SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION

MBA FA- 206

SUBJECT NAME: FUNDAMENTALS OF MARKETING

UNIT-IV

TOPIC NAME: PRICE DUMPING

Meaning of Dumping:

Dumping is an international price discrimination in which an exporter firm sells a portion of its output in a foreign market at a very low price and the remaining output at a high price in the home market Haberler defines dumping as: "The sale of goods abroad at a price which is lower than the selling price of the same goods at the same time and in the same circumstances at home, taking account of differences in transport costs" Viner's definition is simple.

According to him, "Dumping is price discrimination between two markets in which the monopolist sells a portion of his produced product at a low price and the remaining part at a high price in the domestic market." Besides, Viner explains two other types of dumping. One, reverse dumping in which the foreign price is higher than the domestic price.

This is done to turn out foreign competitors from the domestic market. When the product is sold at a price lower than the cost of production in the domestic market, it is called reverse dumping Two when there is no consumption of the commodity in the domestic market and it is sold in two different foreign market, out of which one market is charged a high price and the other market a low price. But in practice, dumping means selling of the product at a high price in the domestic market and a low price in the foreign market. We shall explain price determination under dumping in this sense.

Types of Dumping:

Dumping can be classified in the following three ways:

1. Sporadic or Intermittent Dumping:

It is adopted under exceptional or unforeseen circumstances when the domestic production of the commodity is more than the target or there are unsold stocks of the commodity even after sales. In such a situation, the producer sells the unsold stocks at a low price in the foreign market without reducing the domestic price.

This is possible only if the foreign demand for his commodity is elastic and the producer is a monopolist in the domestic market. His aim may be to identify his commodity in a new market or to establish himself in a foreign market to drive out a competitor from a foreign market. In this type of dumping, the producer sells his commodity in a foreign country at a price which covers his variable costs and some current fixed costs m order to reduce his loss.

2. 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. This is possible only if the domestic demand for that commodity is less elastic and the foreign demand is highly elastic. When costs fall continuously along with increasing production, the producer does not lower the price of the product more in the domestic market because the home demand is less elastic.

However, he keeps a low price in the foreign market because the demand is highly elastic there. Thus, he earns more profit by selling more quantity of the commodity in the foreign market. As a result, the domestic consumers also benefit from it because the price they are required to pay is less than in the absence of dumping.

3. Predatory Dumping:
The predatory dumping is one in which a monopolist firm sells its commodity at a very low price or at a loss in the foreign market in order to drive out some competitors. But when the competition ends, it raises the price of the commodity m the foreign market. Thus, the firm covers loss and if the demand in the foreign market is less elastic, its profit may be more.

Objectives of Dumping:

The main objectives of dumping are as follows:
1. To Find a Place in the Foreign Market:
A monopolist resorts to dumping in order to find a place or to continue himself 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. For this, he often sells his commodity by incurring loss in the foreign market.

2. 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.

3. Expansion of Industry:
A monopolist also resorts to dumping for the expansion of his industry. When he expands it, he receives both internal and external economies which lead to the application of the law of increasing returns. Consequently, the cost of production of his commodity is reduced and by selling more quantity of his commodity at a lower price in the foreign market, he earns larger profit.

4. New Trade Relations:
The monopolist practices dumping in order to develop new trade relations abroad. For this, he sells his commodity at a low price in the foreign market, thereby establishing new market relations with those countries. As a result, the monopolist increases his production, lowers his costs and earns more profit.

Effects of Dumping:

Dumping affects both the importer and exporter countries in the following ways:

1. Effects on Importing Country:

The effects of dumping on the country, in which a monopolist dumps his commodity, depend on whether dumping is for a short period or a long period and what are the nature of the product and the aim of dumping.

1. If a producer dumps his commodity abroad for a short period, then the industry of the importing country is affected for a short while. Due to the low price of the dumped commodity, the industry of that country has to incur a loss for some time because less quantity of its commodity is sold.

2. Dumping is harmful for the importing country if it continues for a long period. This is because it takes time for changing production in the importing country and its domestic industry is not able to bear competition. But when cheap imports stop or dumping does not exist, it becomes difficult to change the production again.

3. If the dumped commodity is a consumer good, the demand of the people in the importing country will change for the cheap goods. When dumping stops, this demand will reverse, thereby changing the tastes of the people which will be harmful for the economy.

4. If the dumped commodities are cheap capital goods, they will lead to the setting up of a now industry. But when the imports of such commodities stop, this industry will also be shut down. Thus ultimately, the importing country will incur a loss.

5. If the monopolist dumps the commodity for removing his competitors from the foreign market, the importing country gets the benefit of cheap commodity in the beginning. But after competition ends and he sells the same commodity at a high monopoly price, the importing country incurs a loss because now it has to pay a high price.

6. If a tariff duty is imposed to force the dumper to equalise prices of the domestic and imported commodity, it will not benefit the importing country.

7. But a lower fixed tariff duty benefits the importing country if the dumper delivers the commodity at a lower price.

Effects on Exporting Country:

Dumping affects the exporting country in the following ways:

1. When domestic consumers have to buy the monopolistic commodity at a high price through dumping, there is loss in their consumers' surplus. But if a monopolist produces more commodities in order to dump it in another country, consumers benefit. This is because with more production of the commodity, the marginal cost falls. As a result, the price of the commodity will be less than the monopoly price without dumping.

But this lower price than the monopoly price depends upon the law of production under which the industry is operating. If the industry is producing under the law of diminishing returns, the price will not fall because costs will increase and so will the price increase.

The consumers will be losers and the monopolist will profit. There will be no change in price under fixed costs. It is only when costs fall under the law of increasing returns that both the consumers and the monopolist will benefit from dumping.

2. The exporting country also benefits from dumping when the monopolist produces more commodity. Consequently, the demand for the required inputs such as raw materials, etc. for the production of that commodity increases, thereby expanding the means of employment in the country.

3. The exporting country earns foreign currency by selling its commodity in large quantity in the foreign market through dumping. As a result, its balance of trade improves.

Anti-Dumping Measures:

The following measures are adopted to stop dumping:

a. 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. Generally, the tariff duty is imposed more than this difference to end dumping, but it is likely to have harmful effects on other imports.

b. 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.

c. 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.

d. 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 agreements exist between India and EU countries in exporting Indian textiles.