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CORPORATE STRATEGY AND POLITICAL ECONOMY IN A WORLD FREE OF DUMPING

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Abstract:

Over the last twenty years many countries have enacted and begun using antidumping legislation. These laws seek, amongst other goals, to deter injurious dumping. In this paper I describe some of the consequences for corporate decision-making and for the political economy of reforms if antidumping laws succeed in deterring dumping in the first place. Understanding these potential consequences might shed light on the desirability of end point of the antidumping journey that so many World Trade Organization members (WTO) are currently embarked on.

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1. Introduction

Analysts of the world trade system often debate the relative merits of idealised "counterfactual" situations, typically comparing them with the current state of international commerce and commercial policy. Proponents of antidumping legislation, with their strong claims about the pernicious effects of injurious dumping, are no exception. Moreover, if the legislative and enforcement experience of many WTO members is anything to go by², then for better or for worse the world trading system is well on the way towards the comprehensive contingent regulation of import pricing through antidumping measures. Where will this process end and what are the likely implications for corporate strategy in national and foreign markets?

As well as addressing the harm done to import-competing firms of injurious dumping, the strength of the incentives created by some national antidumping legislation may well deter injurious dumping, and even dumping, in the first place.³ These deterrence effects are the focus of this article and I wish to explore the potential consequences for corporate strategy and the politics of trade reform if firms engaged in international trade took steps to eliminate dumping (and, in so doing, reduce to zero the probability of being found guilty of injurious dumping.⁴) What would such a counter-factual world look like? Who benefits from it? Would support for trade and other economic reforms be greater in this counterfactual at present?⁵ In short, perhaps with a better understanding of the idealised world that the proponents of antidumping legislation seek, policymakers and others can come to a view as to whether this end point is in fact desirable.

My focus on the implications of a dumping-free world for corporate strategy and the political economy of reforms is deliberately broader than those economic analyses that assess the effect on resource allocation of international price discrimination, a form of dumping. Deardorff (1989) neatly summarises what economists know about the latter and related matters. Here, however, I will consider other corporate choices, such as firm location, propensity to innovate, and support for economic reforms. To maximise the audience for this paper I, like Deardorff, will not present formal economic models with its associated mathematical paraphernalia. Hopefully, if I have explained the incentives well enough, economists will be able to deduce the formal models that I have in mind.

In situating this article in the debate over antidumping legislating and associated reforms a few preliminary comments are in order. First, the fact that I consider firm behaviour in world free of dumping should not be taken to mean that I think that dumping or injurious dumping distort market forces. Analysts of prospective minimum wage laws, labour

² Prusa (2005) documents the spread around the globe of antidumping legislation and enforcement actions over the last 20 years.

³ As is well known in the literature on law and economics the deterrent effect of a particular law or regulation will depend on a number of factors including, amongst others, the probability that an act is detected, the probability that the act is successfully prosecuted or sanctioned, and the likely magnitude and nature of the sanctions applying to those entities found to be violating the law or regulation.

⁴ Of course, in principle a firm could reduce this probability to zero by continuing to dump but not to an extent as to cause injurious dumping. In this case, the firm would be deterred from injurious dumping but not from dumping. As will be argued later, this is a particularly risky strategy for a firm to pursue because the determination of whether an import-competing industry is injured by dumping typically takes into account the combined effect of the dumped imports and changes in the amount of imports by any one importing firm may only marginally reduce the probability of material injury being found.

⁵ See Wolff (1999), a leading proponent of antidumping legislation, who titles one subsection in this paper "Antidumping is a major trade liberalising tool" (page 10).

standards, and stronger measures to protect intellectual property rights, for example, seek to understand the consequences of these policy changes without necessarily endorsing them.

Second, my emphasis on the deterrent effects of antidumping legislation--and specifically, on the elimination of the incentive to dump in the first place--differs from the focus of many studies on the "remedies" imposed after findings of injurious dumping, the techniques used to calculate dumping margins and to evaluate "material injury" to a domestic industry, and other procedural features that might influence the outcome of antidumping investigations.⁶ In doing so, one goal of this paper is to put the spotlight on the counterfactual world advanced by proponents of antidumping legislation. Put simply, my focus is on the nature of the ends not the means of antidumping enforcement.

