actions, such as requiring international air carriers to land at inconvenient airports, requiring product inspections that damage the product itself, purposely understaffing customs offices to cause unusual time delays, and requiring special licenses that take a long time to obtain. The objective of all such administrative delays for a country is to discriminate against imported products—it is, in a word, protectionism.

Currency Controls

Restrictions on the convertibility of a currency into other currencies are called **currency controls**. A company that wishes to import goods generally must pay for those goods in a common, internationally acceptable currency such as the US dollar, European Union euro, or Japanese yen. Generally, it must also obtain the currency from its nation's domestic banking system. Governments can require companies that desire such a currency to apply for a license to obtain it. Thus, a country's government can discourage imports by restricting who is allowed to convert the nation's currency into the internationally acceptable currency.

currency controls
Restrictions on the convertibility of a currency into other currencies.

Another way governments apply currency controls to reduce imports is by stipulating an exchange rate that is unfavorable to potential importers. Because the unfavorable exchange rate can force the cost of imported goods to an impractical level, many potential importers simply give up on the idea. Meanwhile, the country will often allow exporters to exchange the home currency for an international currency at favorable rates to encourage exports.

MyLab Management Watch It Government Intervention a Spotlight on China and Germany

Apply what you have learned so far about government intervention in trade. If your instructor has assigned this, go to **www.pearson.com/mylab/management** to watch a video case to learn how China and Germany intervened in world trade to advance their economies and answer questions.

QUICK STUDY 3

1. Why might a government impose a tariff on a product?
2. Why might a government impose a quota on a product?
3. A stipulation that a portion of a product be sourced domestically is called a *what*?

6.4 Global Trading System

6.4 Summarize the main features of the global trading system.

The global trading system certainly has seen its ups and downs. World trade volume reached a peak in the late 1800s, only to be devastated when the United States passed the Smoot–Hawley Act in 1930. The act represented a major shift in US trade policy from one of free trade to one of protectionism. The act set off round after round of competitive tariff increases among the major trading nations. Other nations felt that, if the United States was going to restrict its imports, they were not going to give exports from the United States free access to their domestic markets. The Smoot–Hawley Act, and the global trade wars that it helped to usher in, crippled the economies of the industrialized nations and helped spark the Great Depression. Living standards around the world were devastated throughout most of the 1930s.

We begin this section by looking at early attempts to develop a global trading system—the *General Agreement on Tariffs and Trade*—and then examine its successor, the *World Trade Organization*.

General Agreement on Tariffs and Trade (GATT)

Attitudes toward free trade changed markedly in the late 1940s. For the previous 50 years, extreme economic competition among nations and national quests to increase their resources for production helped create two world wars and the worst global economic recession ever. As a result, economists and policy makers proposed that the world band together and agree on a trading system that would help to avoid similar calamities in the future. A system of multilateral agreements was developed that became known as the *General Agreement on Tariffs and Trade (GATT)*—a treaty designed to promote free trade by reducing both tariff and nontariff barriers to international trade. The GATT was formed in 1947 by 23 nations—12 developed and 11 developing economies—and came into force in January 1948.[5]

The GATT was highly successful throughout its early years. Between 1947 and 1988, it helped to reduce average tariffs from 40 percent to 5 percent and to multiply the volume of international trade by a factor of 20. But by the middle to late 1980s, rising nationalism worldwide and trade conflicts led to a nearly 50 percent increase in nontariff barriers to trade. Also, services (not covered by the original GATT) had become increasingly important and had grown to account for a much greater share of total world trade. It was clear that a revision of the treaty was necessary, and in 1986 a new round of trade talks began.

URUGUAY ROUND OF NEGOTIATIONS The ground rules of the GATT resulted from periodic "rounds" of negotiations among its members. Though relatively short and straightforward in the early years, negotiations later became protracted as issues grew more complex. Table 6.2 shows the eight completed negotiating rounds that occurred under the auspices of the GATT. Note that whereas tariffs were the only topic of the first five rounds of negotiations, other topics were added in subsequent rounds.

