or what exists. Public opinion polls that seek only to describe the proportion of people who hold various opinions are primarily descriptive in nature. Relational study is determine whether one or more variable (e.g., a program or treatment variable) causes or affects one or more outcome variables.

In my thesis, I'll mainly discuss the economic effect of anti-dumping policy. Starting with the hypothesis that the effect of anti dumping policies is harmful to exporting countries, then in the deduction process, I'll try to find out the truth which is based on observation to demonstrate the hypothesis. My main research questions are about the

effects of anti-dumping measures and how to deal anti-dumping activities for exporting firms and government.

### **3.3.2 Research designing**

Research designs are about organizing research activity, including the collection of data, in ways that are most likely to achieve the research aims (Mark Easterby-Smith, Richard Thorpe, and Paul R. Jackson 2008).

They also layout the difference the three different epistemological positions: positivism, relativism and social constructionism.

Mark Easterby-Smith, Richard Thorpe, and Paul R. Jackson (2008) argues that in both the positivist and relativist positions it is assumed that there is a reality which exists independently of the observer, and hence the job of to scientist is merely to identify, albeit with increasing difficulty, this pre-existing reality. From the positivist perspective this is most readily achieved through the design of experiments that eliminate alternative explanations and allow key factors to be measured precisely in order to test predetermined hypotheses. From the relativist position, the assume difficulty of gaining direct access to ‘reality’ means that multiple perspectives will normally be adopted, through both triangulation of methods and the surveying of views and experiences of large samples of individuals. Even so, it is only a matter of probability that the views collected will provide an accurate indication of the underlying situation.

The story from the constructionist perspective is different again. The researcher starting from a viewpoint that does not assume any pre-existing reality aims to understand how people invent structures to help them make sense of what is going on around them. Consequently, much attention is given to the use of language and

conversations between people as they create their own meaning. Furthermore, the recognition that the observer can never be separated from the sense-making process means that researchers are starting to recognize that theories which apply to the subjects of their work must also be relevant to themselves. Such reflexive approaches to methodology are recognized as being particularly relevant when studies are considering power and cultural differences (Anderson, 1993; Easterby-Smith and Malina, 1999; Cunliffe, 2002)

Following provide the research designs which will be used in my thesis:

### **Positivist**

Positivist methods usually incorporate the assumption that there are true answers, and the job of the researcher is either to start with a hypothesis about the nature of the world, and then seek data to confirm or disconfirm it, or the researcher poses several hypotheses and seeks data that will allow selection of the correct one (Mark Easterby-Smith, Richard Thorpe, and Paul R. Jackson, 2008).

### **Case study**

Case study, which will be used in my dissertation and grounded theory are two broad-based methods. In general, case studies are the preferred strategy when “how” or “why” questions are being posed, when the investigator has little control over other events, and when the focus is on a contemporary phenomenon within a real life context (Yin, 2003). The labels of them depend on what kind of ontological stance they are placed upon. Advocates of single cases generally come from a constructionist epistemology; those who advocate multiple cases usually fit with either a relativist or positivist epistemology (Mark Easterby-Smith, Richard Thorpe, and Paul R. Jackson, 2008).

### **Quantitative design**

A common distinction is made between two different strategies in research, the one

using quantitative methodology and the other using qualitative methodology. Apart from the simple distinction of the use of measurement or description as the main approach to collecting and analyzing data, there is seen to be an underlying epistemological difference in the two approaches (Walliman 2006). Bryman (2004) lists three characteristics in each that make the point:

#### Quantitative research

- Orientation – uses a deductive approach to test theories
- Epistemology – is based on a positivist approach inherent in the natural sciences.
- Ontology – objectivist in that social reality is regarded as objective fact.

#### Qualitative research

- Orientation – uses an inductive approach to generate theories.
- Epistemology – it rejects positivism by relying on individual interpretation of social reality.
- Ontology – constructionist, in that social reality is seen as a constantly shifting product of perception.

Quantitative techniques rely on collecting data which is numerically based and amenable to such analytical methods as statistical correlations, often in relation to hypothesis testing. In order to analysis the economic effect of anti dumping policy, the quantitative analysis can be better applied in my thesis. So I would like to analysis the objective data mostly using quantitative methods. However, Bryman (2004) warns against a too dogmatic distinction between the two types of methodology. He concludes that research methods are not determined by epistemology or ontology and that the contrast between natural and artificial settings for qualitative and quantitative research is frequently exaggerated. Furthermore, quantitative research can be carried out from an interpretivist perspective, as can qualitative research from one of natural science. In my thesis, there will be not pure quantitative methods, but other methods.

## **3.4 Data collection methods**

### **3.4.1 Using quantitative data**

Mark Easterby-Smith, Richard Thorpe, and Paul R. Jackson (2008) says that in thinking about where to get data that could be analyzed using quantitative methods, there are broadly two ways of going about it: researchers can collect their own primary data or they can use secondary data already collected and stored with in archival databases.

### **3.4.2 Primary data and secondary data**

Primary data is information gathered for the specific research question at hand; secondary data refer to data that have already been collected but are still related to the research questions (Matthew D. Shank, 2004).

In the thesis, I want to provide picture of the economic effects of anti dumping theory and the secondary data will mainly be used. The data that I will collect is from libraries, bookstores, online database and official websites, etc.

### **3.4.3 The advantages and disadvantages of secondary data**

#### **The advantages of secondary data**

By using the secondary data, the researchers are able to save lot of time to doing the research understanding and literature review. For those research topics that the

primary data is not required or less required, secondary data provides the best way for researchers to get access to the relative topics and helps them to better formulate and understand the research problem.

Secondary sources also facilitate cross-culture/international research, as it is easier to compare similar data from two or more countries (Pervez Ghauri, Kjell Grønhaug, 2005). For example the reports or surveys that provide by international organizations usually provide international research that enable researcher to compare data between countries.

Another advantage of consulting secondary data is that they can suggest suitable methods or data to handle a particular research problem (Pervez Ghauri, Kjell Grønhaug, 2005)

### **The disadvantages of secondary data**

As Pervez Ghauri and Kjell Grønhaug (2005) conclude the disadvantages of secondary data:

- One of the main problems is that these data are collected for another study with different objectives and they may not completely fit 'our' problem.
- It is sometimes difficult to classify these data in ways that are consistent with the study at hand.
- Even if two studies use the same measurement unit, the terms of definition were often different.
- In some case using secondary data can be expensive.
- It is the responsibility of the researcher that data are accurate; inaccuracies cannot be blamed on the secondary source.

After the discussion of the advantages and disadvantages of secondary, regarding that in my thesis the secondary will be mainly used, it is important to consider the disadvantages and make good use of the advantages. In the state stage of the thesis, I've considered plenty literatures to help designing the research question. When

analyzing the economic effect of anti dumping policy, data which is about trade flow and trade policy (for example, tariff) is preferred.

When the secondary are not available or are not satisfy the research questions, the primary data are required. For example, if I want to do a case study about one industry or one company which involves the anti-dumping policy, then it is necessary to collect the information that I get directly from the people.

### **3.5 Data analysis**

Brewerton (2001) argues that without understanding how to analyze data, a researcher will not be able to interpret that data, nor draw any conclusions or recommendations from it. S/he will not be able to assess the effectiveness of his/her

Quantitative data in a raw form, that is, before these data have been processed and analyzed, convey very little meaning to most people. These data, therefore, need to be processed to make them useful, that is to turn them into information. Quantitative analysis techniques such as graphs, charts and statistic allow us to do this; helping us to explore, present, describe and examine relationships and trends within our data (Mark Saunders, Adrian Thornhill, Philip Lewis, 2009).

Simply in the thesis, using of quantitative analysis to create charts or tables (for example, the yearly changes of export volume) is the basic method.

With the emerging of modern computers, researchers are much easier to analysis quantitative data.

## **3.6 Data Evaluation**

### **3.6.1 Validity**

Validity is question of how far we can be sure that a test or instrument measures the attribute that it is supposed to measure (smith, 2002). Joppe (2000) provides the following explanation: validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are.

According to Proctor (2003), validity is “the extent to which instruments measure that which they are intended to measure or research findings reflect as we might know”. Proctor (2003) emphasized that “validity reflects whether you are ascertaining through a question what you think you are ascertaining”.

Data which is from databases and official websites is relatively validity and reliability. In order to analysis case studies, I’ll choose the typical firms which involve in the anti dumping cases. Having the changes to have face to face interviews and telephone interviews, the validity of data will be confirmed.

### **3.6.2 Reliability**

Joppe (2000) defines reliability as: the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable.

The goal of reliability is to minimize the errors and biases in a study (Yin, 2003). The objective of reliability in research work is to be sure that if a later investigator followed the same procedures as described by an earlier investigator and conducted the same case study all over again, the later investigator should arrive at the same findings and conclusions (Yin, 2003).