Many international trade lawyers, and I do not confine myself here to proponents of antidumping legislation, are less than enthusiastic about international trade economists' use of counterfactuals to compare "what is" with "what could be" without apparently questioning what type of world the trade policies they (implicitly or explicitly) endorse would lead to. Most analysts of the multilateral trading system use counterfactuals whether they know it or not. Here I consider a counterfactual close to the heart of many proponents of "free and fair trade," namely a world free of dumped products. Moreover, this analysis may be of interest to those proponents of "interface mechanisms" which are said to mediate between different economic systems as their firms engage in international commerce (Jackson 1997).

This paper is organised as follows. Section 2 describes the constraints facing firms in a world free of dumping. Some fundamental implications of these constraints and the emphasis here on dumping (rather than injurious dumping) are explained. Section 3 describes the likely consequences for corporate strategy of these constraints. Section 4 draws out some implications for the political economy of trade and other reforms in a world free of dumping. Concluding remarks are offered in section 5.

2. Characterising the "no dumping" constraint

Amongst other goals antidumping legislation seeks to deter injurious dumping. As is well known, antidumping-related duties can only be imposed after separate investigations have been conducted to establish whether dumping has occurred and whether the dumped imports have materially injured a domestic import-competing industry. From the perspective of a foreign firm shipping to another jurisdiction the threat to its profitability posed by that jurisdiction's antidumping legislation depends on a number of factors including the probability of being found to have dumped, the magnitude of any dumping margin that is found, the probability of material injury by the dumped imports being shown, and the costs and disruption caused by the antidumping investigation and subsequent administrative reviews.

A foreign firm could, in principle, reduce the likelihood of being adversely affected by antidumping measures by altering its pricing decisions or the amount of goods that it ships so as to reduce the probability of material injury being shown.⁷ However, if the foreign firm's

⁶ For the latter Blonigen and Prusa (2003) provide a survey of the economic literature on antidumping.

⁷ Note here that I am considering how a single firm might respond to the incentives created by antidumping investigations. As these investigations are typically triggered by a complaint from import-competing firms, the deterrent effect of a system of antidumping regulation depends on the decision to file a complaint. If that latter decision is itself a strategic choice of firms, then it cannot be assumed that a complaint will necessarily be filed.

share of the imports subject to the investigation is small, then the reduction in this probability may be limited as collectively the other imports may still be causing injury to the import-competing sector. As a result firms may conclude that attempting to influence the material injury investigation by altering prices or quantities shipped before an investigation may not hold out much promise. In contrast, the dumping (or less-than-fair-value) investigation is by its nature typically firm-specific. Therefore, a foreign firm can reduce the probability of paying antidumping duties by not dumping in the first place.⁸ This can be accomplished by ensuring that the export prices charged exceed the so-called normal or fair value for the subject good, recognising that the latter can be calculated in a number of ways. In sum, the strong deterrent effect of antidumping regimes is more likely to manifest itself in those industries which are not dominated by a very small number of firms⁹ and in the decisions by foreign firms to alter prices so as to influence the firm-specific dumping investigation rather than the industry-specific material injury investigation. In the limit, the consequence of a very strong deterrent effect is to encourage a foreign firm to *voluntarily* eliminate dumping entirely (without any action being taken against this foreign firm by the antidumping authorities of the importing country). Much of this article is concerned, therefore, with how the corporate strategies of firms change when they restrain themselves from dumping.

For the purposes of this article it is assumed that a firm which chooses not to dump will set prices in an export market above the maximum of (i) the price that it charges in the markets of the nation in which the firm is located (should such markets exist) and (ii) the average total cost of production.¹⁰¹¹ Alternatively put, the firm restrains itself from engaging in a certain type of international price discrimination or from engaging in any transactions that result in losses. I appreciate that "constructed values" for costs and the sales prices in third markets can be used to calculate the fair or normal value of a good, and so provide a floor for export prices, but rather a lot can be said about the first two constraints listed above.

It is worth noting in passing that selling goods at prices below average total costs and at prices lower than those of transactions for the same good in home markets are strategies that economists have found to be consistent with profit maximising behaviour and need not be associated with predatory or anti-competitive intent. In the case of pricing below average total

See Blonigen and Bown (2003) for a sophisticated discussion of threats and retaliation in the filing of antidumping complaints.

⁸ There is an important caveat here. To the extent that the firm expects some randomness in the calculation of the dumping margin by the investigating authority then there *may* be no price that it can charge so as to reduce the probability of being found to have dumped to zero. The key word in the last sentence is "may" as much depends in this case on the perceived uncertainty in the calculation of the dumping margin.

⁹ In this situation a reduction in import quantities or an increase in import prices by any one overseas supplier might well significantly affect the probability of establishing material injury.