The Uruguay Round of GATT negotiations, begun in 1986 in Punta del Este, Uruguay (hence its name), was the largest trade negotiation in history. It was the eighth round of GATT talks within a span of 40 years and took more than 7 years to complete. The Uruguay Round made significant progress in reducing trade barriers by revising and updating the 1947 GATT. In addition to developing plans to further reduce barriers to merchandise trade, the negotiations modified the original GATT treaty in several important ways.

AGREEMENT ON SERVICES Because of the ever-increasing importance of services to the total volume of world trade, nations wanted to include GATT provisions for trade in services. The General Agreement on Trade in Services (GATS) extended the principle of nondiscrimination to cover international trade in all services, although talks regarding some sectors were more successful than were others. The problem is that, although trade in goods is a straightforward concept—goods are exported from one country and imported to another—defining exactly what a service is can be difficult. Nevertheless, the GATS created during the Uruguay Round identifies four different forms that international trade in services can take:

1. ***Cross-border supply:*** Services supplied from one country to another (for example, international telephone calls).
2. ***Consumption abroad:*** Consumers or companies using a service while in another country (for example, tourism).

TABLE 6.2 Completed Rounds of GATT

Year	Site	Number of Countries Involved	Topics Covered
1947	Geneva, Switzerland	23	Tariffs
1949	Annecy, France	13	Tariffs
1951	Torquay, England	38	Tariffs
1956	Geneva	26	Tariffs
1960–1961	Geneva (Dillon Round)	26	Tariffs
1964–1967	Geneva (Kennedy Round)	62	Tariffs, antidumping measures
1973–1979	Geneva (Tokyo Round)	102	Tariffs, nontariff measures, "framework agreements"
1986–1994	Geneva (Uruguay Round)	123	Tariffs, nontariff measures, rules, services, intellectual property, dispute settlement, investment measures, agriculture, textiles and clothing, natural resources, creation of the World Trade Organization

Source: Based on *About the WTO*, World Trade Organization website (www.wto.org).

3. ***Commercial presence:*** A company establishing a subsidiary in another country in order to provide a service (for example, banking operations).
4. ***Presence of natural persons:*** Individuals traveling to another country in order to supply a service (for example, business consultants).

Agreement on Intellectual Property Like services, products consisting entirely or largely of intellectual property are accounting for an increasing portion of international trade. Recall from Chapter 3 that *intellectual property* refers to property resulting from people's intellectual talent and abilities. Products classified as intellectual property are supposed to be legally protected by copyrights, patents, and trademarks.

Although international piracy continues, the Uruguay Round took an important step toward getting it under control. It created the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) to help standardize intellectual property rules around the world. The TRIPS Agreement acknowledges that protection of intellectual property rights benefits society because it encourages the development of new technologies and other creations. It supports the articles of both the Paris Convention and the Berne Convention (see Chapter 3) and in certain instances takes a stronger stand on intellectual property protection.

Agreement on Agricultural Subsidies Trade in agricultural products was a bone of contention for most of the world's trading partners at one time or another. Some of the more popular barriers that countries use to protect their agricultural sectors include import quotas and subsidies paid directly to farmers. The Uruguay Round addressed the main issues of agricultural tariffs and nontariff barriers in its Agreement on Agriculture. The result is increased exposure of national agricultural sectors to market forces and increased predictability in international agricultural trade. The agreement forces countries to convert all nontariff barriers to tariffs—a process called "tariffication." It then calls on developed and developing nations to cut agricultural tariffs significantly, but it places no requirements on the least-developed economies.

World Trade Organization (WTO)

Perhaps the greatest achievement of the Uruguay Round was the creation of the *World Trade Organization (WTO)*—the international organization that regulates trade among nations. The three main goals of the WTO (www.wto.org) are to help the free flow of trade, to help negotiate further opening of markets, and to settle trade disputes among its members. One key component of the WTO that was carried over from the GATT is the principle of nondiscrimination called **normal trade relations** (formerly called "most favored nation status")—a requirement that WTO members extend the same favorable terms of trade to all members that they extend to any single member. For example, if Japan were to reduce its import tariff on German automobiles to 5 percent, it must reduce the tariff it levies against automobile imports from all other WTO nations to 5 percent.

normal trade relations (formerly "most favored nation status")
Requirement that WTO members extend the same favorable terms of trade to all members that they extend to any single member.

