10-13-09

WTO : MANY AGREEMENTS, ARTICLES

DISPUTES:

COMPLAIN → PANEL

↓

RULING —YES / NO→

↓

ENTIRE WTO MEMBERSHIP

ACCEPT ↙ ↘ REJECTS

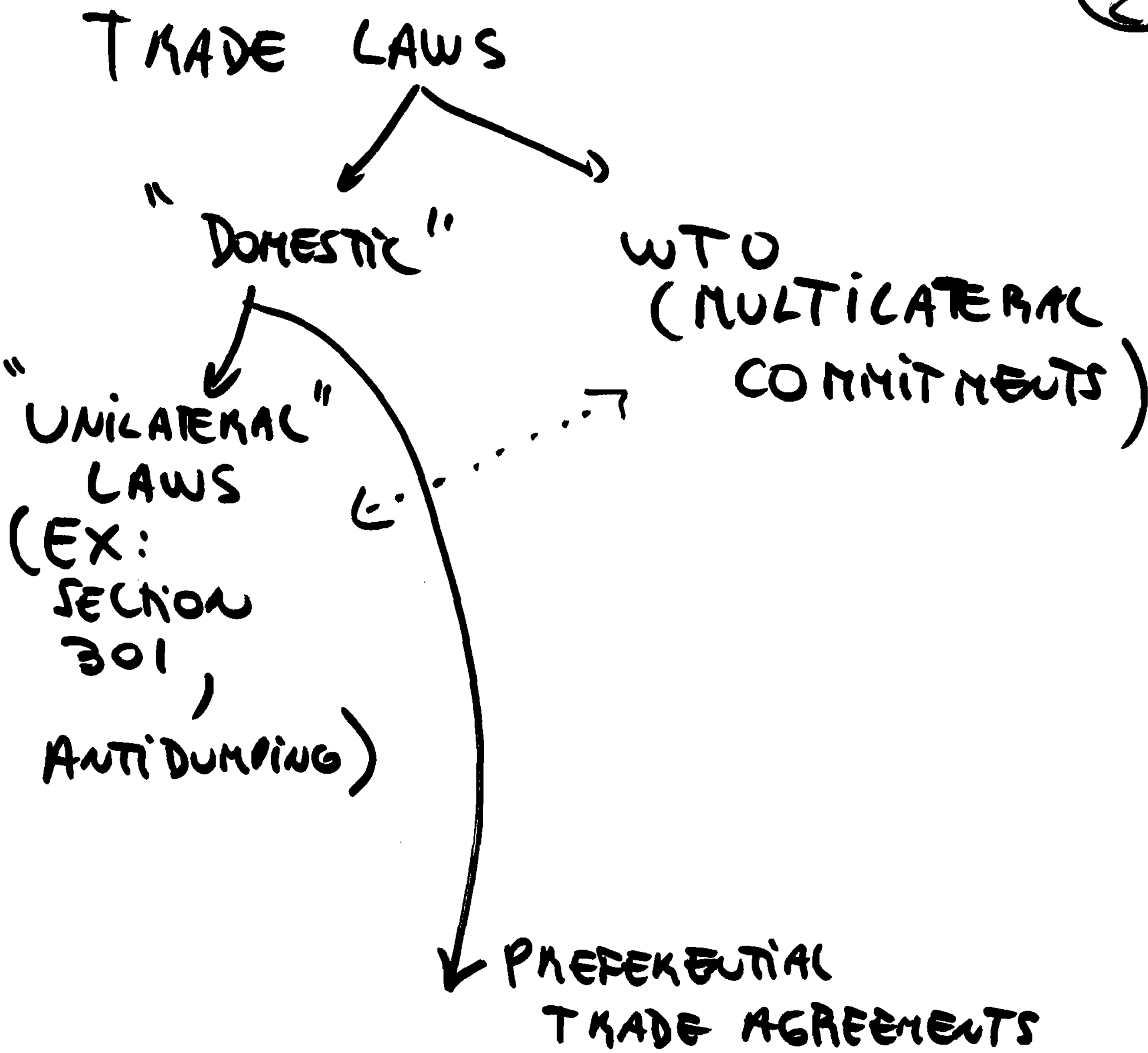
BOEING / AIRBUS] → RELATED TO "SUBSIDY WARS" ISSUES

1992 AGREEMENT LIMITS "GOV. SUBSIDIES" + ACTIONS

2002/1 IRWIN-PAVCNIK STUDY

2004 → DISPUTE STARTS

- US CLAIMS E.U VIOLATED 1992 AGREEMENT + OTHER.
- EU CLAIM US VIOLATED ......