¹⁰ Economists typically differentiate between two types of costs that firms can incur. Those expenses of a firm which must be paid irrespective of the output level of the firm are called "fixed costs." The total amount of such expenses is called total fixed costs. Those expenses of a firm which depend on the level of output of the firm are said to be "variable" in nature, and are referred to as "variable costs." The total amount of the latter is referred to as "total variable costs." The total costs of a firm equal the sum of its total fixed costs and total variable costs. Therefore, as the output produced by a firm changes so the total costs of a firm may change because total variable costs change. In addition, average total costs are defined to equal the ratio of total costs to output produced. When the numerator or the denominator of this ratio change as the output level changes, then the amount of average total costs may also vary with output levels. Likewise average variable costs, defined to be the ratio of total variable costs to quantity supplied, may vary with output levels. As will become clear, for each output level that a firm could supply the difference between the average total costs of a firm and the average variable costs assumes considerable significance in the economic analysis of firm behaviour.

¹¹ In the United States the cost-based calculation of the "fair" or "normal" value includes a standard profit rate on top of the average total cost. The discussion in this paper considers the case when no standard profit rate is added, but the logic can be easily adapted to the case when a positive such rate is employed in antidumping investigations.

costs, economists have shown that what, at first, may seem a counterintuitive result--namely, that in the short run profit maximising firms will continue to sell goods even though the price received is less than the average total costs of production so long as that price equals or exceeds the average variable costs of production. The logic behind this proposition is as follows. Consider a situation when a firm finds that some of its costs, such as capital outlays, rents for factories or office space, etc do not vary with the level of production. These costs are said to be *fixed* and differ those costs that *vary* with the level of production, such as energy usage, overtime working payments, etc. A more important distinction between these costs is that fixed costs have to be paid irrespective of the level of production whereas variable costs can always be avoided by producing nothing. This leads to the first insight and that is that firms will temporarily shut down (that is, produce nothing) when their current total revenues do not cover their total variable costs.¹² Moreover, the very fact that a firm has to pay its fixed costs whatever level of output it produces implies that a firm will sell at prices where total revenues are less than total costs. Why? Because a profit maximising firm prefers to make smaller losses than larger losses, and it is better to cover some of its fixed costs with revenues from sales than to cover none of those fixed costs. The logic of this argument implies that as far as firm behaviour is concerned there are three zones of prices. In the first zone the price that a firm can sell its good for is so low that it cannot cover its total variable costs, let alone its total costs. In this first zone a profit maximising firm will temporarily shut down. In the second zone a firm's goods sell at prices which cover total variable costs, but not all of the total fixed costs. A profit maximising firm here will still produce at prices in this zone precisely because it minimises the losses of the firm. In the third zone the firm's goods sell at prices that generate enough revenues to cover all of its costs (fixed plus variable) and so make a profit. As will become clear, it will be important to bear these three zones of prices in mind when thinking through the consequences of a commitment not to dump.

There is one twist to the above argument. In the longer term firms begin to consider changing their scale of production and whether they wish to supply a market, or be part of an industry, at all. When such decisions are made all the expenses of the firm become essentially variable, as they are related to different scales of production. Moreover, one choice available to firms here is to permanently leave a market, which implies engaging in no (zero) production. The very fact that a firm ceases supplying a market and thereby earns zero profits has important implications. It means that whatever choice a profit maximising firm does make it must be one that generates at least zero profits. Therefore, in the long run no firm will continue to sell to a market if the price of its goods does not generate enough revenues to cover total costs. In terms of our three zones of prices, then, a profit maximising firm will not over the longer run sell to a market unless the prices are in the third (and highest) zone. A distinction emerges then between the corporate strategies of firms that are not planning an immediate change in their scales of production and those that are. If prevailing prices generate enough revenues to cover total variable costs but not to generate positive profits, then only those firms that are not considering an immediate change in their scale of production will continue to supply the market in question. As time goes by, more and more firms will reconsider their scale of production, and if prices have not changed they will permanently withdraw from supplying this market. It is for this reason that so-called cost dumping (selling at prices below average total costs) can only persist in the short term.¹³ In the longer term no

¹² Readers should note that temporarily shutting down and exiting an industry are two quite distinct decisions and are treated separately in economic analyses of firm behaviour.

¹³ This finding raises another important question, namely, how short is the short term? The answer to this question is likely to differ across industries as investment horizons differ. Here the relevant issue is the time horizon before a firm reconsiders its scale of production and the capital equipment and other fixed outlays that go with different scales of production.

profit maximising firm would persist in making losses when it can exit an industry or cease supplying the market in question.