The WTO replaced the *institution* of the GATT but absorbed the GATT *agreements* (such as on services, intellectual property, and agriculture) into its own agreements. Thus, the GATT institution no longer officially exists. The WTO recognizes 164 members and 21 observers.

DISPUTE SETTLEMENT IN THE WTO The power of the WTO to settle trade disputes is what really sets it apart from the GATT. Under the GATT, nations could file a complaint against another member and a committee would investigate the matter. If appropriate, the GATT would identify the unfair trade practices, and member countries would pressure the offender to change its ways. In reality, most nations simply ignored GATT rulings, which were usually made only after very long investigative phases that sometimes lasted years.

By contrast, the various WTO agreements are essentially contracts between member nations that commit them to maintaining fair and open trade policies. When one WTO member files a complaint against another, the Dispute Settlement Body of the WTO moves into action. Decisions are to be rendered in less than one year—although within nine months if the case is urgent and 15 months if the case is appealed. The WTO dispute settlement system is not only faster and automatic, but its rulings cannot be ignored or blocked by members. Offenders must realign their trade policies according to WTO guidelines or suffer financial penalties and perhaps trade sanctions. Because of its ability to penalize offending member nations, the WTO's dispute settlement system is the spine of the global trading system.

dumping
Exporting a product at a price either lower than the price that the product normally commands in its domestic market or lower than the cost of production.

antidumping duty
Additional tariff placed on an imported product that a nation believes is being dumped on its market.

countervailing duty
Additional tariff placed on an imported product that a nation believes is receiving an unfair subsidy.

DUMPING AND THE WTO The WTO also gets involved in settling disputes that involve "dumping" and the granting of subsidies. When a company exports a product at a price that is either lower than the price normally charged in its domestic market or lower than the cost of production, it is said to be **dumping**. Charges of dumping are made (fairly or otherwise) against companies from almost every nation at one time or another and can occur in any type of industry. For example, Western European plastic producers considered retaliating against Asian competitors whose prices were substantially lower in European markets than at home. More recently, US steel producers and their powerful union charged that steelmakers in Brazil, Japan, and Russia were dumping steel on the US market at low prices. The problem arose as those nations tried to improve their economies through increased exporting of all products, including steel.

The WTO cannot punish the country in which the company accused of dumping is based because dumping is an act by a company, not a country. The WTO can respond only to the actions of a country that retaliates against a company that is dumping. The WTO allows a nation to retaliate against dumping if it can show that dumping is actually occurring, can calculate the damage to its own companies, and can show that the damage is significant. The normal way a country retaliates is to charge an **antidumping duty**—an additional tariff placed on an imported product that a nation believes is being dumped on its market. But such measures must expire within five years of the time they are initiated unless a country can show that circumstances warrant their continuation. A large number of antidumping cases have been brought before the WTO in recent years.

SUBSIDIES AND THE WTO Governments often retaliate when the competitiveness of their companies is threatened by a subsidy that another country pays its own domestic producers. Like antidumping measures, nations can retaliate against product(s) that receive an unfair subsidy by charging a **countervailing duty**—an additional tariff placed on an imported product that a nation believes is receiving an unfair subsidy. Unlike dumping, because payment of a subsidy is an action by a country, the WTO regulates the actions of the government that reacts to the subsidy as well as those of the government that originally paid the subsidy.

DOHA ROUND OF NEGOTIATIONS The WTO launched a new round of negotiations in Doha, Qatar, in late 2001. The renewed negotiations were designed to lower trade barriers further and to help poor nations in particular. Agricultural subsidies that rich countries pay to their own farmers are worth $1 billion per day—more than six times the value of their combined aid budgets to poor nations. Because 70 percent of the exports of poor nations are agricultural products and textiles, wealthy nations had intended to open these and other labor-intensive industries further. Poor nations were encouraged to reduce tariffs among themselves and were to receive help from rich nations in integrating themselves into the global trading system.