TRADE LAWS
"DOMESTIC"
WTO (MULTILATERAL COMMITMENTS)
"UNILATERAL" LAWS (EX: SECTION 301, ANTIDUMPING)
PREFERENTIAL TRADE AGREEMENTS

DUMPING

- DEFINITION / PRACTICAL PROCESS
- IMPERFECT COMPETITION / TRADE MODELS FOR DUMPING (NEXT TIME)

DEF. OF DUMPING:

SELLING AN EXPORTED PRODUCT IN A FOREIGN MARKET AT A PRICE THAT IS "LOWER" THAN:

- AV. COST OF PRODUCTION
- PRODUCT PRICE IN THE HOME MARKET
- PRODUCT PRICE IN A THIRD MARKET

(ASSUMING ZERO TRANSPORT COST)

THAT IS:

$$p^F < AC \quad \text{(PREDATION)}$$

OR

$$p^F < p^H$$

OR

$$p^F < p^{\text{THIRD COUNTRY}}$$

ASSUME NOW T.C &/OR TARIFFS ARE POSITIVE, THEN DUMPING OCCURS IF:

$$p^F < p^H + \tau$$

$$p^F < p^{THIRD} + \tau$$

$$p^F < AC + \tau$$

WHERE τ = TC + TARIFF.

WTO / US TRADE LAW

ALLOW USE OF "ANTIDUMPING DUTIES" TO RAISE THE PRICE OF THE "DUMPED" PRODUCT.

- WHAT IS THE DUTY:

$$p^{\text{"FAIR"}} - p^F = \text{TARIFF}$$

- WHEN CAN THE DUTY BE IMPOSED?
  - "PROOF" THAT DUMPING EXISTS
  - "PROOF" OF "LINK/CAUSALITY" BETWEEN DUMPED GOODS AND INJURY TO DOMESTIC INDUSTRY

ECON. THEORY

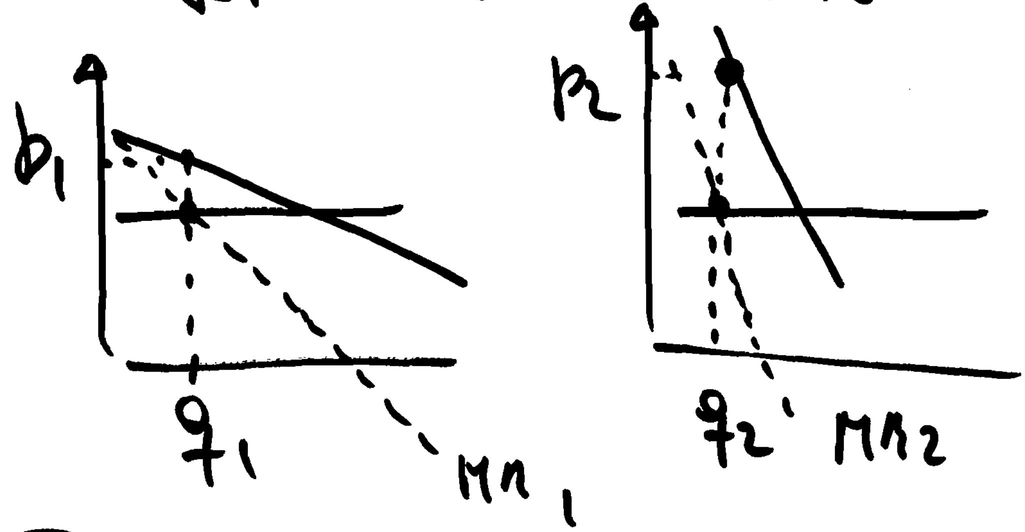
IMPERFECT COMPETITION

RESULTS: PRICE ≠ ACROSS COUNTRIES ARE THE NORMAL OUTCOME &

- THEY SHOULD NOT BE A MATTER OF CONCERN
- IN GENERAL LOW PRICES CHARGED BY FOREIGN FIRMS BENEFIT CONSUMERS & RARELY CAN BE ASSOCIATED WITH FUTURE MONOPOLY.

