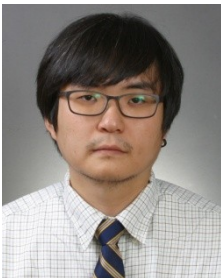



Recent Trends in Trade Remedies and Its Implications on Korea



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Trade remedies are the most popular policy instruments among importing countries in the World Trade Organization (WTO) system for deliberate restriction of international trade. Across the globe, the adoption of trade remedies is increasingly becoming a part of the national trade policy in order to protect domestic industries from the adverse consequences of trade liberalization. The term “trade remedies” refers to three types of measures that impose import restrictions under specified circumstances. According to the Handbook of International Economic Law, edited by Andrew T. Guzman and Alan O. Sykes, “Anti-dumping duties” are defined as tariffs in addition to ordinary custom duties that are imposed to counteract certain “unfair” pricing practices by foreign private firms that cause damage

to a competing industry in the importing country. “Countervailing duties” are tariffs in addition to ordinary customs duties that are imposed to counteract certain subsidies bestowed on exporters by their governments. Importing countries impose countervailing duties when certain subsidies cause “material injury” to a competing industry. Finally, “safeguard measures” are defined as temporary trade restrictions, typically tariffs or quotas, which are imposed in response to import surges that could lead to “serious injury” to a competing industry in importing countries.

Among these trade measures, according to the WTO Secretariat, more countries have been using anti-dumping measures compared to countervailing duties or safeguard measures. In particular, during the post-WTO period (1995-2006), there were nearly nine times more anti-dumping initiations and ten times more measures taken than there were countervailing duties and safeguard initiations combined and both measures applied. While most anti-dumping actions were taken by a relatively few developed countries during the pre-WTO period, they are now being used by a much larger number of countries, most of which are developing countries, such as India, South Africa, Thailand and China. For instance, the WTO statistics shows that developing countries accounted for 46% of all anti-dumping impositions between 1995-2006, compared to 18% between 1990-1994. Through investigation of the sectors affected by anti-dumping measures, it was revealed that in contrast to changes in the composition of countries imposing anti-dumping duties, most affected sectors did not seem to change significantly over time. It was observed that the sectors most significantly impacted included metals, chemicals and textiles.

From these numbers, it appears that anti-dumping duties are the most popular trade policies used to restrict imports into countries. However, one might ask why anti-dumping measures are more frequently used by importing countries than countervailing duties or safeguard measures. There is no concrete answer for this question but many economists have suggested underlying reasons for frequent anti-dumping actions taken across the globe. First, some argue that the language of “unfair trade” can be interpreted differently across countries. As mentioned in the definition, importing countries take anti-dumping action whenever there is an “unfair trade” practice among exporters. The problem stems from interpretations of “unfair trade”. Determining that a foreign firm is trading unfairly is considerably easier when importing countries ignore the foreign firms’ pricing and cost information. Second, anti-dumping rules are not grounded on microeconomics. Any investigative authority can impose WTO-consistent anti-dumping duties under any possible scenario. Economists argue that

authorities should determine dumping by investigating whether the foreign firm charges a price that is lower in its export market than at home or whether the foreign firm has priced the items below marginal cost. However, in practice, it is a foreign firm's profitability rather than the price that matters. For instance, there are often cases where a foreign firm is accused of dumping even though it has the highest-price in the market or when a foreign firm makes large profits on its export sales. Finally, unlike the safeguard statute, WTO anti-dumping rules do not require the AD duty-imposing country to offer compensating tariff reductions to the affected country, nor can the affected country retaliate. Hence, countries can impose anti-dumping duties without fear of retaliation. All circumstances mentioned above are known incentives for countries to use anti-dumping measures frequently to protect competing domestic industries.

Korea is not very far removed from the global trend of imposing anti-dumping duties to restrict international trade. According to the statistics provided by the Korea Trade Commission, an investigative authority that determines Korean trade remedies, Korea has initiated 13 anti-dumping and 25 safeguard investigations between 1987 and 1994. However, while there were only 8 new safeguard investigations, 63 investigations were initiated on anti-dumping duty cases over the post-WTO period (1995-2012). Interestingly, there have been no investigations on countervailing duty cases in both pre- and post-WTO periods. In examining the countries accused of dumping, it was found that developed countries such as the European Community, Japan and the United States accounted for 52% of all anti-dumping cases during the pre-WTO period. Over the post-WTO period, on the other hand, developing countries accounted for 62.7% of all anti-dumping investigations in Korea. To be more specific, 73% of anti-dumping investigations were against Asian countries, with China ranked first in the list by accounting for 15% of all anti-dumping investigations. Investigating the sectors affected by dumped products, it is observed that the most affected sectors were chemicals, paper and wood products and machinery.

Although a large number of anti-dumping investigations were initiated to protect domestic industries, the results of such "protection" remain ambiguous. As a matter of fact, there exists a substantial body of academic works that analyze the effects of anti-dumping duties on the performance of protected domestic firms. Most of the research works use firm data from developed countries (EU or U.S.) to show that protected firms experience productivity growth during the imposition of anti-dumping duties. However, there also exists research using firm data from developing countries, such as India and Indonesia that shows the opposite,

that is, anti-dumping protection hurts protected domestic firms. In contrast to the EU or U.S. firms that applied for anti-dumping protection, it is observed that most import-competing firms in those developing countries are large firms making large profits in the domestic market. Considering this, it is easy to conjecture that anti-dumping duties may have subtle effects on the performance of protected domestic firms, especially on their productivity growth.

Among different types of trade remedy measures, anti-dumping duties are known to be the most popular trade policy used by many countries for its simplified process of investigation and unlikelihood of provoking trade retaliations. However, ongoing debates over the effects of anti-dumping duties on import-competing industries give us important implications. As can be seen from the academic literature, investigative authorities should have a thorough knowledge of a firm's performance and evaluate the net effect that dumped products has on the firm and the industry performance before imposing anti-dumping duties. In particular, countries have their own unique industry characteristics. For instance, developed countries like the EU or U.S. have industries composed of a large number of heterogeneous firms, while emerging economies or developing countries have industries mostly dominated by a small number of large corporations. Therefore, the importing country should evaluate the effect of dumping on the economic performance of import-competing industries by considering its own characteristics before making a decision. Under these circumstances, anti-dumping measures could be more effective in protecting domestic industries from "unfair trade" practices. 