What is the implication of this discussion of short run and long run costs for the stringency of the "no dumping" constraint? The first point to be made here is that the no-selling-below-average-cost constraint does not bite in the long run, and so will have no effect then. However, in the short term (in between decisions of firms to engage in major changes in the scale of their production) this constraint will imply that the firm can only sell if prices are in the third zone, namely, when prices are such that the total revenues generated exceed total costs. Put another way, voluntary adherence to the no-selling-below-average-cost constraint would expand the range of prices at which the firm decides not to supply a certain export market. Yet another way of thinking about the effect of the no-selling-below-average-cost-constraint is that it forces firms to behave in the short run just as they would in the long run.¹⁴ Finally, and quite distinctly, it is worth noting that the impact of the no-selling-below-home-market-prices constraint is potentially in addition to the effects described here.

Economists have also identified a number of circumstances under which international price discrimination can occur. The most prominent rationale is that differences across national markets in the sensitivity of customers' demand to prices alter the extent to which a firm can raise its prices above (incremental or marginal) costs and may result in higher prices being charged in the firm's home market than abroad. Again, it is a profit maximising firm's response to market signals from customers and not anti-competitive intent that leads to so-called price dumping. Sustaining such dumping does, however, require the home and foreign markets to be segmented so that sharp-eyed entrepreneurs do not buy the good in the cheaper market and re-sell it in the more expensive market.

Many factors can result in segmentation, including international transportation costs (making it too expensive to ship a good and capitalise on the price differentials), state-erected trade barriers, and agreements between firms and their distributors that effectively eliminate the possibility of arbitrage across markets. Indeed, it is the possibility that tariffs, non-tariff barriers, and the like can--along with the appropriate demand conditions--generate dumping that proponents of antidumping measures rarely forget to remind audiences of. However, it is important to note that other factors can lead to market segmentation. Moreover, as tariffs fall over time with successive multilateral trade rounds the viability of the trade-barriers-leads-to-dumping argument is harder to sustain. This is because the argument requires identifying another trade barrier of sufficient size to segment the home from foreign markets and many of the non-tariff barriers that could be responsible are very hard to document satisfactorily, let alone quantify their effects.

What, then, are the implications of a self-imposed constraint not to engage in price dumping? In the extant economics literature the effect of this constraint has been explored in the context of international price discrimination. Deardorff (1989) explains the principal finding here, namely, that eliminating price discrimination will often lead to lower prices for the good sold in the home market and higher prices for those goods sold to customers abroad. The latter results in lower quantities sold in the export market and overall to a lower level of profits for the affected firm (because the firm is now constrained to set prices at the same level in both markets, a choice it rejected when it was unconstrained in favour of price-dumping presumably on the grounds that the latter option generated greater profits.) If, in the absence of the commitment not to dump, the differences in prices charged between the home

¹⁴ It is in this sense that the no-selling-below-average-cost constraint can be thought of as bringing the future (the long run) forward to today (the short run.)

and export markets is sufficiently large and the quantity sold in the home market is sufficiently large compared to that in the export market, then the loss in profits associated with equalising prices (when the no-dumping constraint binds) may be greater than the profits made in the export market when dumping occurred. In this case, the imposition of the no-dumping constraint would induce the firm to cease supplying the export market. Whether the firm continues to export or not, its rivals in the overseas market will face less intense competition from imports, either because the price of foreign supplied good has risen or those supplies have ceased.

Much of the presentation in this section relates to matters that are well established in the economic literature. In the remainder of this article I shall explore a number of other potential consequences for corporate strategy and for the support for economic reforms that have not received much attention to date.

3. Corporate strategy and the self-imposed no-dumping constraint

In this section and the next the comparisons made are between the likely strategies adopted by firms when they restrain themselves from dumping and when they do not. Recall that committing not to dump implies that, should the firm export the good at all, it will set an export price that exceeds the maximum of the price it sets in its home market and its average total cost of production. This implies that any export price (EP) must exceed the minimum feasible level of average total costs (MATC) of production which, for a firm with any fixed costs, must exceed the minimum feasible level of average variable costs (MAVC). Alternatively put, committing not to dump requires not selling in the overseas market when export prices are such that $EP < MATC$. This includes prices in the range $MAVC < EP < MATC$ where the unrestrained firm would profitably export abroad. Essentially, a self-imposed commitment not to dump at a minimum restricts the desire to export to a higher range of prices (those prices where $EP > MATC$ rather than $EP > MAVC$.) The final step in the argument is to recognise that, other factors being equal, higher demand levels for a good in question result in higher prices. Consequently, the fall in demand that would have to occur to induce a firm which can dump goods to leave an export market would have to be greater than for a firm that restrains itself from dumping.¹⁵ This distinction between the commitment and no commitment cases underlies the implications that are drawn out below for the *non-price* strategies of firms.