MODEL

(I) MONOPOLIST: 2 MARKETS
PRICES WILL BE DIFFERENT
IF DEMANDS ARE

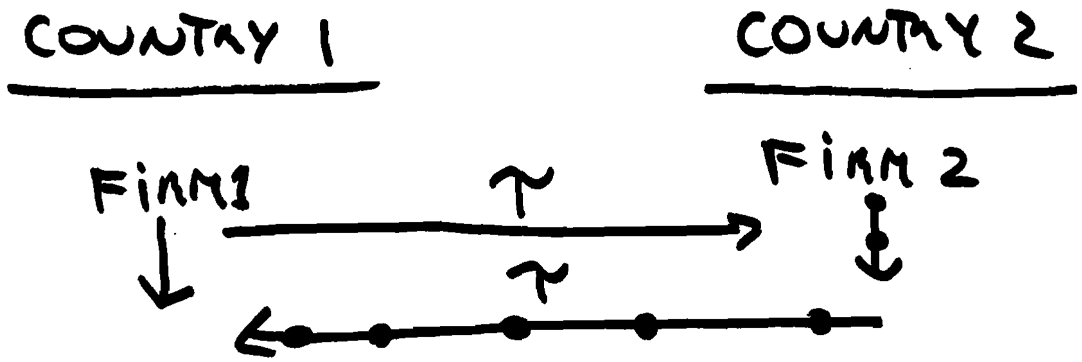


(II) COURNOT COMPETITION
BUT ≠ NUMBER OF
COMPETITORS IN EACH
COUNTRY

COUNTRY 1		COUNTRY 2
2 COMPETITORS		5 COMPETITORS
↓		↓
p_1	>	p_2

III

2 COUNTRIES
2 FIRMS
TRANSPORT/TRADE COSTS = τ PER UNIT
1 FIRM FROM EACH COUNTRY
BOTH SELL IN BOTH MARKETS



WITH IDENTICAL DEMANDS + MC OF PRODUCTION + COURNOT COMPETITION $\Longrightarrow$

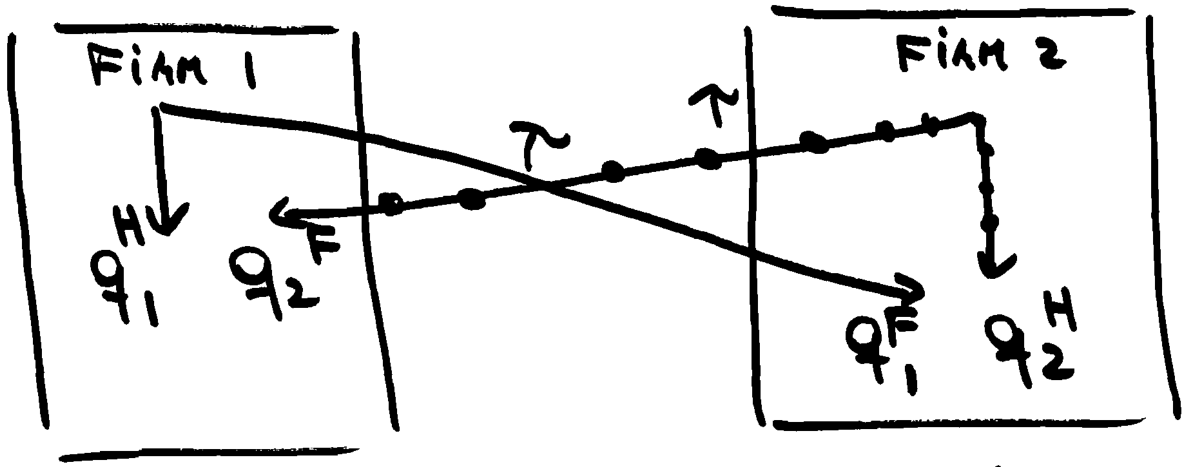
(a) • $p_1 = p_2$

(b) • LOCAL FIRM WILL HAVE A HIGHER MARKET SHARE AND HIGHER PROFITS

(c) • (a) $\Longrightarrow$ BOTH FIRMS ARE ENGAGING IN "DUMPING" SINCE $p^H + \tau > p^F$