In order to make sure the reliability of data that will be used in my paper, I'll gather the data carefully and conscientiously. In the process of collecting data, the position I choose as an observer and I'll not influence the outcome of the information. And the interviews that I'm going to do will involve the people with high knowledge in their professional arena, and after that check the information with other sources to make sure that the information is not misunderstanding or fault. During the interview, I'll use the voice recorder which can help to confirm the information that I received when I doing future writing. Thus the information taking from the interviewee can be considered reliable.

### **3.6 Summary**

This part is mainly about the research methods that I am going to use in my thesis. I post out my philosophy position as positivism. The research design is based on quantitative methods. Later, I stated the data collection methods and the ways that used to measure the reliability and variability of data.

## 4. Empirical Study

In the first decade of the new century, the word “China” has always been put on the headline of news. That was not surprising to anyone, because China has archived annual increase of nearly 10% in these ten years. China is regarded as one of the major “engines” of the world economy.

China’s booming economy is not only shown by the strong domestic growth, but also proved by its prosperity in the international trade sector. By looking the world economic performance in 2008, Germany remained the leading merchandise exporter in 2008, with shipments worth US\$ 1.47 trillion, despite the fact that its share in world exports fell to 9.1 per cent from 9.5 per cent in 2007. China was the second largest, with exports of US\$ 1.43 trillion and an 8.9 per cent share in world exports. The next largest exporters were the United States (US\$ 1.3 trillion or 8.1 per cent of world exports), Japan (US\$ 782 billion or 4.9 per cent) and the Netherlands (US\$ 634 billion or 3.9 per cent) (World Trade Report 2009). From the newest data released by WTO, China’s export amount shared 9.6% of world total export volume and took over Germany and became the world largest exporter.

In the import part, the United States continues to lead all merchandise importers with shipments from the rest of the world worth US\$ 2.17 trillion (13.2 per cent of world imports). Germany is the second-largest importer of merchandise, with a 7.3 per cent share valued at US\$ 1.21 trillion. The remaining top five importers are China (US\$ 1.13 trillion or 6.9 per cent of world imports), Japan (US\$ 762 billion or 4.6 per cent), and France (US\$ 708 billion or 4.3 per cent) (World Trade Report 2009). The following two tables show the world leading exporters and importers and their annual percentage change in 2008.

Table 1 Leading exporters in world merchandise trade, 2008 (Billion dollars and percentage)

Rank	Exporters	Value	Share	Annual percentage change
1	Germany	1461.9	9.1	11
2	China	1428.3	8.9	17
3	United States	1287.4	8.0	12
4	Japan	782.0	4.9	9
5	Netherlands	633.0	3.9	15
6	France	605.4	3.8	10
7	Italy	538.0	3.3	8
8	Belgium	475.6	3.0	10
9	Russian Federation	471.6	2.9	33
10	United Kingdom	458.6	2.9	4

Source: International Trade Statics 2009

Table 2 Leading importers in world merchandise trade, 2008 (Billion dollars and percentage)

Rank	Importers	Value	Share	Annual percentage change
1	United States	2169.5	13.2	7
2	Germany	1203.8	7.3	14
3	China	1132.5	5.9	18
4	Japan	762.6	4.6	23
5	France	705.6	4.3	14
6	United Kingdom	632.0	3.8	1
7	Netherlands	573.2	3.5	16
8	Italy	554.9	3.4	8
9	Belgium	469.5	2.9	14

10	Korea, Republic of	435.3	2.7	22
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Source: International Trade Statics 2009

Behind this miracle increase, there are several problems that are always easily neglected or ignored. I'd like to have an in-depth study of the most difficulty troubles that China has encountered in the international trade.

China has made himself well known by the phrase "Made in China". That is the reason why China is always being called "the world factory". China is producing cheap, labor intensive products days and nights. These cheap and relative high quality products are so welcomed by westerners, and make the phrase "made in china" shown in every where. After 30 years of development, lots of Chinese companies are starting to use the largest resource in China—cheap labor force, and making so called labor-intensive products. Those cheaper products are welcomed by consumers aboard, yet also could easily get dissatisfactions from the local producers. However, more than 50% of these manufacturing works are controlled by foreign importer or multinational enterprises. In another words, it is the Multinational enterprises that make China become the world factory.

China's fast growth is envied by other countries or even China is treated as threaten to the development of world. Once Chinese products show in the international market, the trade barriers are always together with them. After the progress of globalization and trade liberalization, there is a diminishing trend of tariff, and the contingency measure are more popular used, especially, anti-dumping measures. Since 1994, for the continuous 16 years, China has become the top target of antidumping investigation.

## **4.1 An overview of dumping and antidumping behaviors against**

### **China**

The first anti-dumping investigation against China was launched by European Community in 1979, soon after China had changed his economic policy toward foreign firm through the Opening-up policy. Since then, the filing of contingent protection measures targeted at China have proliferated at a rapid pace, with anti-dumping actions far more prevalent than other measures such as safeguards. In the 1980s, anti-dumping cases against China averaged 6.3 per year. The number increased to 30.3 per year in the 1990s. China was the most frequent subject of the new investigations, with 34 new initiations directed at its exports. This was a 17 per cent decrease from 40 new investigations opened in respect of exports from China during July — December 2007 (WTO, 2010).

The cost of anti-dumping activities against Chinese exports is enormous. From 1979 up to October 2002, 33 countries initiated 544 anti-dumping and safeguard cases and measure against Chinese export, affecting more than 4,000 products with a value of around US\$16 billion (Yuefen Li, 2006). However, this accounts for only about 5% of China's total exports, which is not extensive enough to cripple the economy.

With the increase of Sino-US trade, China has already become the largest country being anti-dumping investigated by US. At the same time the large types of products and amount of money have already affects the exportation of Chinese products. And these punitive tariffs after anti-dumping actions always force Chinese products to exit the US' market.

When Chinese products face barriers in the US market, exports have found new or substitute market to sustain their annual turnovers. Then a series of problems will

come into occur such as how to find a new market, or how will those products affect the domestic market when they are supposed to be sold in the US' market.

The continuous anti-dumping actions will affect the bilateral trade between China and US, and especially will affect the export orientated industries. What's worse, these intensive, long-term and high tariff levying actions will block Chinese products out of the US' market in a long term. By losing the large US' market, most firms will face marketing crisis, or bankruptcy. In a macroeconomic point of view, the job market, domestic industries, and the continual domestic economy growth will be affected in certain level.

Moreover, concerning about the status of the USA in the international economic development, its anti-dumping actions have strong demonstration effects to other countries. Take the example of the US' Tire Safeguard case, after US decided to impose 35% of punitive tariff on Chinese tires, other countries like Brazil, Argentina, and India started the anti-dumping investigations against Chinese tires. It is significant to have a deep study of the effects of the US' anti-dumping investigation upon Chinese products.

## **4.2 The close trade relation between the United States and China**

By looking the table below, Obviously, China and United states are important trade partners to each other. China is US' largest import trading partner and third largest export market; while US is China's second largest export destination and sixth largest import trading partner (EU and ASEAN are considered as unities here).

Undoubtedly, Sino-US trade will be the most important trade relation in the future. Even a word called "Chimerica" was created recently. It pointed out the significance

of Sino-US relation to the international trade at least.

Table 3 The top trade partners of China (in billions of US dollar)

China's top export trading partners			China's top import trading partners		
Rank	Countries or regions	2009	Rank	Countries or regions	2009
1	EU	236.28	1	Japan	130.94
2	United States	220.82	2	EU	127.76
3	Hong Kong, China	166.23	3	ASEAN	106.71
4	ASEAN	106.30	4	Korean	102.55
5	Japan	97.91	5	Taiwan, China	85.72
6	Korean	53.68	6	United States	77.44
7	India	29.67	7	Australia	39.44
8	Australia	20.65	8	Brazil	28.28
9	Taiwan, China	20.51	9	Saudi Arabia	23.62
10	Russia	17.51	10	Russia	21.28

Source: Comprehensive Department, Ministry of Commerce of the People's Republic of China.

Table 4 The top trade partners of United States (in billions of US dollar)

Top export trading partner of United States			Top import trading partner of United States		
Rank	Country	2009	Rank	Country	2009
1	China	296.40	1	Canada	204.70
2	Canada	224.91	2	Mexico	129.00
3	Mexico	176.54	3	China	69.58
4	Japan	95.95	4	Japan	51.18
5	Germany	71.25	5	United Kingdom	45.71
6	United Kingdom	47.49	6	Germany	43.30
7	Korea	39.24	7	Netherlands	32.35

8	France	34.03	8	Korea	28.64
9	Taiwan, China	28.38	9	France	26.52
10	Venezuela	28.09	10	Brazil	26.18

Source: U.S. Department of Commerce, Census Bureau, Foreign Trade Division.

