JIWAJI UNIVERSITY

Topic-Dumping

International Economics

Paper-204

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Dumping

Dumping is a term used in the context of international trade. It's when a country or company exports a product at a price that is lower in the foreign importing market than the price in the exporter's domestic market. Because dumping typically involves substantial export volumes of a product, it often endangers the financial viability of the product's manufacturers or producers in the importing nation.

Definition

- Dumping is a situation of International price discrimination, where the price of a product when sold to the importing country is less than the price of the same product when sold in the market of the exporting country.
- Dumping, in its legal sense, means export of goods by a country to another country at a price lower than its normal value

Forms of Dumping

- ***Persistent Dumping*** **-** When a monopolist continuously sells a portion of his commodity at a high price in the domestic market and the remaining output at a low price in the foreign market, it is called persistent dumping.
- ***Predatory Dumping*** **-** is the '*temporary'* sale of a commodity at below cost or at a lower price abroad in order to drive foreign producers out of business, after which prices are raised abroad to take advantage of the newly acquired monopoly power.
- ***Sporadic Dumping*** **-** In such a situation, the producer sells the unsold stocks at a low price in the foreign market without reducing the domestic price.

Objectives of Dumping

- **To Find a Place in the Foreign Market-** Due to perfect competition in the foreign market he lowers the price of his commodity in comparison to the other competitors so that the demand for his commonly may increase
- **To Sell Surplus Commodity -** When there is excessive production of a monopolist’s commodity and he is not able to sell in the domestic market, he wants to sell the surplus at a very low price in the foreign market. But it happens occasionally
- **Expansion of Industry:** The cost of production of his commodity is reduced and by selling more quantity of his commodity at a lower price in the foreign & Domestic market, he earns larger profit.
- **New Trade Relations** he sells his commodity at a low price in the foreign market, thereby establishing new market relations with those countries

Advantages and Disadvantages of Trade Dumping

The primary advantage of trade dumping is the ability to permeate a market with product prices that are often considered unfair. The exporting country may offer the producer a subsidy to counterbalance the losses incurred when the products sell below their manufacturing cost. One of the biggest disadvantages of trade dumping is that subsidies can become too costly over time to be sustainable. Additionally, trade partners who wish to restrict this form of market activity may increase restrictions on the good, which could result in increased export costs to the affected country or limits on the quantity a country will import.

Effect on Importing Country

Positive Effect

- Cheap rate of goods & service available in the country
- It help to change the people's taste which is beneficial for standard of living.
- It creates a competition in the market

Effect on Importing Country

Negative effect

- Less sale of his country quantity goods
- Domestic industry is not able to bear competition.
- After competition ***ends*** and he sells the same commodity at a ***high monopoly price***
- Reduced profits
- Decline in productivity
- Reduced return on investments
- Adverse effects on cash flow, inventories, employment, wages, growth, investments, ability to raise capital, etc.

Effects on Exporting Country

Positive Effect

- Exporting country earns foreign currency
- Its help to improve trade balance

Negative Effect

- Its increase the demand of raw material in exporting country
- Its reduce the domestic market

Anti-Dumping *Measures*

- ***Tariff Duty:-*** To stop dumping, the importing country imposes tariff on the dumped commodity consequently, the price of the importing commodity increases and the fear of dumping ends. But it is necessary that the rate of duty on imports should be equal to the difference between the domestic price of the commodity and the price of the dumped commodity.
- ***Import Quota*:-** Import quota is another measure to stop dumping under which a commodity of a specific volume or value is allowed to be imported into the country. For this purpose, it includes the imposition of a duty along with fixing quota, and providing a limited amount of foreign exchange to the importers.

- ***Import Embargo:-*** Import embargo is an important retaliatory measure against dumping. According to this, the imports of certain or all types of goods from the dumping country are banned
- ***Voluntary Export Restraint:*** To restrict dumping, developed countries enter into bilateral agreements with other countries from which they fear dumping of commodities. These agreements ban the export of specified commodities so that the exporting country may not dump its commodities in other country. Such bilateral VER (Voluntary Export Restraint) agreements exist between India and EU countries in exporting Indian textiles.

Price Determination under Dumping:

Under dumping, the price is determined just like discriminating monopoly. **The only difference between the two is that under discriminating monopoly both markets are domestic while under dumping one is a domestic market and the other is a foreign market**. In dumping, a monopolist sells his commodity at a high price in the domestic market and at a low price in the foreign market.

<u>Conditions:-</u>

- The main aim of the monopolist is to maximize his profit , therefore, produces that output at which his marginal revenue equals marginal cost. Since he sells his commodity in the domestic market and the foreign market separately, he adjusts the quantity such wise in each market that marginal revenues in both markets are equal.

- The demand should be less elastic in the domestic market and perfectly elastic in the foreign market. As a result, the monopolist sells his commodity at a low price in the foreign market and at a high price in the domestic market.
- The foreign market should be perfectly competitive and the domestic market is monopolistic
- The buyers in the domestic market cannot buy the cheap commodity from the foreign market and bring it in the domestic market.