The first set of implications relates to the location of production and its consequences. When international trade is possible firms that can, in principle, supply many nations' markets are thought to trade off the benefits of proximity to customers for the benefits of concentrating production in a few locations or even in one location (Brainard 1997). Saving on international transportation costs, insurance, etc, are said to be one of the benefits of the proximity to customers. The possibility of exploiting longer production runs that result in lower average

¹⁵ Thus it is reasonable to expect that, holding the production locations of the firms in an industry constant for the moment, the degree of inter-firm rivalry in markets open to import competition could be markedly less in recessions if all firms committed not to dump in export markets. On the face of it this may appear to be a benign outcome--making life easier for firms when demand is down. However the very fact that a recession in one country, which results in prices falling in markets where imports compete, could lead to a large reduction in exports to those markets effectively transmits the deflationary impact of the initial recession abroad faster than if firms allowed themselves to dump. In general, to the extent that exports are zero for a wider range of prices, then measures of the overall volatility of exports are likely to increase. In short, a world free of dumping is likely to be a world where international trade flows acts as a faster and sharper mechanism to transmit macroeconomic shocks around the world economy.

costs of production, an outcome that is contingent on both managerial know-how and the technologies available to firms, is said to underlie the benefits of concentration. A commitment not to dump, by restricting the demand levels at which an overseas firm will supply customers, surely increases the incentives to locate some production within the jurisdiction where those customers are located (so by definition avoiding the impact of that nation's antidumping regime.) The *net* advantages of concentrating production and exporting have diminished.¹⁶

On this logic some goods that were previously supplied through international trade are now produced in subsidiaries located in the same jurisdiction as the customers that buy those goods. The extent to which foreign direct investments of this kind will substitute for exports will depend on a number of factors, not the least of which are the number and spending power of the customers in a jurisdiction (the "market size"), the rate at which production costs rise as production runs are shortened (which may occur as one efficient production plant is replaced by a number of production facilities around the world with shorter production runs), and differences in the costs of labour, expertise, and capital across alternative production locations. In short, the direction and extent of international trade as well as the location of rivals to import-competing firms are likely to change in a world free of dumping. So will the calculus underlying future production location decisions.¹⁷

Compared to the case where firms can dump, what are the implications of this potential production relocation for import-competing firms? In markets where the total buying power of customers is small, the commitment not to dump is less likely to trigger production relocation. Coupled with the fact that some overseas competitors may stop exporting to these markets entirely, and that almost all such competitors will cease exporting during recessions, the import-competing firms are likely to face less competition on average and much less competition during demand downturns. If empirical studies of the impact of discipline from imports on firm performance are anything to go by, then in a world free of dumping the import-competing firms supplying relatively smaller markets will charge higher prices, face less pressure to keep costs under control and to improve productivity and, to the extent that profits do rise, are likely to attract some long-term expansion in capacity which will eventually put downward pressure on financial returns.

In national markets with a large number of customers production relocation of the kind described above is likely to occur. The terms upon which the relocating firms enter these large markets will have a substantial bearing on the competitive threat they pose to their rivals which are already located there. If the relocating firm receives considerable grants and tax breaks¹⁸ from state-level and sub-state authorities, then they may end up having a cost advantage over the rivals already established in that jurisdiction. When supplying the customers in the same jurisdiction, these new entrants' pricing decisions would not be directly affected by that jurisdiction's antidumping regime and so any grants or subsidies that lower these entrants' average variable costs will increase the likelihood that they can undercut their established local rivals in a recession--in which case the latter (the formerly import-competing firms) may come to regret any move to a world free of dumping. This last argument should not, however, be overdone because if production relocation is inherently so profitable it raises

¹⁶ Please note that the argument here is not that all of the benefits of concentrating production have been eliminated.

¹⁷ If production relocation were triggered on a large scale then one might expect the ensuing turnover in the markets for capital, labour, and land to alter the costs of producing at different locations. Economists refer to these changes as general equilibrium effects and many consider them to have important implications for the location of production and the ensuing direction of trade flows.

¹⁸ At the moment many such fiscal incentives are not covered by WTO disciplines.

the question as to why the foreign firms would not relocate irrespective of a commitment not to dump.