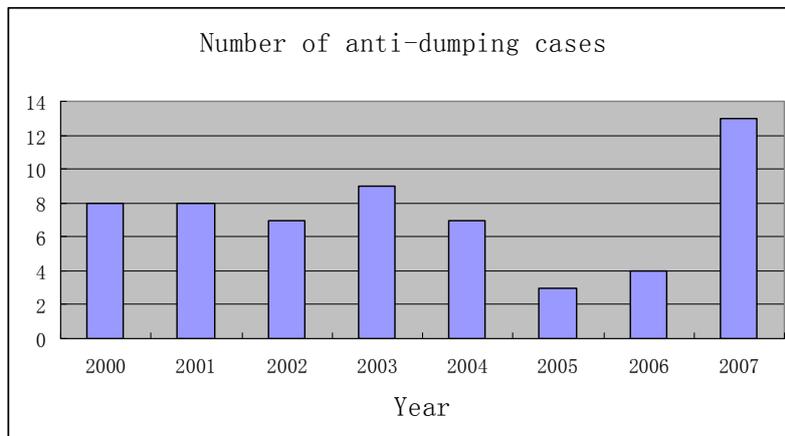
### **4.3 An overview of US anti-dumping measures against China**

#### **4.3.1 Increasing in the numbers of anti-dumping cases launched by US against China**

China is the largest country that United States uses anti-dumping measures and at the same time the most anti-dumping investigations and activities which China has received are from United States.

By looking at the Chart below, from 2000 to 2007, United States arranged 59 anti-dumping measures against Chinese products. In the first half year of 2008, the United States of American has already stated 8 anti-dumping investigations. These high intensive anti-dumping measures had furiously impacted on the development of Chinese industries.

Figure 2 Numbers of anti-dumping measures launched by United States between 2000 and 2007



Source: Ministry of Commerce of the People's Republic of China.

### 4.3.2 Anti-dumping measures have been intensified

Along with the increasing Sino-US trade, not only the numbers of the anti-dumping activities have been raised, but also the degree of punitive duties has been increased dramatically.

Most of the anti-dumping measures that United States did against Chinese products ended up with extremely high extra tariff. Take the example of Saccharin in 2003, the duty was 329.94%, and the hand wagons case in 2004 tariff was 386.5%. There are not any Chinese companies that will export products to US under the incredible duty. As is shown in the Table 5, the number of anti-dumping cases initiated by US is second largest in the world, just after India.

Table 5 Anti-dumping measures launched by other countries against China From 1995 to 2008

Countries	Numbers of measures	Percentage
India	90	18.79%

United States	66	13.78%
European Community	60	12.53%
Turkey	48	10.02%
Argentina	40	8.35%
others	175	36.53%
Totals:	479	1

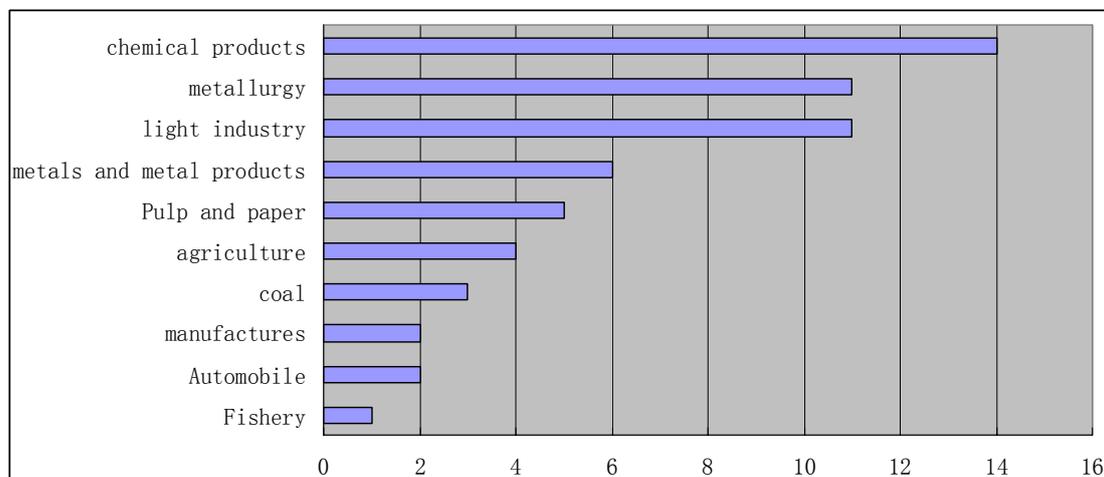
Source: Trade Topics: anti-dumping, WTO.

### 4.3.3 Concentration of industries that are under anti-dumping investigation

According to a Chinese Government source, more than 70% of the total anti-dumping investigations against China are concentrated on textiles, chemicals, steel and mineral sectors, all of which are labor intensive and characterized with low value added. Most of these industries are the sunset industries in developed countries that are at the same time the mainstay industries for countries reaching the first stages of industrialization, such as China. In recent decade, chemicals and metals still ranked foremost for anti-dumping investigations. Messerlin (2002) found that anti-dumping measure in metals, chemical, machinery and electrical equipment, textiles and clothing, and plastics accounted for 75 per cent of the total number of measure. He also noticed that these products are characterized by a high proportion of relatively standard production and oligopolistic structures. He suspected that complaining firms use anti-dumping as an instrument to segment the market and squeeze out new rivals.

These labor intensive industries are highly depending on processing trade and their main markets are western countries, especially, US. There is a possibility that such anti-dumping measures will lead to reduction of product or even, bankruptcy of export companies. The following Chart shows that from 2000 to 2007, chemical products are the top target to be investigated by US.

Figure 3 the distribution of industries that were anti-dumping investigated by US from 2000 to 2007



Source: China Trade Remedy Information.

#### 4.3.4 China is still regarded as Non-Market Economy

The term of “non-market economy state” originally appeared in the 1930 Tariff Act of the United States, as opposed to “state-controlled economy”. For the US, socialist countries totally monopolized the national economy and controlled prices of all merchandises. Hence, the prices of exported goods were untrue, and importing countries needed to seek a third country’s data to be a reference to calculate the market price for anti-dumping investigations and for determining anti-dumping duties on goods from the socialist countries. This act and its amendments determined six criteria to judge “market economy status”: degree of currency convertibility; degree of salary determination by negotiation between employers and employees; degree of freedom for foreign companies’ investment; degree of ownership or production methods of enterprises controlled by government; degree of government control over distribution, prices and quantities; and other adequate factors that us investigation authorities should consider.

In accordance with these criteria, all socialist countries were listed as “non-market economy states”. Under the terms of China’s 2001 accession to the World Trade Organization, members of the trade body can treat China as a “non-market economy” until 2016. So far, 69 nations have recognized China as a full market economy, but the country’s major partners including the United States, the European Union and Japan have yet to do so (Stanley Crossick, Etienne Reuter, 2007).

China has opened up its door to foreign firms for more than 30 years now, and has given out many premium conditions to foreign firms. Up to now, the central government is striving to promote China’s market economy system. Refer to the “Report of 2005 China’s market economy development”, till 2003, China’s market economy development level is 73.8%, more than the minimum level 60% where a country can be recognized as “market economy”.

At the same time, as known to all, Russia is a country has less market development level. But Russia has been recognized as a market economy country in 2002. So the definition of “market economy” is not merely a problem of market development, but more factors should be concerned, such as political negotiations, the conflicts on other economic problems.

Ironically, although China has been treated as a non-market economy by some of its trading partners, the diminishing role of government in production planning and the foreign trade has also led to duplicate investments and overcapacity. The government is no longer directly involved in foreign trade although it continues to monitor its operations at an arms’ length. For most export products, the government’s present function is to maintain a registry system. Manufacturers’ associations have not acquired the capacity to influence production activities.

### **4.3.5 The United States have demonstration effects in doing anti-dumping activities**

Echoing anti-dumping investigation happens very often to China. When a complaint was filed in one country, producers in other countries quickly followed the suit. Because of the special status of the United States in the international economic development and international trade, they often play the role of leader to start anti-dumping investigations against Chinese exports. The absence of an immediate response from China after an anti-dumping petition has been filed and the ease with which a positive ruling could be obtained encourages competitors to free ride. This is not only because of fear of trade diversion; it is also a strategic response in order to reduce future competition by eliminating a rival.

## **4.4 A special case study: the Triangle Tire Group in contingency measures from foreign countries**

### **4.4.1 An overview of contingency measure against Chinese tire industry**

The US' tire safeguard case was a hot topic in Sino-US trade disputes last year. On 11<sup>th</sup> September, 2009, the president Obama decided to levy punitive duties on Chinese exporting tires. The case happened during the recovering period of world economy from the financial crisis, while trade protectionism was definitely not welcomed.

The United States are the largest market for Chinese exporting tires. One third of Chinese exporting tires are going to US' market. Chinese tire industry is the one of the top industries that is targeted by anti-dumping measures. Recently, foreign countries

launched several contingency measures against China's tire industry. In August 2008, the United States launched the anti-dumping and countervailing final ruling against Chinese pneumatic OTR tires. And the anti-dumping duty is vary from 0% to 210.48% while the countervailing duty varies from 2.45% to 14%. In September 2009, the Obama administration propagated to start a special safeguard against China's car and light truck tires. They will levy the stepwise punitive duties of 35%, 30%, and 25% in the following three years. The specific safeguard case had great impact on China's Tire industry. In 2008, China exported 40% of its total tire production, while 30% of its exports went to The USA. In the first half year of 2009, about 33 millions of tires exported to the United States. Plus the punitive duty, the tire tariff will be raised from 4% to 39%. It was estimated by Chinese Rubber Association, the Special safeguard case affected the employment of 100,000 Chinese people.