The Doha round was to conclude by the end of 2004 but negotiations are proceeding very slowly. By the middle of 2017 members had made limited progress on a late 2013 deal to improve "trade facilitation" by reducing red tape at borders and setting standards for customs and the movement of goods internationally. Although the agreement marked the first significant achievement for the Doha round, no agreement was reached on agricultural trade issues, tariffs, or quotas.[6]

WTO AND THE ENVIRONMENT Steady gains in global trade and rapid industrialization in many developing and emerging economies have generated environmental concerns among both governments and special interest groups. Of concern to many people are levels of carbon dioxide emissions—the principal greenhouse gas believed to contribute to global warming. Most carbon dioxide emissions are created from the burning of fossil fuels and the manufacture of cement.

The WTO has no separate agreement that deals with environmental issues. The WTO explicitly states that it is not to become a global environmental agency responsible for setting environmental standards. It leaves such tasks to national governments and the many intergovernmental organizations that already exist for such purposes. The WTO works alongside existing international agreements on the environment, including the Montreal Protocol for protection of the ozone layer, the Basel Convention on international trade or transport of hazardous waste, and the Convention on International Trade in Endangered Species.

Nevertheless, the preamble to the agreement that established the WTO does mention the objectives of environmental protection and sustainable development. The WTO also has an internal committee called the Committee on Trade and Environment. The committee's responsibility is to study the relationship between trade and the environment and to recommend possible changes in the WTO trade agreements.

In addition, the WTO does take explicit positions on some environmental issues related to trade. Although the WTO supports national efforts at labeling "environmentally friendly" products as such, it states that labeling requirements or policies cannot discriminate against the products of other WTO members. Also, the WTO supports policies of the least developed countries that require full disclosure of potentially hazardous products entering their markets for reasons of public health and environmental damage.

MyLab Management Try It

Apply what you have learned about the instruments of trade policy. If your instructor has assigned this, go to **www.pearson.com/mylab/management** to perform a simulation on the complexity of decisions regarding the use of tariffs, subsidies, and quotas.

QUICK STUDY 4

1. The first system of multilateral agreements to promote free trade was called *what*?
2. What are the main goals of the World Trade Organization (WTO)?
3. Exporting a product at a price that is lower than that normally charged domestically or one that is lower than production costs can expose a firm to charges of *what*?

BOTTOM LINE FOR BUSINESS

Despite the theoretical benefits of free trade, nations do not simply throw open their doors to trade and force their domestic businesses to sink or swim. This chapter explained why governments protect their industries and how they go about it. The WTO tries to strike a balance between national desires for protection and international desires for free trade.

Implications of Trade Protection

Free trade allows firms to move production to locations that maximize efficiency. Yet, government interference in the free flow of trade has implications for production efficiency and firm strategy. *Subsidies* often encourage complacency on the part of companies receiving them because they discourage competition. Subsidies can be thought of as a redistribution of wealth in society whereby international firms not receiving subsidies are at a disadvantage. Unsubsidized firms either must cut production and distribution costs or must differentiate in some way to justify a higher selling price.

Import tariffs raise the cost of an imported good and make domestically produced goods more attractive to consumers. But because a tariff can create inefficient domestic producers, deteriorating competitiveness may offset the benefits of import tariffs. Companies trying to enter markets having high import tariffs often produce within that market. *Import quotas* help domestic producers maintain market share and prices by restraining competitive forces. Domestic producers protected by the quota win because the market is protected. Other producers that require the import subjected to a quota lose because they will need to pay more for their intermediate products or locate production outside the market imposing the quota.

Local content requirements protect domestic producers from producers based in low-cost countries. A firm trying to sell to a market imposing local content requirements may have no alternative but to produce locally. The objective of *administrative delays* is to discriminate against imported products, but it can discourage efficiency. *Currency controls* can require firms to apply for a license to obtain an internationally accepted currency. The nation thus discourages imports by restricting who is allowed to obtain such a currency to pay for imports. A government may also block imports by stipulating an exchange rate that is unfavorable to potential importers. The unfavorable exchange rate forces the cost of imported goods to an impractical level. The same country then often stipulates an exchange rate that is favorable for exporters.