BRANDER-KRUGMAN SIMPLIFIED VERSION

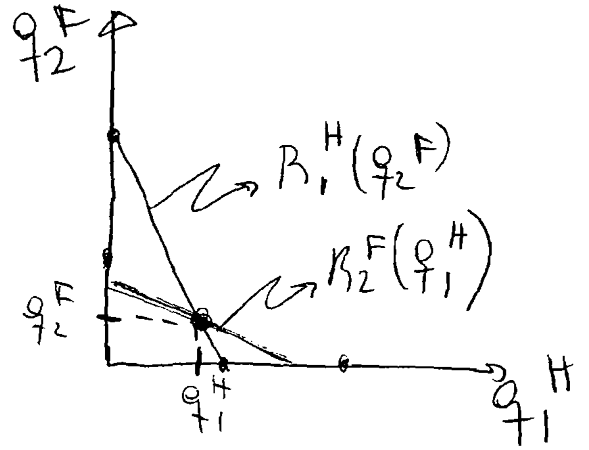
COUNTRY 1 | **COUNTRY 2**

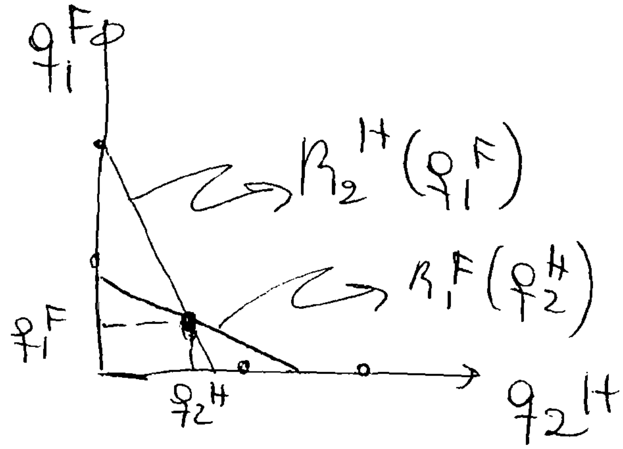


	COUNTRY 1	COUNTRY 2
QUANTITY	$q_1 = q_1^H + q_2^F$	$q_2 = q_2^H + q_1^F$
INV. DEMAND	$p_1 = a - b\, q_1$	$p_2 = a - b\, q_2$
MC	$MC_1 = 0$	$MC_2 = 0$
TASK:	NE q's	NE q's

RESULT $p_1 = p_2$

BECAUSE MC'S ARE CONSTANT ⟹ THE 2 NE CAN BE FOUND INDEPENDENTLY





$q_1^H > q_2^F$ $\qquad$ $q_2^H > q_1^F$

STEP 1:

CALCULATE REACTION FUNCTIONS MAX Π_1 & Π_2

⟹ 4 EQ.

STEP 2:

SOLVE 4 EQ (TWO AT TIME)

(6)

$$\max_{q_1^H, q_1^F} \pi_1(\;) = p_1 q_1^H + p_2 q_1^F - \tau q_1^F$$

$$= \left[a - b q_1^H - b q_2^F\right] q_1^H + \left[a - b q_1^F - b q_2^H - \tau\right] \cdot q_1^F$$

$$= \left[a - b q_1^H - b q_2^F\right] q_1^H + \left[(a - \tau) - b q_1^F - b q_2^H\right] q_1^F$$

(1) $$\frac{\partial \pi_1}{\partial q_1^H} = 0 = -b q_1^H + \left[a - b q_1^H - b q_2^F\right] = 0$$

(2) $$\frac{\partial \pi_1}{\partial q_1^F} = 0 = -b q_1^F + \left[(a - \tau) - b q_1^F - b q_2^H\right] = 0$$

$$\max_{q_2^H, q_2^F} \pi_2 = p_2 q_2^H + p_1 q_2^F - \tau q_2^F$$

(3) $$\frac{\partial \pi_2}{\partial q_2^H} = 0 = -b q_2^H + \left[a - b q_2^H - b q_1^F\right] = 0$$

(4) $$\frac{\partial \pi_2}{\partial q_2^F} = 0 = -b q_2^F + \left[(a - \tau) - b q_2^F - b q_1^H\right] = 0$$

Eq (4): q_2^F, q_1^H
(1): q_2^F, q_1^H
SOLVE FOR $\underbrace{q_1^H, q_2^F}_{\text{COUNTRY 1}}$

Eq (2): q_1^F, q_2^H
(3): q_1^F, q_2^H
SOLVE FOR $\underbrace{q_2^H, q_1^F}_{\text{COUNTRY 2}}$

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(1) & (4)

(1) $0 = a - 2b q_1^H - b q_2^F = 0$

$$\Rightarrow (*) \quad \boxed{q_1^H = \underbrace{\frac{a - b q_2^F}{2b}}_{R_1^H(q_2^F)}}$$

(4) $0 = (a-\tau) - 2b q_2^F - b q_1^H = 0$

$$\Rightarrow (**) \quad \boxed{q_2^F = \underbrace{\frac{(a-\tau) - b q_1^H}{2b}}_{R_2^F(q_1^H)}}$$

SOLVING (*) & (**)

$$q_1^H = \frac{a+\tau}{3b} \qquad q_2^F = \frac{a-2\tau}{3b}$$

$$p_1 = \frac{a+\tau}{3}$$

$$q_1 = q_1^H + q_2^F = \frac{2a-\tau}{3b}$$

SOLVING (2) & (3)

$$q_2^H = \frac{a+\tau}{3b} \qquad q_1^F = \frac{a-2\tau}{3b}$$

$$q_2 = \frac{2a-\tau}{3b}$$

$$p_2 = \frac{a+\tau}{3}$$

WELFARE?