The Unites States' demonstration effects are very apparent, followed by Brazil in June 2009; they start to levy US\$1.12-2.59 per kg anti-dumping duties against the bus and truck tire of China. Later in December 2009, Argentina started the anti-dumping investigation against Chinese tires. In February 2010, India decided to levy anti-dumping duties from 24.97 % to 88.27% against Chinese bus and truck tires for 5 years (China trade remedy information). China tire industry is hurt bardly by these intensifying contingency measures. China's tire exports have decreased by 70%-80% compared with that of the same time in the former year. To make things worse, the price of raw material has been increased by 40% in 2010. China's tire industry is in a most difficult period ever.

After seeing the difficult situation of China's tire industry, I went back to China to study the situation of Chinese tire company in the furious international environment and their strategies to deal with the problems. After I visited the currently second largest tire firm in China—Triangle Group, and interviewed the marketing manager Xu Xiaochen, I have more ideas about their reactions against the trade barriers.

#### 4.4.2 Introduction of the Triangle Group

Triangle Group Co., Ltd was initially built in year 1976, with a history of more than 30 years in tire manufacturer. Major products are passenger tires and light-truck tires, truck and bus radial tires, OTR (off-the-road) tires, jumbo OTR tires, bias jumbo OTR tires and common bias tires. Annual tire capacity is over 28 million units, while radial tires is more than 24 million units. Annual rubber mixing capacity is over 500,000 tons; tire rebuilding capacity is over 500,000 units. Triangle ranks in top 14 in global tire industry, and was evaluated in 15th place of Chinese chemical enterprises top 500 in year 2008. Triangle had been appraised as China top 500 companies for six times. The following table shows the top ten tire maker in China, and Triangle Group is currently the second largest tire firm in sales scale.

Table 6 China's top 10 tire makers in 2009 (in billions of Chinese Yuan)

Rank	Tire firms	Annual turnover
1	Hangzhou Zhongce Rubber Co. Ltd	12.61
2	Triangle Group	12.06
3	Shandong Linglong Rubber Co., Ltd	11.89
4	GITI Tire Co., Ltd	11.32
5	Zheng xin tire Co., Ltd	7.99
6	Xing Yuan Group	6.68
7	Shanghai Tire & Rubber Co., Ltd	6.44
8	Qing Dao Double star tire Co., Ltd	5.98
9	AEOLUS Tire Co., Ltd	5.58
10	Cooper Tire Co., Ltd	5.21

Source: China Rubber Industry Association

Triangle treats science, quality and market as core elements of its brand strategy and

implements the “people-centered” management system. Triangle tires have successively passed the authoritative certifications of US Department of Transport (DOT), Economic Commission of Europe (ECE) and China Compulsory Certification (CCC) and its tire major performance indexes have achieved international advanced level. Triangle has more than 155 patents, 26 of which are invention patents. The project of “Jumbo OTR tire manufacturing technology and equipments development” was awarded the first prize of national scientific development, which is the first time or tire enterprise be awarded the greatest honor across China. Furthermore, the Triangle tire became the first tire enterprise in China that got the certification of “China far-famed trademark” and “China famous brand product”. Triangle took the lead in setting up ISO9001 quality system, ISO/TS16949 quality system, ISO14001 environment management system, and ISO10012 computation system in tire industry in China.

Triangle provides Original Equipment (OE) tires for more than forty automobiles companies, such as China heavy duty truck Corporation, Shanghai GM Wulin Motor Corporation, Linyi engineering and mechanical construction corporation etc. Triangle has established strategic partnership with world top 500 firms, such as Goodyear, Caterpillar, and Volvo. In tire replacement market, marketing channels has spread throughout in China. Triangle tires have been exported to more than 160 counties and regions, and have trademark registration protections in more than 120 countries and regions.

The Triangle Group is carrying out technology reform and products innovation, in order to reinforce its core competitiveness. Triangle has an independent national R&D center and a post-doctoral research station. Triangle is one of the largest tire enterprises which integrate R&D, manufacture and sales in China. The cooperation with Tsinghua University, Shandong University, etc. is helping the firm to use the most advanced technologies in products research, production and measurement. The firm is making efforts to provide high quality, environment friendly and safe products.

Facing the new situation in global market, Triangle is “building international advanced enterprise, setting up a world-famous brand” through implementing the diversification of investment, the modernization of management and internationalization of operation. Triangle is making efforts in promoting the internationalization in enterprise management and marching into the world leading group of tire industry.

#### **4.4.3 Triangle is attacked by world trade barriers**

USA is the largest foreign market for the Triangle Group. After US levied 35% punitive duty on car and light truck tires, it is extremely difficult to continue its exports to US. Mr. Xu said it is utterly unjustifiable safeguard from the US but the influence is enormous. They have squeezed out 35% of profit. They can never get more than 35% profit before. Hence, if they want to continue to sell bus and light tires to US without increasing price to the distributor after tariff, they will lose money. But if they shift extra tariff to their distributors, then products can not compete with tires from Korea and Thailand in the United States.

As I learned from the officer of international market service department, the special safeguard case impacted greatly on Triangle export tires. The first 8 months of last year, Triangle’s exports to USA was \$516.2 million, and the 30% of its export tires were involved in the safeguard case. After the safeguard case, the monthly export amount from Triangle to USA decreased from more than 300,000 to 100,000 tires.

Moreover, countries such as India, Argentina, and Brazil started anti-dumping measures following the USA’s safeguard case. Although the export volume of Triangle to these countries is relatively small, the atmosphere of world wide trade protectionism is affecting the export market.

#### **4.4.4 The counterplot of Chinese industry association**

After getting the information, China's Rubber Industry Association (CRIA) as the main industry association reacted quickly. A special negotiation and communication committee was set up to deal with the special safeguard case. First, CRIA discussed with tire distributors in USA about the next counterplot, and sent letters to president Obama to state the negative effects of the safeguard on tire industries, economic development of USA and the Sino-US free trade. Latter, the CRIA sent emergent report to Chinese prime minister and talked about the serious consequence of safeguard case. Moreover, CRIA sent out delegates to visit US department of commerce, and lobby for the unfairness about the safeguard measure against Chinese tires.

And recently, CRIA decided to set up a public communication department which is used to cope with the increasing international trade conflicts. And a public fund is established to support the work of the public communication department.

#### **4.4.5 The countermeasures from the Triangle Group**

Obviously, the effects from the contingency measure are remarkable. The Triangle is positively dealing with the international protectionism. Xu told me "We are negotiating with our distributors about our future development, and it will be difficult for both of us". The average export price of car and light truck to USA was \$35, but the price to our distributor increased to about \$50 after the punitive duty. That means Triangle tires would have much less competitive advantage on price in the US market. Thus, the Triangle Group is carrying out their strategies of products and markets

diversification. The demand from Africa, Middle East and Southeast Asia has increased a lot, so the Triangle is producing tire for export to those markets currently instead of producing tires for American market. The competitiveness of Triangle Tires in the international market is growing very fast. On one hand, the quality of Triangle tire has been developed a lot by technology innovation and research development, on the other hand, Triangle is making effort to propagate its brand in the international market. Especial in its important foreign markets, Triangle Group together with its distributors, are developing the 'Triangle' brand. 'The press conference last year in USA is a good way to propagate our brand' said Xu.

With the strong domestic demand last year, the Triangle's turnover of 2009 is about 120 million Chinese Yuan, with an annual growth rate of 12%. Domestic market is bringing strong confidence to the development of the firm. Because of the rapidly China's economic growth and the increasing middle class population, China's auto industry will be the largest in the world. Triangle is one of the largest tire makers in China. With its mature domestic distribution channel and its strategic partnership with automakers, Triangle wants to affirm its position in domestic market and enlarge its market share in China.

The international economic crisis is another threat to Triangle tires in the international market. The decreasing of tire consumption abroad are bothering Chinese producers. But this financial crisis was considered as an opportunity as well. Consumers in advanced countries are shifting their focus from the well-known brands to more economical but with relative good quality products. Chinese products are famous for their good qualities and cheaper prices. Triangle Group is grasping this good chance to develop its brand. Triangle will join the REIFEN 2010—International Trade Fair for Retreading, New Tires, Tire Trade, Tire and Chassis Technology, Vulcanization in June, and that will be a very good channel to marketing their products.

And because in the short period, it is difficult for importers in the United States to find

substitute products, they were reluctant to give up Chinese products. Triangle is negotiating prices with them about the future development.

As Xu told me, the Triangle not only focuses on technology innovation and market development, but also concerns about the corporate social responsibilities. “The green products are critical to the sustainable development of our firm”, Xu said, “Triangle is developing an efficient, green, environment friendly and low carbon emission production system”.

