

TRADE WARS

The United States and other nations have turned to antidumping policies as their preferred instrument for trade protection. But critics say the policies are both ineffective and misapplied

BY DOUG CAMPBELL

S ometime in the upcoming months, Robert Maricich will find himself in what he acknowledges is a peculiar position. His company, Century Furniture of Hickory, N.C., will receive a check from the U.S. government for its share of antidumping duties on imported wooden bedroom furniture from China. It won't be a terribly large check, as the margin — or price adjustment between “dumped” and domestic merchandise — is a low 6.6 percent and Century accounts for just a small piece of the eligible U.S. wooden bedroom furniture market. But the money is Century's due for joining in an antidumping petition three years ago that claimed Chinese imports were priced at predatory levels, creating what the U.S. Department of Commerce deemed an uneven trading field.

The peculiar part: Century Furniture is a frequent importer of Chinese wooden bedroom furniture itself. “Probably 20 to 25 percent of our wood business is pure imported product,” says Maricich, whose office is on the back end of a 1 million square foot factory. “We pay the duties just like everybody else does.”

That means some of the antidumping proceeds it stands to collect used to be Century's own money. Like a lot of other U.S. furniture firms, Century supplements its domestic production with cheaper foreign imports. And

these are many of the same firms claiming that they are being harmed by unfairly priced imports. As one critic put it: “Are petitioners really calling on the federal government to stop them before they import again?”

In the relatively brief history of U.S. antidumping trade practices, the case of wooden bedroom furniture from China is one of the most infamous. And the seeming incongruity of domestic producers paying import duties from one pocket and collecting duty revenues in the other plays only a bit part.

The U.S. furniture industry, whose hub remains in North Carolina and Southside Virginia, was (and is) divided over support for the protection. Furniture retailers and several leading domestic producers oppose the petitioning producers. The rift is less about trade, analysts say, than how different players in the furniture market were gaming U.S. trade policy for their hoped-for advantage.

The theory behind antidumping laws is that they prevent foreign competitors from using rock-bottom prices to drive domestic firms out of business. Once they have gained monopoly power, the thinking goes, foreign firms can then hike prices to the roof. In this scenario, both domestic businesses and consumers could be hurt. It is for this possibility that the mantra of “fair trade” often trumps its “free” counterpart.

The problem with antidumping policy, a broad range of economists agree, is that it ensnares business practices that go well beyond actual predatory pricing. In particular, economists argue that antidumping remedies hurt the domestic economy as a whole, even as they may benefit a handful of protected industries.

Economists also question whether dumping and predatory pricing are the threats they're cracked up to be. U.S. workers often are more productive than their foreign counterparts. This means that the cost differential between running a business domestically and one overseas is not as high as a quick look at wage rates would suggest, especially when the products require relatively high-skilled labor. Even if domestic producers are temporarily driven out of business, what's to stop homeland firms from sprouting up anew to try to undercut the monopoly prices of the foreign firms?

“Antidumping helps some companies stave off imminent decline,” says Dan Ikenson, a trade policy analyst with the Cato Institute. “But most economists worth their weight recognize the costs of antidumping protection far outweigh the gains.”

Still, what do you do if you are Century Furniture's Robert Maricich? He says he has to pay higher wages and deal with regulations his overseas competitors never face. And don't even get him started on what he sees as

currency manipulations going on in China. Meanwhile, flattening sales are threatening company jobs. His employees own about one-third of the company. To Maricich, supporting the antidumping investigation was a clear strategy.

“Frankly, the idea of free trade is fantastic but the reality is almost laughable,” says Maricich, who is also serving as 2006 chairman of the American Home Furnishings Alliance.

Fair Trade?

Antidumping has existed as legislation in the United States since 1921, but it only emerged as a leading instrument of trade protection in 1980. It was one year after the conclusion of the Tokyo Round of worldwide trade talks, at which antidumping rules were loosened to include sales below cost, not just alleged price discrimination. (By definition, price discrimination is when a firm charges different customers different prices for the same product.)

At the same time, increased global trade along with greater international trade organization discipline — under the auspices first of the General Agreements on Tariff and Trade (GATT) and then, post-1994, of the World Trade Organization (WTO) — made governments less willing or able to raise traditional tariffs or quotas in response to imports.