Taking these previous arguments together, one might expect that a world free of dumping would see considerable divestments from low cost production locations in economies where there are a small number of domestic customers. The use of export platforms, export processing zones, and free trade zones in these economies would be reduced and national export performance would decline.¹⁹ Firms supplying these exporters would also be affected, including those located abroad (suggesting that the organisation of international supply chains and production networks would be affected.) To the extent that the low production costs were due to cheap and abundant labour in these economies, the move to end dumping would put downward pressure on wages, which in turn relaxes the sales-below-average costs constraint of those firms that do not relocate abroad--so diminishing the incentive for further production relocation. Such arguments suggest that while production relocation is likely to occur there will be offsetting factors that will limit such relocation. It is also worth pointing out that a fall in wages, the principal offsetting factor in labour abundant countries, will lower demand in that economy for imports, so affecting the export performance of other countries.²⁰ The lines of causation above suggest that moving to a world free of dumping is likely to influence a large number of the parameters underlying corporate decision-making in the short and longer term. Piecemeal assessments of the impact of those changing parameters on corporate behaviour and interests may well be very misleading.

The second set of implications concern the nature of cost-saving innovations and corporate structures in a world where firms commit not to dump. Recall that the range of demand levels and prices over which a firm will not export goods expands if it commits not to dump. Moreover, recall that when the firm does not export it incurs no variable costs associated with overseas production but still pays its fixed costs. Taken together, these points imply that the commitment not to dump decreases the probability (or range of circumstances) of the firm having to make variable cost outlays. This will have consequences for the likely allocation of managerial effort and resources between measures to reduce fixed costs and steps to economise on variable costs because the payoff to the latter are felt less often (as variable costs are paid out less often). This is not to say that all efforts to economise on variable costs will cease, or that firms would not seek to lower costs in the absence of the commitment not to dump. Rather, it is an argument that the balance of cost saving initiatives and innovation will shift towards fixed outlays, which must be paid irrespective of the demand conditions facing the exporter.

For those firms that supply domestic markets as well as overseas markets a greater emphasis on lowering fixed costs rather than variable costs will also have implications for the degree of inter-firm rivalry in domestic markets. Rivals that do not supply overseas markets and are therefore unaffected by the no-dumping constraint will, all else equal, not shift towards cutting fixed costs, which means that over the longer term those rivals may end up having lower variable costs than the firms that also export.²¹ Given that the variable components of costs (technically, the incremental or marginal costs) influence prices set, then

¹⁹ Some have argued that firms in developing countries will have particular trouble switching from a strategy of exporting to a foreign market to one where an affiliate is established in that market. Blonigen (2002) discusses the implications of antidumping tariff-jumping behaviour by firms.

²⁰ I hope it goes without saying that a fall in wages could also have implications for the poverty and standard of living of workers in such nations.

²¹ Another consequence is that in recessions the firms which retain the option to export will shut down before the firms that only supply the domestic market, because the latter will tend over time to have lower average variable costs of production.

over the longer term the non-exporting firms may be able to cut their prices further than the firms which retain the option to export. Maintaining that option to export may, therefore, compromise a firm's longer term performance in domestic markets. This may well further tilt the balance against exporting in the first place.

A greater desire to economise on fixed costs in a world with no dumping is likely to have implications for the optimal organisation of activities within firms. All firms decide which activities to perform in house and which to outsource or contract for. Much has been written in recent years about the desirability of firms specialising in their so-called core competencies or in those activities that the firm is particularly effective at. Moreover, the implications of corporate restructuring for the nature of employer-employee relations is a topic attracting considerable interest as economies adjust to technological change, changes in consumer tastes, external shocks, more open borders, and economic reforms. The question here is how corporate organisation and restructuring might proceed differently if firms refrained from dumping.

Here a few more preliminary remarks are in order. The extent to which a firm can cut its fixed costs will depend on a number of factors. One factor must surely be the firm's initial cost structure and this may vary in systematic ways across nations and industries. It is often argued, for example, that the difficulties in firing workers and in altering their working conditions in Continental Europe effectively makes labour-related outlays fixed costs (rather than variable costs.) Another factor is whether there are cross-country differences in the nature and extent to which firms can cut fixed costs. For example, relations between a firm and its suppliers and creditors are often said to be less fluid in Continental Europe than in the so-called Anglo-Saxon economies. While much nuance is lost in such broad characterisations, clear differences between the form and prevalence of contracting between parties, in firm organisation, in the role of public policy and, to some extent, in social norms have been identified in the research programme on *Varieties of Capitalism* and they may have some bearing on the extent to which firms can cut costs (Hall and Soskice 2001). Some more specific arguments concerning the implications for corporate strategy are developed in the following paragraphs.