Last year, Triangle Group signed a “Triangle’s Declaration of Green World” together with its strategic cooperators. Triangle is going to use its scientific strength and green products to serve for the global consumers, and he will strive to achieve the aim of low-carbon and environment friendly economy.

Currently, the Triangle Group is negotiating with its customer in US, and as I get the information from the officer in Triangle Group that their Distributors are willing to continue their relationship with Triangle Group. Actually, the US’ tire distributors are one of the victims of this safeguard case. The negotiation is still undertaking, and how much of the price should be cut from China’s exporting tires will be determined after discussion.

After being informed of US’ safeguard action, the Triangle Group was acting positively. But fewer things could be done by one single firm to against the safeguard, said Xu, so we asked the help from the government and our industry association. As a reaction to the US’ unfair safeguard, China launched anti-dumping investigations against American Auto parts and Chicken products. Xu said that since the punitive duty is levying now, we can’t change the result. It is a good way to show our remonstrations by sending political press to US government.

The Triangle Group is taking their steps to handle the problems. Xu told me that also

the US' market is very critical to them, but the firm is in a stage of international market exploitation. So they are shifting part of their exports to markets such as Latin America, Southeast Asia and Africa.

#### **4.5 Summery on the empirical study**

The empirical study is about the situation of anti-dumping activities against Chinese products from the United States. Large numbers of anti-dumping measures against Chinese products has been paid lots of attention. The continuous anti-dumping activities have affected the healthy development of China's international trade. And later I talked about the Triangle Group and its performance during the bulk of contingency measures. Facing the international trade barriers, the Triangle Group was reacting positively together with the Chinese government and the Chinese Rubber Industry Association.

## **5. Analysis Part**

### **5.1 Analysis on the reasons of The USA's anti-dumping measures against China**

China's impressive expansion of international trade started during late 1970s, when two decades of trade liberalization had already resulted in considerably lower tariff levels in many countries. Since then further deepening of trade liberalization has reduced significantly the importance of tariff as a trade barrier. The original intension of setting anti-dumping behavior is to protect the legal rights of WTO members, to preserve the equal trade environment and to prevent unfair competition. As anti-dumping activities can be invoke relatively easily and selectively compared to other trade measure, and as antidumping investigations, regardless of the nature of their final rulings, can lead to almost immediate loss of market share on the part of exporting countries, they have also become the most frequently used trade remedies. By the 1990s anti-dumping had become a major instrument of trade protection for developed countries. So while trade liberalization opens doors for late industrialisers; anti-dumping, safeguard, and countervailing measures have also been used to deter or harass them, China in particular.

The following sector I will analyze on the major factors contributing to China's position as the top target of anti-dumping investigations of the Unites States over the past consecutive few years.

#### **5.1.1 The economic performance of US has encouraged the protectionism**

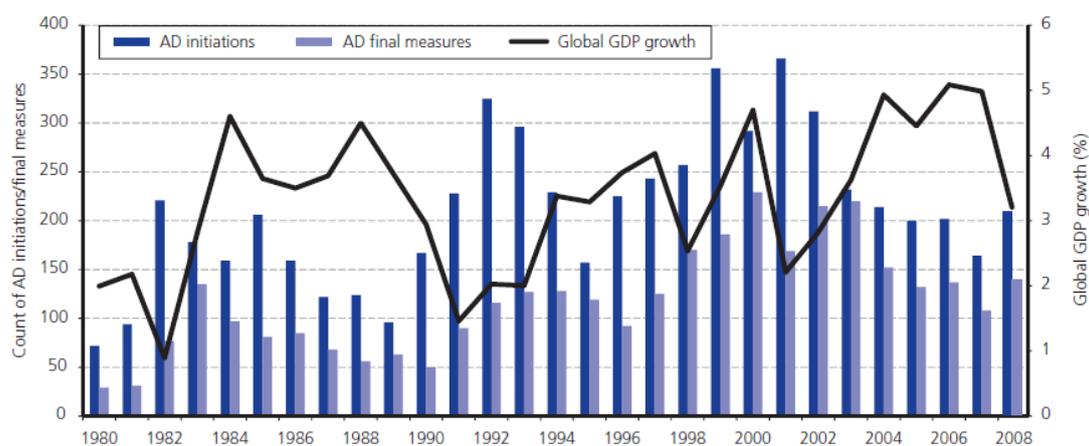
There are some connections between a country's use of contingency measures and its

economic growth. The link between trade contingency measures and the level of macroeconomic activities can somehow be proved in the Chart below. There has been a pronounced increase in the frequency of anti-dumping initiations (and measures), with some tapering off after the global economic slowdown. Figure 2 illustrates the pattern for all the countries which, according to the WTO anti-dumping database, had at least one AD initiation from 1979 to 2008. Thus, it goes beyond the countries for which the link between AD and macroeconomic conditions was documented by existing empirical studies. The chart plots the frequency of AD initiations against global GDP growth over the past three decades. In general, the use of AD initiations rises during slowdowns in the global economy. This is particularly evident during severe downturns: in 1980-82 (recession and the debt crisis); 1991-92 (economic contraction and the Iraq war); 1997-98 (Asian financial crisis); and 2001-02 (bursting of the dotcom bubble and the terrorist attacks on 11 September) (WTO world trade report, 2009). With these data, there is some statistical evidence of a negative relationship between global AD activity and macroeconomic conditions. The current global economical crisis also promoted the using of Anti-dumping measures.

The WTO Secretariat reported that during the period 1 July — 31 December 2008, the number of initiations of new anti-dumping investigations showed a 17 per cent increase compared with the corresponding period of 2007. On a yearly basis, there were 208 initiations of new anti-dumping investigations in 2008, as compared to 163 in 2007 and 202 in 2006 (WTO Secretariat, 2009).

Figure 4 Trade contingent measures and the global business cycle

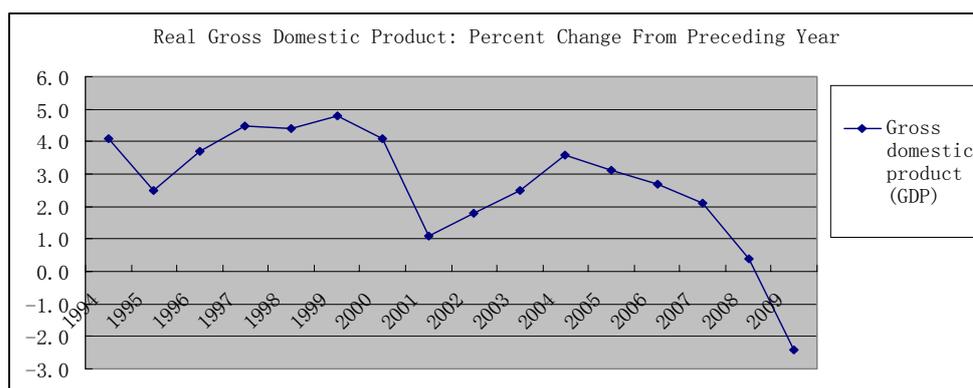
## Trade contingent measures and the global business cycle



Note: Global GDP growth is from the IMF World Economic Outlook database (April 2009).  
Source: WTO Secretariat.

While looking at the economic performance of the United States in recent 15 years, its economic growth is going into a tendency of low down. The financial crisis that has so weakened the United States' economy began in mid-2007 with declines in the values of mortgage-backed securities. This had a severe impact on the balance sheets of major financial institutions. The crisis intensified dramatically following the collapse of the Wall Street investment bank Lehman Brothers in September 2008 and the government-led rescue of a number of financial institutions in the United States and elsewhere. The United States are badly hit by this financial crisis. In 2009, the GDP growth of US is -2.4% attacked by the global financial crisis. The economic performance of US has encouraged the protectionism and at the same time, more anti-dumping measures are used.

Figure 5 The real gross domestic product: Percent change from preceding year of USA



Source: Bureau of economic analysis, the department of commerce, U.S.

### 5.1.2 The imbalanced trade between US and China

The imbalance of trade between China and US is becoming larger and larger. China has taken over Japan, Mexico and Canada, and become largest imports resource country. In 2009, the trade surplus is more than US\$91 billions. This big amount of trade deficit could not be tolerated by US government. Rather than loose its restriction of technology exporting, US government will launch more trade barrier especially contingency measures to block Chinese products enter into US' market.

Table 7 the trade statics between US and China (in millions of US Dollar)

The United States	2008	2009
export	261,150	204,699
import	337,773	296,402
China's Trade Surplus against US	76623	91703

Source: TradeStats Express

An increasing number of Chinese firms in the export sector are Operating in a market environment where the purchase of inputs and raising finance is founded on commercial principles. Exporting enterprises however have yet to learn to operate more systematically- i.e., by conducting feasibility studies and business planning.

Herd behavior is common in export market, once a producer enter in US' market; many others follow in order to share the big cake. As a result, the furious price competition will be shown in the US' market—prices will be knocked down and export volume will be raised. In the process, not much attention has been paid to the overall volume and value increase in the export market. These huge increases do easily trigger anti-dumping petitions.