In the 1980s, more than 1,600 antidumping cases were filed worldwide, twice the filing rate of the 1970s. Filings in the 1990s spiked at more than 300 in 1992 and then peaked in 2001 at more than 350, with members of the European Union and the United States the top filers.

U.S. firms got extra incentive to file antidumping petitions in 2000 with the passage of the Continued Dumping and Subsidy Offset Act, informally known as the Byrd Amendment after its sponsor, Sen. Robert Byrd, D-W.Va. The Byrd amendment allowed U.S. companies to keep revenue from import duties imposed on their foreign competitors, instead of having it go to the federal

government as before. “A domestic producer gets a huge incentive to file an antidumping investigation,” says Meredith Crowley, an economist who studies trade policy at the Federal Reserve Bank of Chicago. “If you succeed, you not only get protection from imports but you actually get a subsidy from foreign producers, so it’s a huge financial gain.”

(Bowing to pressure from WTO members and even the White House, lawmakers repealed the Byrd amendment in December. But the payments will continue until 2007.)

In the only analysis of its kind, Bruce Blonigen, a University of Oregon economist and leading trade policy analyst, put the 1993 welfare loss of U.S. antidumping policy at between \$2 billion and \$4 billion, (which in today’s currency would top out at close to \$5 billion). While usually a boon for select domestic industries, antidumping duties impose costs on consumers by making them pay higher prices. Even bigger in terms of economic magnitude are the effects on downstream industry participants.

The steel industry, for example, has historically been the biggest petitioner for antidumping duties, with almost half such tariffs imposed on steel imports. But downstream from the approximately 160,000 steelworkers who benefit from such duties are millions more who work in metal products and auto parts firms. In a recent article for the American Enterprise Institute, economists Gregory Mankiw and Phillip Swagel noted that for every steel industry job saved by tariffs, three downstream steel industry jobs are lost.

The Process

An antidumping measure takes two parts: First, to show injury to the affected industry; second, to confirm that dumping is happening. About half the time, the U.S. International Trade Commission agrees with petitioners that they are being injured, according to Blonigen. That’s the first part. Then comes the dumping evaluation. And “almost always” the Department of Commerce finds dumping, he says.

The average dumping margin during the 1990s was 60 percent.

After the Commerce Department makes a final determination of dumping and sets the margin, responsibility for enforcement goes to the U.S. Customs and Border Patrol. Customs won’t let imported goods under antidumping orders into the country until the margin is paid or cash deposits are in place to cover the duties.

Does the Department of Commerce set a too-low bar for determining “predatory”? All a domestic firm has to do is show that a foreign company is selling a product in the United States at prices lower than in its home country. But there could be many strategic business reasons why a foreign firm would do that, most having nothing to do with trying to gain monopoly power. Sometimes marketing considerations come into play. Sometimes, when firms are selling below their total costs, they are still pricing below their variable costs — but it still gets judged as dumping through the lens of antidumping rules. In other cases, a foreign producer may be charging more in its home market because there it is selling to smaller vendors, whereas in the United States, it is selling to big retailers.

Meanwhile, incentives are distorted. Domestic producers might keep prices artificially inflated for the purpose of demonstrating that a foreign company is setting prices too low. Or, as Blonigen suggests, it may prematurely lay off workers to signal distress in advance of an antidumping petition.

“In some ways Commerce has been given a mandate that anytime anyone petitions and says, ‘These guys are selling at below fair value,’ then they are entitled to receive an antidumping remedy,” Blonigen says.

In an e-mail response to questions for this story, a Commerce representative noted that there is technically no “finding” of injury by the department’s Import Administration: “There is only a determination that the allegation meets the necessary statutory criteria for initiating and conducting an

investigation.” Only after a positive determination does the ITC conduct its own review, and affirmative determinations are required from both the Import Administration and ITC before an order takes effect.

The undeniable upshot of a lot of antidumping remedies is that foreign firms simply move their production to other low-cost countries. If a Chinese company gets slapped with an antidumping duty, it might simply move production to Vietnam, for example, where it can continue to keep costs down and offer lower prices on exports. And then there is the incidence of nations whose firms are hit with antidumping duties retaliating with their own duties. Since 1995, the most frequent filers of antidumping petitions have been developing countries. Over the past decade, the United States had faced 158 antidumping investigations from other countries, trailing only China’s 434 and Korea’s 212.