Government subsidies are typically paid for by levying taxes across the economy. Whether subsidies help a nation's people long term is questionable, and they may actually harm a nation. Import tariffs also hurt consumers because they raise the price of imports and protect domestic firms that may raise prices. Import quotas hurt consumers because they lessen competition, boost prices, and decrease selection. Protection tends to lessen the long-term gains a people can obtain from free trade.

Implications of the Global Trading System

Development of the global trading system benefits international companies by promoting free trade through the reduction of both tariffs and nontariff barriers to international trade. The GATT treaty was successful in its early years, and its revision significantly improved the climate for trade. Average tariffs on merchandise trade were reduced and subsidies for agricultural products were lowered. Firms also benefited from an agreement that extended the principle of nondiscrimination to cover trade in services. The revision of the GATT also clearly defined intellectual property rights—giving protection to copyrights, trademarks and service marks, and patents.

(continued)

This encourages firms to develop new products and processes because they know their rights to the property will be protected.

Creation of the WTO is also good for international firms because the various WTO agreements commit member nations to maintaining fair and open trade policies. Both domestic and international firms based in relatively poor nations should benefit most from future rounds of trade negotiations. Firms from poor nations that export agricultural products and textiles will benefit if wealthy nations reduce barriers to imports in these sectors. Companies based in poor countries should also benefit from better cooperation among poor countries and their further integration into the global trading system.

MyLab Management

Go to **www.pearson.com/mylab/management** to complete the problems marked with this icon ✪.

Chapter Summary

LO6.1 Explain why governments sometimes intervene in trade.

- *Political* reasons for trade intervention include to: (a) protect jobs, (b) preserve national security, (c) respond to other nations' unfair trade practices, and (d) gain influence over other nations.
- *Economic* reasons include to: (a) protect infant industries from global competition until they are sufficiently competitive, and (b) promote a strategic trade policy in which companies are assisted in taking advantage of economies of scale and being first movers in their industries.
- The most common *cultural* reason for trade intervention is protection of national identity. Unwanted cultural influence in a nation can cause great distress and force a government to block imports that it believes are harmful.

LO6.2 Outline the instruments that governments use to promote trade.

- A *subsidy* is financial assistance to domestic producers in the form of cash payments, low-interest loans, tax breaks, product price supports, and other forms. Subsidies can fend off international competitors, although critics say they amount to corporate welfare.
- *Export financing* includes loans at below-market interest rates, loans that are otherwise unavailable, and *loan guarantees* that a government will repay a loan if a firm defaults.
- A *foreign trade zone (FTZ)* allows merchandise to pass through a geographic region with lower customs duties (taxes) and/or fewer customs procedures.
- *Special government agencies* organize international trips for trade officials and businesspeople and create offices abroad to promote home country exports.

LO6.3 Describe the instruments that governments use to restrict trade.

- A *tariff* is a government tax levied on a product that enters, transits across, or leaves a country. An import tariff can be an *ad valorem tariff*, a *specific tariff*, or a *compound tariff*.
- *Quotas* restrict the amount of a good that can enter or leave a country during a certain period of time. *Import quotas* protect domestic producers. *Export quotas* maintain adequate supplies domestically or raise the global price of a product.
- An embargo completely bans trade with a country. *Local content requirements* stipulate that a good or service be supplied by domestic producers. Imports can also be discouraged with *administrative delays* or *currency controls* (restrictions on currency convertibility).

LO6.4 Summarize the main features of the global trading system.

- The *General Agreement on Tariffs and Trade (GATT)* treaty promoted free trade by reducing tariff and nontariff barriers. The *Uruguay Round* of GATT negotiations (a) covered trade in services, (b) defined intellectual property rights, (c) reduced trade barriers in agriculture, and (d) created the *World Trade Organization (WTO)*.
- The three goals of the WTO are to help the free flow of trade, to help negotiate further opening of markets, and to settle trade disputes among its members.

- A key component of the WTO is the principle of nondiscrimination, called *normal trade relations*, which requires WTO members to treat all members equally.
- *Dumping* is said to occur if a company exports a product at a price either lower than the price it normally charges in its domestic market or lower than the cost of production.