From 1978 to 2002, China's exports increased by around 12 percent on a year-on-year basis –much higher than the world average (IMF, 2005). While it is not an unprecedented phenomenon, China's sharp increase of trade within a relatively short period of time is still quite remarkable. Not surprisingly, this event has given rise to increasing anti-dumping petitions. Currently, China's large bilateral trade surplus with the United States is a heated political topic in the United States and has led to allegations of currency manipulation and unfair trade practices. All this indicates that China has now entered a stage of intense trade frictions with some of its trading partners, as did Japan in the 1970s (Yuefen Li, 2006).

### **5.1.3 Non-Market Economy issue**

Another reason that China became the largest victim of the anti-dumping actions is China still recognized as a non-market economy (NME). According to its WTO accession agreement; China will continue to be treated as a non-market economy until 2016. China's non-market economy status makes it an even easier target of MNEs collusion, as 'surrogate values' for anti-dumping ruling are always obtained from a third party in "comparable market-economy countries". MNEs sometimes succeeded in getting companies related to the enterprises in the complaining country to provide surrogate values. The non-market economy status has left China a victim of rampant antidumping measures imposed by other WTO members, which often use production

costs in other countries as a reference to evaluate whether Chinese exports are dumped or unfairly priced.

Anyhow, I'm not going to discuss the issue of whether or not it is fair to regard China as a NME. However, when China is categorized as an NME, it greatly increases the possibility of a positive dumping ruling and places China at a disadvantage. With this clause in China's accession protocol, the burden to prove "less than normal value" and "material injury" would be much lighter (Yuefen Li, 2006). As a matter of fact it has also given rise to abuse as production costs can be calculated according to those that are from a surrogate country. Since the surrogate country had not been chosen by the Chinese firms, the very often situation is that the countries that were chosen were places where material and labor costs were much higher than in China, which definitely do not lay the foundation for a fair assessment in anti-dumping cases. A product was more likely to be regarded as dumping products when assessment of the products cost was increased by choosing the unfamiliar surrogate. There are opportunities to manipulate data, which in greater likelihood results in positive ruling of a case. In addition, an assessment of this kind of data could also result in much higher dumping margins, and lead to higher punitive anti-dumping duties. There is also a domino effect as the whole process can be executed relatively easily and chances of success are high. This, in turn, leads to a higher level of anti-dumping incidences (Yuefen Li, 2006).

#### **5.1.4 The export market structure and products structure**

The United States have for many years topped the list of those submitting anti-dumping cases against China. However, as China's exports are highly concentrated in their markets, China does not have much leverage against anti-dumping investigations originating in these markets. China's specific trade and

economic structure has also contributed to the skyrocketing of anti-dumping charges against its exports. Chinese retaliation against anti-dumping activities has been very measured for fear of upsetting major importers, and has thus never constituted a strategic threat to them. The absence of built-in counter-force and credible threat to these markets has placed China at the receiving end of trade restrictive measures. However, with the increase in recent years of both FDI inflows and exports from the United States into China, the Situation has, to some degree, been mitigated. China has now even filed anti-dumping cases against the United States. For example, last year, right after the United States announced to petition the anti-dumping investigation against Chinese tires, Chinese government, as responding to that unfair activity, launched anti-dumping investigation against US' chicken meat and auto parts.

China's heavy concentration of exports destinations as well as its dramatic expansion of trade is closely related with the rising importance of processing trade. Unlike Japan and the Republic of Korea, which emphasized the development of their national brands and their national giants with horizontal and vertical production specialization, i.e., with the entire production process undertaken within their countries, China's trade expansion has relied heavily on processing trade.

From 1979 to the end of 2003, processing trade grew rapidly. Since 1995 processing trade has been the most important mode of foreign trade in China. Presently around 50 per cent of China's exports are processed. While there is a deficit under normal trade, China's total trade surplus mainly comes from processing trade—processing of imported materials accounts for three quarters of this trade while the remainder is taken up by the processing of material provided by foreign importers of the eventual finished products. On the other hands, a large amount of international trade of the United States is done by the Multinational Enterprises.

Table 8 The top products that US has deficit with China in 2009 (in millions of US Dollars)

Item	Trade deficit
85--ELECTRIC MACHINERY ETC; SOUND EQUIP; TV EQUIP; PTS	63467.37
84--NUCLEAR REACTORS; BOILERS; MACHINERY ETC.; PARTS	54023.31
95--TOYS; GAMES & SPORT EQUIPMENT; PARTS & ACCESSORIES	23061.00
94--FURNITURE; BEDDING ETC; LAMPS NESOI ETC; PREFAB BD	15909.45
64--FOOTWEAR; GAITERS ETC. AND PARTS THEREOF	13291.09
62--APPAREL ARTICLES AND ACCESSORIES; NOT KNIT ETC.	12892.06
61--APPAREL ARTICLES AND ACCESSORIES; KNIT OR CROCHET	11442.59
73--ARTICLES OF IRON OR STEEL	6821.60
42--LEATHER ART; SADDLERY ETC; HANDBAGS ETC; GUT ART	5965.99
63--TEXTILE ART NESOI; NEEDLECRAFT SETS; WORN TEXT ART	4692.96

Source: the Office of Trade and Industry Information (OTII), Manufacturing and Services, International Trade Administration, U.S. Department of Commerce.

### 5.1.5 Export disorder of export firms

The exports from China are determined by the development of China's economic. As China is still at the start of industrialization, and he will keep its role of the factory center of lower value added and processing products. In other words, labor intensive sectors will be the major industry of China for a long time. A significant part of Chinese export is still concentrated in such anti-dumping intensive products as textiles, clothing, and footwear and travel items. Loosen industry organization, low entry barriers, small producing scale but large numbers of producers, herd actions are the main characteristics of these industries. As a result, companies compete on price and squeeze off the profit in the end, rather than to think about the long term strategies. As product upgrading requires research and development and the recovery of this kind of sunk cost will take time, companies tend to avoid this type of strategic investment.

In addition, the majority of enterprises resort to price competition for market entry and market expansion in both domestic and international markets. Product upgrading and differentiation is yet to be utilized as a tool to capture and maintain market share. Instead, there is a tendency for domestic entrepreneurs to rush to produce the same products at about the same time, thereafter creating a highly competitive situation. Enterprises competing by price in the United States will easily be treated as dumping action.

#### **5.1.6 Less participation of firms in the law case**

The lack of legal capacity on the part of Chinese enterprises to respond to anti-dumping investigations abroad is also a factor contributing to the frequency of final anti-dumping measures against Chinese exports. China has not built up a mature mechanism to deal with the anti-dumping petition. The situation in China is that most of the Chinese exporters were unaware of the anti-dumping process. So when their products were accused of being dumped, their first response was bewilderment and panic. Because of the lack of litigation funding, when they learnt of the cost of anti-dumping litigations, they invariably pulled out. As a result, no-response and absentee rulings were quite common, which means affirmative injury ruling was almost a certainty. The lack of qualified staffs with good knowledge of international laws and English language skill bringing the case and anti-dumping practice also prevented Chinese enterprises from defending their interests. In this situation the vulnerability of Chinese producer is unparalleled because most of them are still not aware about dumping and anti-dumping practices. In addition, China never had any successful producer/Manufacturers' associations before, nor did it have powerful and effective interest groups, which is unusual in developed countries. When each enterprise fought its own battle, their strength definitely could not match their foreign

counterparts. The lack of actions against anti-dumping petitions could induce foreign companies keeping start new petitions.

### **5.1.7 Political reasons**

The contingency measures are regard as economic issues, but at the same time, political reasons play a role in the game. After democracy party became the ruling party for less than 2 years, something interesting is that the total numbers of anti-dumping measures within these 2 years against China are more than that in the past 8 years when Bush administration was in the White House.

Prusa (2000) has pointed out that countries generally have significant discretion in the use of anti-dumping law because of the way in which anti-dumping statutes are drafted. Thus, countries and individual industries within countries have learned that they can use the laws to their advantage in a several ways. So if politically and strategically China-bashing during a United States election years is t their advantage, there would be more anti-dumping activities against China. It has been a routine practice to increase trade frictions between the Unites States and China every election year.

### **5.1.8 Anti-dumping laws could be used to benefit multinational enterprises and victimize late industrialisers**

The basic economic assumptions about international trade of anti-dumping laws are conducted in the 18th century. That is what a recent study describes as a “residency-based view of trade”, which means that exports are goods and services leaving a nation’s borders, regardless of nationality and ownership of producers and

service-providers involved, while imports are the mirror of exports (Farrell et al., 2005). In the modern world, the emerging of multinational companies has changed the model of doing international trade. The multinational firms begun to offshore their production activities and trade between affiliates and their parent companies have mushroomed.

As pointed out by Richard J. pierce Jr. (1999), globalization and the rise of multinational enterprises have meant that in many cases anti-dumping laws have been administered and manipulated to “facilitate the formation, maintenance, and enforcement of cartels”.