Exporting firms in the Anglo-Saxon mould, with their relatively lighter fixed costs, would in a world free of dumping still want to cut fixed outlays further, finding ways to replace some in-house staff and capital investments with services that can be contracted on the basis of need. The extensive managerial and legal experience with contracting, and the ability to settle disputes relatively quickly, reinforce the desire to contract out activities. The caricature of a Continental European firm, with its much higher fixed costs, would dearly love to cut its fixed costs too but it may find that it is very expensive and risky to do so (e.g. payment of mandatory redundancy costs, worsening labour relations and potential industrial action, boycotts from consumers, criticism from national policymakers) or would undermine the beneficial value of its long term ties with its suppliers and creditors. Compared to their Anglo-Saxon rivals, Continental European firms would find themselves with relatively higher fixed costs and, therefore, unable to export over a wider range of demand conditions. The implications of a commitment not to dump would likely have particularly adverse long term implications for European export competitiveness, and indeed for the competitiveness of any other economy where corporate structures tend to be based on entrenched fixed costs.

Of course Continental European firms could respond to this long-term threat to their export viability by advocating social and economic reforms that free them from heavy fixed costs (or at least enable to reorganise their activities so that more of their outlays become variable costs). This factor may well speed up any convergence between Continental

European economic structures and those of the Anglo-Saxon economies, which are thought to have greater flexibility in corporate organisation. There is, however, a fundamental point to be made here. Certain prominent legal analysts of the world trading system argue that antidumping policies are a necessary "interface mechanism" that facilitates trade between societies with very different economic structures. The arguments developed above suggest that the certain incentives created by antidumping policies (notably the deterrent effect) are encouraging convergence between different economic structures, rather than mediating the consequences for trade. Moreover, economies with corporate structures that do not converge to the Anglo-Saxon model, or more precisely to lower fixed cost corporate structures, will find their exporters increasingly excluded from world markets for larger fractions of the business cycle. It would seem that the long term consequences of this interface mechanism are far more wide ranging than its apparent mediating role.

In this section I have argued that the nirvana of supporters of antidumping laws--a world free of dumping--would have far reaching consequences for corporate strategies and, more generally, for the economies in which they operate. These arguments may go some way to countering the impression that the norms underlying antidumping legislation act merely as a narrowly-targeted technical corrective to the errant behaviour of some exporters.

4. Corporations and the political economy of reforms

There are a number of distinct implications for the degree and nature of corporate support for reforms in a world where firms restrain themselves from dumping. Unsurprisingly some of these implications follow from the economic consequences described in the last section. In what follows I will develop the theme that refraining from dumping will alter corporate support for a range of economic policies well beyond steps to liberalise barriers on cross-border trade. Throughout I abstract from so-called collective action problems, specifically the problems created when one or more firms has an incentive to free ride on the collective efforts of an industry association or other group of firms in the same circumstances. (Of course, if each firm has an incentive to free ride, there will be no collective action to free ride on in the first place.)

Adopting a commitment not to dump will alter the relative strength of the corporate interests that have a stake in further liberalisation of tariffs and other directly trade-related border barriers. Assuming they can act collectively, import-competing firms will still have strong incentives to oppose tariff liberalisation in their home economies. However, with the price that their foreign rivals charge in the latter's own home markets acting now as a constraint on those rivals' export prices, import-competing firms now have an incentive to oppose tariff liberalisation abroad as well. This may make those import-competing firms and associated interest groups (unions, retirees, etc.) even less willing to listen to appeals to national solidarity, foreign policy concerns, and other non-economic arguments that are often mentioned in favour of trade reforms.

Compared to the case when dumping is allowed, firms that could *in principle* export are less likely to support tariff reductions at home as part of a trade agreement that sees barriers lowered abroad. This is for two reasons. First, adopting a commitment not to dump will reduce the number of exporting firms and those firms that stop exporting may lose interest in lower barriers to overseas markets. Second, those firms that continue to export now know that (under a commitment not to dump) there is a wider range of low demand levels (and so low prices) over which they cannot export. Lower tariffs are of little or no value in the

contingencies when the dumping constraint bites and export cease. All in all, the support for the reduction of impediments to trade in goods will decrease and the opposition to such steps is undiminished. Bilateral, regional, and multilateral agreements of this type are thus likely to be harder to conclude and ratify.

