Reciprocal Dumping under Antidumping Enforcement and Uncertain Technology

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Abstract

In recent years antidumping measures has earned the dubious distinction of being the most widely used non-tariff barrier (NTB). However, they may also be the cause of large trade distortions, the very problem that these instruments were designed to solve. This paper is built on these two premises. The first aspect relates to NTB aspect of dumping. We examine the loopholes in the present antidumping agreement which makes it easier for a nation to impose antidumping measures. The second aspect relates to the economic argument of dumping - as to what might be the factors, besides predatory pricing strategy, that will motivate a firm to dump in the foreign market. In our model, which is a dynamic extension of the reciprocal dumping approach, oligopolistic firms producing imperfect substitutes use the carrot and stick strategy to enforce non-dumping (cooperative) behavior. When dumping occurs, firms lobby for tariffs as punishment. After a finite punishment period, the non-dumping equilibrium is restored. Conditions are derived on the degree of substitutability and observability that allow non-dumping under an infinite horizon. The model suggests the degree of substitutability between goods and the market interest rate, affect the likelihood of dumping (*JEL* F13, D43)

Keywords: dumping, tariffs, lobbying, carrot and stick strategy