In 2003, the United States threatened to levy dumping charges on some TV sets made in China. One of the world’s largest screen TVs makers Philips assembled TV sets in China and sold to the United States. It’s Chairman and Chief Executive Officer said that the anti-dumping activity “do not affect Philips operations” as his company “could shift TV production to its Mexico plants” and export to the US market from there.

### **5.1.9 Anti-dumping activities are encouraged by advanced countries**

Developed countries have made anti-dumping activities user-friendlier. Country such as the United States, have even provided incentives to the users of anti-dumping measure. In the United States, amendments to anti-dumping law have made it easier for domestic firms to prove the existence of dumping, include both international price discrimination and sales below cost (Prusa and Skeath, 2002). Moreover, the United States have a particular legislation, Known as the Byrd Amendment, which was designed to give anti-dumping duties collected by the United States Customs Service to private Companies that filed anti-dumping petition. The Continued Dumping and

Subsidy Offset Act of 2000 (CDSOA), also known as the Byrd Amendment, requires CBP to disburse antidumping and countervailing duties to domestic producers injured by foreign dumping and subsidies. U.S. Customs and Border Protection paid out \$247 million in fiscal year 2009 antidumping and countervailing duties to U.S. industries that petitioned the federal government for relief from unfairly traded imports that sold in the United States at less than fair value (CDSOA 2009 Annual Reports).

## **5.2 Impacts on Chinese exporting products from anti-dumping measures**

Take a view of a single exporter, anti-dumping action will relatively decrease its products margin in target market, or even receive negative profit. As a result, he will either accept less profit in that market, or quit. It is hurtful to quit a market where was costly for him to enter in. In a wider point of view, the dependence of export to most of Chinese products is high, and an extra duty from anti-dumping action will impact on an industry. Take the example of Chinese television case, in 2003, after been levied 84% anti-dumping duty, the market share of Chinese television decrease from 12.69% (in 2003) to 5.43% (in 2005) in US market(Jinchao Qiu, 2006).

An anti-dumping investigation always goes with chain reactions which are followed by other countries. Especially, in nowadays, there is a tendency of regional economic integration, when Chinese products face anti-dumping investigation, it is possible for that products lose there market in an economical region.

The effects of anti-dumping measures can be compared with the effects of a tariff on imports. Similar to a tariff, anti-dumping duties will improve the circumstances of domestic producers, raise revenues for government but increase the cost of imports for domestic users or consumers. Thus, the standard economic analysis of tariff

protection can be applied to analyze the likely effects of antidumping measures. However, the affect of anti-dumping measures have more impacts beside it increasing in the import duties.

### **5.2.1 Impact on domestic market**

Anti-dumping actions are tending to protect the “sunset industries” in import countries, while hurt industries of export countries. Usually, these industries are import to export countries and have comparative advantages in the world market. When their products are blocked in the export market, and it is too hard to transfer their products to another market, they have to return back to their domestic market. A rush increase of export orientating products will definitely impact the demand and supply curve of domestic market, and bring more competition, even threat the domestic economy growth.

### **5.2.2 Influence the investment environment**

Foreign investment is important to China’s economy development. To create a stable investment environment is the basic requirement to attract foreign investments. When the anti-dumping punishments relate to there investment in China, their confidence of Chinese investment will be queried and they will reluctant to put future investment in China.

### **5.2.3 Obstruct the optimization of industry structure and technological improvement**

Foreign advance technologies are essential to the progress of Chinese technological improvement and modification. Large favorable balance of trade between China and US will help to increase the technology transfer. The optimum way to narrow the the US' trade deficit against China is to loose to restriction of technology exportation rather than forcing China to change its currency policy. Anti-dumping action will easily block the way for China to get more trade surplus.

### **5.3 How to deal with anti-dumping activities**

The analyses above help us to see more clearly about the situation and the reasons of anti-dumping activities from the United States. When we find the shortcomings, it's easier to find the right remedial steps. But it is critical to find out solutions for Chinese export companies to cope with future anti-dumping cases. In the following sector I would like to discuss about how can the government and single enterprise to deal US' anti-dumping investigations. Some suggestions are going to be layout in the following part.

#### **5.3.1 Countermeasures for enterprises against anti-dumping activities**

There are lots of things to be done by enterprises, and they are the main role in the anti-dumping countermeasure actions. Exporters are the main victims of anti-dumping measures. To respond actively to an anti-dumping lawsuit is the first thing that exporters should do. Undoubtedly, the result of being panic and no responding to the lawsuit is the heavily levied extra duties in the future.

Before the start of an anti-dumping investigation, companies are able to foresee the

movement of the manufactures in abroad, and if any information of anti-dumping investigation is available, Chinese firms can move the first step and are able to have more time to deal with the issues. It is more economical to prevent an anti-dumping investigation rather than to involve in a lawsuit. So companies should negotiate with the litigations before the petition, an acceptable concession can be made in order to avoid an anti-dumping measure.

Usually, a group of exporters or the whole industry is involving in an anti-dumping lawsuit, so to unit the exporters as a group are critical. Export companies in this case are on the same boat, the common issue should be resolved by the related companies, not only be done by a single firm. Every involving companies should makes its effort to protect its own and common interests. Companies should cooperate with each other, and enlarge the strength of countermeasure party.

In order to have a better understanding of the anti-dumping actions and to better deal with the lawsuit, a special and professional countermeasure team is undoubted necessary. In the progress of countermeasure, challenges are everywhere. A professional team which contains experienced lawyers can help to deal with the international lawsuit and provide consultancy. Companies should cooperate positively with the professional team when US side is doing investigation. Lawyers know well about what the investigation group really wants, and which materials we should provide to them. During the stage of anti-dumping investigation, the department of commerce of the United States will send out special investigation team to exam whether the exporters from China are dumping their products. This is a critical part for the anti-dumping investigation; the quality of the investigation questionnaire can affect the result of anti-dumping petition. So for those related firms, it's important to respond and cooperate with the investigation team positively. If we can't supply the materials required by US department of commerce, they could use the "best available information" to determine the case. The "best available information" means the information provided by the litigants, which will definitely lead Chinese companies to

lose the case.

When China is still being treated as a non-market economy, the litigations need to find a surrogate values in a comparable market-economy countries. So it's important to find a surrogate which has lower labor and material cost for Chinese companies to win the case.

Another option for Chinese companies is to strive to get a final ruling of no injury from US International Trade Commission (ITC). Anti-dumping measures are mainly harmful to exporters. But at the same time, with an extra tariff after the case is ruling, the profit of importers will be squeezed as well. So during the anti-dumping investigations, Chinese exporters and American importers or distributors are on the same side. It is important to cooperate with them, because they can be the defenders for us as well. American firms know better about the laws and regulation in the United States. They are able to provide political support by providing the US International Trade Commission of the benefits that they have received from the cheaper Chinese products. By the way, the largest beneficiaries of this Sino-US trade are the 300 millions of US consumers who have the largest political power. Even if the anti-dumping investigation is implemented, Chinese firms still can make efforts to reach the non-injury ruling.

Last but not least, to deal with the anti-dumping activities, Chinese firms can resort to WTO Dispute Settlement Mechanism. China acceded to WTO 9 years ago, and it could make good use of the legal measures from WTO to protect its interests. The WTO Anti-dumping Agreement clarifies the definition of dumping and the usage of anti-dumping measures, anything which is against this agreement can be solved by WTO Dispute Settlement Mechanism.

### 5.3.2 Prevention is better than cure.

If Chinese firms want to avoid the anti-dumping investigations in the future, first of all, dumping actions or motives should be prevented. Dumping goods into foreign market should be avoided. But in the most of dumping cases, Chinese firms do not mean to dump their products, but the furious price competition from competitors is forcing them to lower down the price. Firms should be self-disciplined in the foreign market and avoid disorderly price competition.

Moreover, Chinese firms should change its role as targets of anti-dumping action. The major products that exported are cheap and labor intensive and it will layout an impression of dumping in the foreign market. Instead of only using the cheap labor advantages, firms should more focus on the upgrading of their products and increasing investment into R&D. Building up well known brand, increasing the marketing action and technological innovation are critical to sell for a good price. After that the Chinese firms are able to compete on the quality and technology of products rather than on price and Chinese products won't be taken for dumping products.

Market diversification could change the passive position of Chinese firms. There are more markets waiting to be developed abroad besides US. It is risky to target US as the only export destination. When an anti-dumping measure is unavoidable, firms could shift their products to other foreign markets. And what is more, firms should start to develop themselves as Multinational Enterprises in the long term. The MNEs are the products of globalization and segmentation of production chains; they have rendered anti-dumping laws antiquated. As MNEs have production facilities located different countries, they are capable of dodging anti-dumping activities targeted at exports from their subsidiaries. So if China companies could develop into Multinational Enterprises, they will never afraid of any contingency measures.

Furthermore, setting up a standard financial system in the daily company operation is important to an international expanding firm. During the anti-dumping investigation, firms are required to provide the complete products cost details and financial statistics. To have the complete and standard data is critical in order to prove the dumping accusation is unconvincing. Personnel training inside the firms are necessary in the long-term point of view. To deal with the international lawsuit, knowledgeable staff could provide faster and more particular consultancies.