(The temporary steel tariffs imposed by the Bush administration in 2002 were not antidumping measures; they were traditional “safeguard” measures that don’t allege price discrimination as the reason for their implementation.)

The Department of Commerce takes issue with any description of its activities as hampering free trade or creating unintended consequences.

“Antidumping duties are a WTO-sanctioned trade remedy that is a necessary and fundamental part of the balance of rights and obligations that countries voluntarily accept when they become members of the multilateral trading system,” Commerce said in an e-mail response to questions. “In the United States, administration of the antidumping laws is the most transparent in the world and governed by strict due process requirements.”

An Application: Chinese Bedroom Furniture

Ikenson, the policy analyst at the Cato Institute, calls the bedroom furniture case the “poster child for reform” of U.S. antidumping policy. In a 2004 paper, Ikenson complained about “the ease of access to a commercially disruptive weapon that is presumed naively to be reserved for cases of unfair trade. In reality, the antidumping law as written and applied is incapable of identifying unfair trade and is used with increasing frequency to hamper legitimate competition.” As you might expect, some U.S. furniture producers take a different view, although even they are candid about the shortfalls of antidumping policy.

Under the banner “American Furniture Manufacturers Committee for Legal Trade,” eight U.S. furniture companies and six labor unions filed their petition on Oct. 31, 2003. The

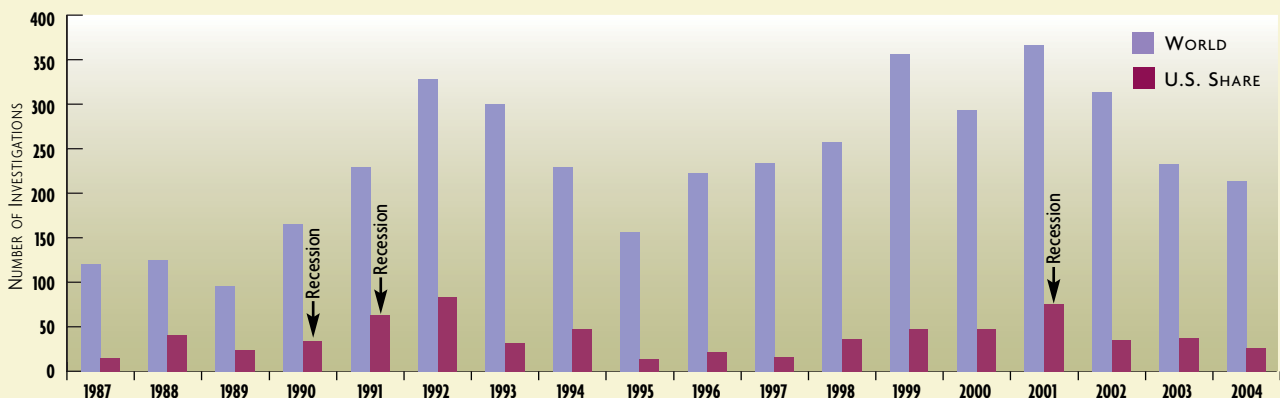
domestic manufacturers of beds, night stands, armoires, and dressers claimed that Chinese-made bedroom furniture imports were flooding the U.S. market at low prices. In 2003, China accounted for about half of all wooden bedroom furniture imports, more than double its share two years earlier. The domestic industry calculated it lost 15 percentage points of market share, thanks to the cheap imports.

Vaughan Furniture of Galax, Va., had 1,500 employees and five factories at the time of the petition filing. “We felt like it was our best opportunity to save those factories,” says Bill Vaughan, chief executive of Vaughan Furniture, which was founded by his grandfather and great uncle. “We felt like they [China] were dumping on some products. Their prices were so low, so much lower than what our material costs were.”