Key Terms

administrative delays (p. 164)
ad valorem tariff (p. 162)
antidumping duty (p. 168)
compound tariff (p. 162)
countervailing duty (p. 168)
currency controls (p. 165)
dumping (p. 168)
embargo (p. 164)
foreign trade zone (FTZ) (p. 160)
free trade (p. 154)
normal trade relations (p. 167)
quota (p. 162)
specific tariff (p. 162)
subsidy (p. 159)
tariff (p. 161)
tariff-quota (p. 163)
voluntary export restraint (VER) (p. 163)

✪ TALK ABOUT IT 1

Most countries create a list of "hostile" countries that require exporters to obtain special permission before the export is allowed to proceed.

6-1. Which countries and products would you place on such a list for your nation? Explain.
6-2. On which countries' lists do you think your nation would appear? Explain.

✪ TALK ABOUT IT 2

Two students are discussing environmentalists' claims that trade harms the environment. One student says, "Sure, there may be pollution effects, but they're a small price to pay for a higher standard of living." The other student agrees, saying, "Yeah, those 'tree-huggers' are always exaggerating those effects anyway. Who cares if a toad in the Amazon goes extinct?"

6-3. What arguments can you offer to counter these students' opinions?
6-4. What specific actions could firms take to ensure that trade does not harm the environment?

Ethical Challenge

The National Foreign Trade Council (NFTC), a nonprofit trade and industry group based in Washington, DC, won a court battle against the state of Massachusetts. In a unanimous decision, the US Supreme Court sided with the NFTC and struck down a Massachusetts law that was designed to deny state contracts to any company doing business in Myanmar. The Court ruled that the Massachusetts law intruded on the federal government's authority and was preempted by federal law regarding Myanmar. In fact, the US Constitution states that "foreign policy is exclusively reserved for the federal government." The NFTC said that it shared concern over human rights abuses in Myanmar but believed that a coordinated, multinational effort would be most effective at instilling change in the nation.

6-5. Do you think that companies should be penalized domestically based on where they do business abroad? Explain.
6-6. Do you foresee potential problems when the WTO gets involved in such political matters?
6-7. How might domestic firms react if each state were to punish firms based on its own foreign policy ideals?

Teaming Up

Imagine that the United States slapped an antidumping duty of 30 percent on aircraft parts imported from China that it believed were being dumped in the US market. Imagine that China then slapped a 35 percent countervailing duty on US auto imports, saying that a recent federal bailout is tantamount to an unfair subsidy for US automakers.

6-8. What political, economic, or cultural motives do you think are behind the US antidumping duty against China's aircraft parts?
6-9. What motives do you think are behind China's countervailing duty against US autos?
6-10. Should countries experiencing economic difficulties be allowed to erect temporary tariff and nontariff barriers? Explain.

✪ Market Entry Strategy Project

This exercise corresponds to the *MESP* online simulation. For the country your team is researching, integrate your answers to the following questions into your completed *MESP* report.

6-11. To what extent does the national government intervene in trade?
6-12. What are some of its political, economic, or cultural motives for intervention?
6-13. What instruments does the country use to promote exports?
6-14. What instruments does it use to restrict imports?
6-15. Does the nation maintain a free trade zone within its borders?
6-16. Has the country filed a complaint with the WTO against another nation?

MyLab Management

✪ Go to **www.pearson.com/mylab/management** for Auto-graded writing questions as well as the following Assisted-graded writing questions:

6-17. Suppose you are the president of a sugar company based in southern Florida. Poor sugar harvests in the Caribbean Islands means your firm is struggling to meet demand and prices are rising. Cuba is having a bumper sugar harvest but you cannot import from Cuba because of the Helms–Burton Act and the US embargo on Cuba. A powerful US senator from Florida serves on a committee in Washington, DC, that is reviewing the embargo. What arguments do you make to your senator to eliminate the embargo?

6-18. Imagine that a majority of people in your country believe international trade harms their wages and jobs, and that your task is to change their minds. How would you go about educating people about the benefits of trade?