The focus of international commercial diplomacy would likely shift from tariff reduction and the like (for the reasons stated above) to the terms upon which firms enter and compete in overseas markets. This shift follows precisely from the production relocation dynamic that I discussed in the last section. Firms may well decide to supply their major overseas customers by establishing subsidiaries in the same jurisdictions, rather than exporting to them. These firms, therefore, have a strong interest in the policies of governments towards foreign direct investments, including policies concerning the repatriation of profits, content requirements, tax holidays, grants, and the acquisition of national firms. Moreover, private anti-competitive practices that affect a potential subsidiary's profitability from selling to customers may be a source of concern.²² For these reasons in a world free of dumping negotiations on multilateral disciplines on national investment and competition policies are likely to gain prominence. This outcome is a reflection of the fact that often there is more than one channel to supply a market and that a commitment not to dump affects the relative profitability of those channels.

The production relocation by foreign firms into a domestic market may well provoke a political economy response from firms already operating in that market.²³ The latter will surely seek limitations on the financial and other incentives that governments typically offer to foreign investors. Moreover, domestic firms may well argue that foreign subsidiaries should comply with a no-dumping rule too (not just foreign rivals which ship from abroad.) Proposals for the latter would extend the norms of antidumping inside the border and would surely require that some accommodation be reached with the competition policy community in that nation.

The support of outwardly-oriented firms for the liberalisation of foreign direct investment regimes abroad and the opposition of import-competing firms to comparable steps at home may well determine the corporate interests underlying a new set of reciprocal concessions between trading partners--this time not over tariffs but over the terms of establishment of subsidiaries and their treatment vis-à-vis domestic rivals. Commercial diplomacy is unlikely to end in a world free of dumping, but it is likely to take on a different form.

With respect to domestic economic reforms, the no-dumping constraint is likely to encourage export interests to put greater emphasis on supporting those reforms that either directly reduce fixed costs or that create greater opportunities to link contractual outcomes to firm output levels, which will allow some fixed costs to be transformed over time into variable costs. Changes in legal rules and societal norms concerning the relationships between employers, employees, creditors, and suppliers could be important in this respect. Here the desire to preserve and enhance export competitiveness, rather than pressures arising from import competition from emerging markets, low wage economies, etc, would underlie

²² Agreements between local manufacturers and local distributors that the latter will not sell the products of other firms could constitute such an anti-competitive practice.

²³ In an era when the stock of some multinational corporations is traded on many stock markets and held by financial institutions and citizens of many jurisdictions, the notion of a "foreign firm" is difficult to precisely specify. For the purpose of the discussion here I have implicitly assumed that firms can be differentiated on the basis of their nationality.

corporate support for these reforms. Furthermore, as noted earlier, it should not be assumed that corporate support for reforms implies that those reforms will be enacted.

5. Concluding remarks

To some it may seem strange that I have dwelt at length on "what might be" rather than "what is." Given the growing use of antidumping laws in the recent past I have argued that it is legitimate to ask what the world might look like in the absence of dumping. Part of my motivation for doing so is that the proponents of antidumping legislation rarely describe in detail where the antidumping juggernaut is taking the world economy.

Apart from higher prices for traded and potentially tradeable goods, what would a world free of dumping look like? Most likely it would involve a lot less international trade (especially from developing economies with small local markets), a lot more foreign direct investment (of both the greenfield type as well as cross-border acquisitions), considerable pressure to abandon the policy, legal, and other factors that underpin high fixed cost corporate organisations in favour of lower fixed cost (and potentially higher variable cost) corporate structures, which will involve more outsourcing and greater pressure on the long term relationships between employers and their employees, suppliers, and creditors. In so doing the pressure to abandon long term consensual corporate forms, as found in Continental Europe and arguably in parts of East Asia, for the arms-length contractual forms of the Anglo-Saxon model will intensify. Commercial diplomacy is likely to further shift from negotiations on market access to reforming investment rules (in goods and services) and to rules on the enforcement of competition law, as many firms that can no longer dump products seek to relocate production closer to large markets of customers.

Are these desirable outcomes? It is tempting to answer "compared to what?" The status quo? Free trade? The reader will excuse me if I do not offer a full answer to these latter questions here. Instead, the goal of this paper is more modest, and perhaps no less necessary, in that it provides another comprehensive benchmark to compare between and upon which to make reasoned assessments of the various policy choices concerning the contingent regulation of import prices.

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