Among the opponents was Furniture Brands International (FBI), the largest U.S. furniture maker. FBI, which keeps significant operations in North Carolina under brands like Thomasville and Drexel Heritage, cast the case as nothing more than strategic maneuvering. Additionally, FBI questioned the gall of U.S. producers who frequently import Chinese bedroom furniture. This suggests producers whose “very own actions have caused them injury.” For its part, Furniture Brands wanted no part of

Countercyclical

Antidumping investigations tend to spike during economic downturns and fall during expansions.



NOTE: Data through 1997 are from the *Journal of World Trade*; after 1997, from the World Trade Organization.

SOURCES: *Journal of World Trade* and World Trade Organization

the effort, citing its own import activity. "It serves the company no purpose to have tariffs imposed on that product," says company spokesman Marty Richmond. "It's the consumer in the end that will pay these tariffs ... And if the demand for furniture is elastic, higher prices don't serve anyone."

The petitioners sought antidumping margins of between 40 percent and 400 percent, enough to significantly dampen imports as well as give handsome windfalls to their own coffers thanks to the Byrd Amendment. On Nov. 9, 2004, the Department of Commerce announced its final decision: Antidumping duties averaging 6.6 percent would be placed on Chinese wooden bedroom furniture imports. Though technically a win for the petitioners, there were no victory celebrations. The 6.6 percent margin was considered too low to have much impact, and that was an astute observation, judging from what's happened since.

Vaughan Furniture has gone from five factories to one since the filing and laid off more than 1,000 workers, bringing its head count to just 350 today. It was the largest downsizing in the privately held company's 83-year history.

Bill Vaughan says it's been a difficult time. He tells workers it wasn't their fault. "If we had been successful in getting a high enough tariff, my guess is we would have saved some jobs," he says. "However, the [antidumping margin] was so low, we have been unable to save any."

Low margin or not, the decline in domestic furniture manufacturing has been all encompassing. Petition opponent Furniture Brands International since 2001 has shut 31 factories and cut

about 8,000 employees. (Of its remaining 26 plants, 18 are in North Carolina and two are in Virginia.) Much of the cutbacks have been in wooden furniture production.

But Furniture Brands managers do not blame imports. "The strategy in dealing with imports in a broader sense has been a blended strategy of domestic manufacturing and sourced product," Richmond says. Specifically, low-end products which can be churned out through largely automated factories tend to be set up offshore; high-end products require more customization and closely controlled labor that is more widely accessible in the United States.

The End of Antidumping?

With the start of the Doha round of global trade talks in 2001, the push for antidumping reform picked up pace, even with initial U.S. opposition. But reform may not even be necessary. Measured both by number of cases filed and by fraction of goods imported, antidumping cases are being initiated with much less frequency in this century.

The downward slope of worldwide investigations has been plain, with 364 cases as recently as 2001 but with a projected 200 cases in 2005. The United States has also seen a significant reduction in cases filed, with just four antidumping and countervailing duty investigations during the first half of 2005.

A lot of this may have to do with the countercyclical nature of antidumping; usually, investigations increase as the economy sours, as industries look for an edge wherever they can find it. It also may be that fewer industries need protection.

There aren't a whole lot more products out there that haven't been slapped with antidumping orders. As of Dec. 31 there remained 333 antidumping and countervailing duty orders in place.

But this falloff in investigations may be different, some analysts say. Globalization may have reached the point that it's no longer prudent for domestic firms to wage tariff wars with their trading partners, because production is so intertwined over international borders. "Today's supply chains are internationalized. If you rely on a producer from Indonesia, it's unseemly to be seen by foreign affiliates as engaging in this kind of protection," says Cato's Ikenson.

Unseemly or not, it's still practiced. But to what effect? Century Furniture has cut about 300 workers over the past four years, bringing its current head count to about 1,200 employees across seven factories in the Hickory region.

Nowadays, the focus at Century is on high-end furniture targeted at designers, a move away from the more import-vulnerable low-end business. Employees are keenly aware of their precarious situation, Maricich says. Even as they continue to support the antidumping stance, Century's workers are concentrating on new ways to compete in a globally sourced environment. "When you're sitting in this district and watching what's happened with textiles and now furniture, it's psychologically very frightening," Maricich says. "But one of the interesting outgrowths of this is the success we've had in changing. Virtually everyone here is open to change. They realize they have to be open." **RF**

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