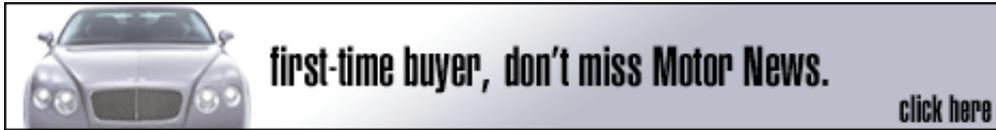


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Geekonomics

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PROPOSED changes to SA's antidumping laws have attracted criticism from trade lawyers. The government should take this as a sign that they are on the right track. The economics and the Geeks are on the side of the trade and industry department on this one.

As tariffs and other trade barriers come down, antidumping laws remain as one of the last refuges of protectionists. The official line is that these laws buy support for liberalization by providing a safety valve for producers who might be vulnerable to unsavoury international competitors.

The reality is that antidumping procedures have been in place in many rich countries for a long time, in some cases for more than a century. Their value for vocal special interests has increased in direct proportion to the elimination of other protectionist barriers. In the US, for example, antidumping procedures are sacred to steel, shrimp and textile producers and are used to maintain protection for these industries. The mere threat of antidumping actions is often sufficient to keep foreign competition away.

World Trade Organisation (WTO) rules allow antidumping protection, but impose some limits. They try to discourage frivolous claims by requiring proof that foreign competitors are behaving "unfairly" and that this results in genuine injury to domestic producers. Fairness is judged by whether import prices are less than the "normal price" or than the competitors' normal costs of production.

This is often difficult to prove. One of your Geeks worked in a country in which 90% of requests for protection were based on the claim of foreign "dumping". No one likes to be "dumped" on and no government likes to permit this to happen to its own citizens. However, closer examination showed that in almost all cases in which dumping was claimed, what the complainants really meant was that their competitors were more efficient than they were.

In large markets such as the US or the EU, it might be worthwhile for foreign producers to fight antidumping complaints against them. In small markets such as SA, it is unlikely to be worth the cost and effort involved. Typical WTO antidumping processes are time-, resource- and trade lawyer-intensive contests between domestic and foreign producers of the goods in question. Better just to raise prices, pay the duties, or just exit the market. This is borne out by the evidence: small and poorer developing countries see very few challenges to antidumping and other countervailing duty actions.

Who are the big losers from antidumping? As usual, it is the users and final consumers of imported materials who must pay the higher duty or suffer the higher cost of domestically produced goods. As with any other kind of protection, antidumping duties help a small group of domestic manufacturers

and hurt a broader class of users and consumers of importable goods. These can be both final consumer goods (such as kettles) and intermediate inputs (such as steel), whose higher prices reduce the competitiveness of downstream producers.

The costs of protection to users of imports are almost always larger than any gains to protected producers. The only case in which this might not be true is if "dumping" is used deliberately to wipe out all domestic and foreign competition, create a domestic monopoly and charge higher, monopoly prices in future. This is an unlikely strategy that would only work if a country was foolish enough to prevent foreign competition from challenging the new monopoly. If not, then any attempt to raise prices would be met by increased imports.

The South African experience shows that antidumping laws are more likely than foreign dumping to sustain domestic monopolies. The steel sector's widespread use of antidumping actions has helped to keep foreign competition at bay and enables Mittal Steel to charge monopolistic prices domestically. The cost of these actions is borne by all local users of steel.

Unfortunately, WTO antidumping guidelines do not require that users of imports be taken into account. This is their biggest weakness. But the WTO guidelines do not prevent a government from doing what is in its own national interest, eg taking account of the effect of antidumping decisions on downstream users and consumers.

This is exactly what the trade and industry department intends to do in its current revisions of the antidumping laws.

SA has been among the world's most prolific users of antidumping rules, ranking fifth in the world and third among developing countries between 1995 and 2004 in numbers of antidumping investigations and antidumping duties imposed. This reflects a trade regime that gives precedence to established, heavily protected domestic industries rather than dynamic new industries that are stifled by our high cost business environment.

The traditional protectionists will object to this new approach by the department, as will the legal fraternity that benefits from the existing regime and is blinded by adherence to the WTO's minimal requirements. This just shows the importance and the value of what the department intends to do.

The department is to be congratulated for its leadership in promoting the national interest above that of the usual gang of protectionists.

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