### **5.3.3 Suggestions to government and industry associations**

The countermeasure against anti-dumping investigation is a systematical and large project, the merely efforts from a single company are obviously inadequate. The cooperation and coordination between government, industry associations and companies are critical.

#### **Establishment of an integrity and multi-aspects linkage countermeasure system**

Government should take responsibilities to change the situation of unequal anti-dumping measures against Chinese companies and become the protector and leader for firms in the contingency cases. The three parties—government, industry associations and firms should cooperate together to fight against the unfair anti-dumping issues. Anti-dumping warning mechanisms will unit these three parts together. The mechanism will collect the newest information about anti-dumping activities and analyze the possibility of anti-dumping accusation. Moreover, it can avoid the emerging of dumping and unit all forces together during the anti-dumping progress.

The industry associations are important to the development of a mature industry. The

industry associations are able to coordinate the industry development and provide sufficient services during the countermeasures. Dumping activities will be avoided by the industry regulations and management. The industry associations in China can not meet up the demand of economic development and international trade. Accelerating the establishment of industry associations is essential to deal with the anti-dumping lawsuit at the moment.

During the countermeasure of anti-dumping cases, the expenditure can be very high that probably a single firm can not afford. That could stop some anti-dumping related companies from acting countermeasures. To set up a special fund as is done in foreign countries will help to ease the conflicts. The fund could be used to support firms' countermeasures against anti-dumping activities and collect information of international market and legal consultancies. The association can be the representation of the firms in an industry. So when anti-dumping actions are launched to be against the industry, industry association is able to organize the countermeasure and inner-industry affairs. Industry associations specialize in the knowledge about the particular industry so that they are able to analyze the situation of dumping in foreign countries and give out suggestions. When the government set the special fund to cope with the anti-dumping investigations, industry association is the best organization to manage the fund and use the fund to support firms.

### **Solve the problem of China's market economy status**

The economy status has been bothering export companies for many years. As I've discussed above, the non-market economy status is one of the reason that why China became the top target of anti-dumping measures. However, China's market economy status will be recognized by US after 2016 automatically, the government should negotiate with US about this issue in order to reach a common consensus about China's market economy status. It is better to get rid of this "shackles" as early as possible. On the other hand, our country should increase its step of economic reform. China is now commonly recognized as a transition economy, we should take the

effective measures to speed up the transition of economies and implement market economy in our country as soon as possible. In order to reach that target, government should cut down its management and control over companies and rationalize the enterprise ownership. There are not any standards to measure the marketization of a country, so in order to be recognized as a market economy, the government should negotiate with US from the political perspective. China's market economy status is a controversial issue, propagation of China's market economy growth and its achievement of economic reform could help China be recognized as a market economy earlier.

### **Political influence and personnel training**

When Chinese firms are accused of dumping in US' market, the American firm are dumping there goods into Chinese market as well. Speeding up the establishment and development of the anti-dumping law is necessary. As a result, China could fight back by using its own anti-dumping law to against American dumping activities. Government could help the firms to development more foreign markets though economic negotiation and signing bilateral trade agreement.

To deal with anti-dumping issues is a long struggle; government should prepare to meet more challenges in the future. China is short of experts who are good at dealing with anti-dumping issues, so personnel training are critical to win the long struggle.

Thus, there is still a lot to learn for the government to perfect its use of fiscal, financial, legal and administrative measures that are allowed by WTO rules in order to guide the economy maintain a rational and balanced increased rate of fixed asset investments and so secure a stable and sustained development of the foreign trade sector.

## **5.4 My suggestion to the Triangle Group**

Since I have discussed about the countermeasure for firms against anti-dumping measures, the measures above are suitable for Triangle Group against foreign contingency activities. But I would like to provide special discussion about the firm in these contingency cases.

### **5.4.1 Seize the opportunity and accelerate the development**

China is enjoying the world's fastest growth and there is no better time to do business ever. China is going to be the largest auto market in the world, so the potential demand for tires in the future is inestimable huge. Triangle Group, as one of the largest tire producer, should make good use of its domestic position and enlarge its market share in domestic market. Since Chinese tire makers are still very small compare with the world three giant makers—Bridgestone, Michelin and Goodyear. So the critical thing should be done now is to seize the opportunity when the domestic demand is very powerful. Triangle Group should go from strength to strength and accelerate the development its own products. Setting up long term strategic alliance with domestic automakers is a good way to ensure the domestic demand.

Although Triangle Group is a state owned firm and have the very strong political background, it can be a good choice to have diversified investments. While other tire companies became the listed companies, Triangle Group should not fall back.

### **5.4.2 Technology innovation and marketing their brand**

After having the sufficient capital, Triangle tires should invest more on the R&D and

personnel training. Technology is the soul of manufacture firms. Since China has the cost advantages on producing tire, then they should hold the advantage and develop good quality products which contain advanced technologies. Then the largest market will go to Triangle tires.

Building up international well known brand is part of the long term strategic planning for tire firms. Compare with foreign brands which have developed for decades or even more than a century, it is a time consuming and costly project to marketing own brand, but it is worth doing.

### **5.4.3 Market diversification**

Firms will be hurt less if their market structures are diversifier in this case, Triangle Group is facing difficulties with a lost of there largest exporting market. If they have a wider and diversifier international market structure, then the lost of market in US could be replaced by the other international market, and minimum lost will be achieved.

### **5.4.4 Establishment of Multinational Corporation**

Although in the current, many Chinese firms don't have the strength to do FDI and set up subsidiaries in abroad, Multinational Corporation should be the long term aim for most Chinese companies. By using FDI, Multinational Enterprises are able to jump anti-dumping activities. The Triangle Group should rethink about its entry model to the foreign market. In stead of merely exports goods to abroad, more FDI could undertaking.

## **5.5 Summery on the analysis**

The research problems of this thesis was to explore the reasons that the United States launched anti-dumping measures against Chinese products, and find out countermeasure to deal with anti-dumping activities. In the analysis part, I stated the reasons from both external and internal perspectives that China was launched anti-dumping measures. And later on, I talked about the impacts of anti-dumping measure. By looking at the severe effects from anti-dumping activities, government, industry associations and firms are necessary to carry out counterplots. To sum up this chapter, I mentioned the establishment of an integrity and multi-aspects linkage countermeasure system. In the special case study, based on the empirical study, I lay out some suggestions to the Triangle Group to deal with the international contingency measures as well.

## 6. Conclusion

### 6.1 Summary of the study

There have been a number of criticisms about the methodology used to determine dumping, particularly with regard to its opaqueness and the resulting ease of manipulation. For many years, developed countries have been heavy users of anti-dumping activities to protect their sunset industries, and their MNEs have used anti-dumping as a weapon to strengthen monopoly rather than to enhance a “level playing field”. The anti-dumping measures are always abused as a tool for trade protectionism. For the reasons I have talked above, China became the number one target for anti-dumping measures.

The intensified anti-dumping measures against Chinese products will not only be detrimental to China’s trade balance, but also will hurt the world economic development. The impacts of anti-dumping measures that I have listed above are warning to the relative parties to concern about the importance of anti-dumping activities.

I have listed the suggesting solutions for Chinese government and firms to deal with the anti-dumping investigations. And to cope with the anti-dumping measures, the best thing that Chinese companies should do is to make efforts to avoid the anti-dumping measures. While few anti-dumping cases are inevitable, then firms and government should establish and modify the multi-aspects countermeasure systems.

The United States like to treat China as a threat to them, thinking that China is going to challenge their leadership of the world. The American are thinking about the products from China are harming the local manufacturers and stealing the job

opportunities from them. But there are much more things to be considered when deal the imports from China. The American consumers are the main beneficiary of the Sino-US trade. The cheap consumer staples helps the US economy stays in a lower inflation level and promotes their living standard. On the other hand, the China's manufactory is mainly plays a role of process center for the high technology owned American companies. The main profit of the products are flowing to American enterprise rather than going to the Chinese factories.

In the long run, however, it is necessary for China to shift its export products away from anti-dumping-intensive sectors by upgrading export products from standard products into highly differentiated products.

## **6.2 Limitation of the study**

A thesis can never avoid the existence of limitation. As this thesis is based on the point of view of economics, all the aspects of anti-dumping activities can not be included. Anti-dumping activity is not only the issue of economics, but also the issue of politics and law. As a student specialized in international economics, I could not mention the political and legal reasons of anti-dumping initiation.

## **6.3 Proposals of future research**

In the period of globalization, trade liberalization is the tendency of future development, trade barriers will be diminished in the long run. If American firm want to hiding from the furious international competition under the harbor of anti-dumping measure, then I will definitely consider that it will never be the best option for them. Anti-dumping is already can't affect Multinational enterprises, when they dodge the

punishment by shifting their producing places. So in my future studies, I would like to focus on the relationship between multinational firms and anti-dumping measure and how both of them would change each other's traditional role.

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