PRACTICING INTERNATIONAL MANAGEMENT CASE

Down with Dumping

"WTO Agrees to Probe EU Duties on Chinese Footwear" . . . "Canada Launches WTO Challenge to US" . . . "Mexico Widens Anti-dumping Measure" . . . "Rough Road Ahead for US–China Trade" are just a sampling of headlines from around the world.

International trade theories argue that nations should open their doors to trade. Conventional free-trade wisdom says that, by trading with others, a country can offer its citizens a greater quantity and selection of goods at cheaper prices than it could in the absence of trade. Nevertheless, truly free trade still does not exist because national governments intervene. On average, 234 antidumping cases are initiated each year with the WTO. For example, in 2017, the US Department of Commerce charged Japan with dumping steel rebar in the US at nearly 209 percent below fair market value. That same year the United States imposed an antidumping duty on imports of shrimp from Vietnam. Earlier, the US government slapped around 100 percent tariffs on shrimp imported from China and Vietnam when it believed those nations were dumping crustaceans on US markets.

Whereas the United States and the European Union initiated half of all WTO cases in prior years, they now initiate only about a quarter of all cases—more than half are now brought by emerging markets. China launched an inquiry to determine whether synthetic rubber imports (used in tires and footwear) from Japan, South Korea, and Russia are being dumped in the country. Mexico expanded the use of its system that requires exporters (from a select list of countries) to notify Mexican officials of the amount and price of a shipment 10 days prior to its expected arrival in Mexico. The 10-day notice gives domestic producers advanced warning of low-priced products so they can report dumping before the products clear customs and enter the marketplace. Argentina, India, Indonesia, South Africa, South Korea, and Thailand are also using this increasingly popular tool of protectionism.

Why is dumping so popular? Oddly enough, the WTO allows it. The WTO made major inroads on the use of tariffs, slashing them across almost every product category in recent years. But it has authority to punish only governments, not companies. So, the WTO cannot make judgments against individual companies that are dumping products in other markets. It can only pass rulings against the government of the country that imposes an antidumping duty. But the WTO allows countries to retaliate against nations whose producers are suspected of dumping when it can be shown that: (1) alleged offenders are significantly hurting domestic producers, and (2) the export price is lower than the cost of production or lower than the home market price.

Alternatives to bringing antidumping cases before the WTO do exist. The United States relied on a Section 201, or "global safeguard," investigation under US trade law to slap tariffs of up to 30 percent on steel imports. The US steel industry had been suffering under an onslaught of steel imports from Brazil, the European Union, Japan, and South Korea. Yet nations brought complaints about the Section 201 action before the WTO.

Supporters of antidumping tariffs claim that they prevent dumpers from undercutting the prices charged by producers in a target market and driving them out of business. Another claim in support of antidumping is that it is an excellent way of retaining some protection against the potential dangers of totally free trade. Detractors of antidumping tariffs charge that once such tariffs are imposed they are rarely removed. They also claim that it costs companies and governments a great deal of time and money to file and argue their cases. It is also argued that the fear of being charged with dumping causes international competitors to keep their prices higher in a target market than would otherwise be the case. This would allow domestic companies to charge higher prices and not lose market share—forcing consumers to pay more for their goods.

Thinking Globally

6-19. People love finding a bargain on their favorite items while shopping. But few people would likely want those items made in the home market (which would create jobs) if it meant paying a higher price for them. Do you agree with this sentiment? Explain.

6-20. Do you think that people from different cultures would respond differently to the above question? If so, explain.

6-21. The WTO cannot punish individual companies, but can only direct its actions toward governments of countries. Why do you think the WTO was not given authority to charge individual companies with dumping?

Sources: "Turkey Cries Foul to U.S. Antidumping Charges," Aleya Begum, *Global Trade Review* (www.gtreview.com) May 24, 2017; "Vietnam's Shrimp Exports Remain Stable In Q1," *Fish Information & Services* (www.fis.com), May 20, 2017; Annie Lowrey and Keith Bradsher, "U.S. Gains in a Spat With China Over Tariffs," *New York Times* (www.nytimes.com), May 23, 2014; Jennifer M. Freedman, "WTO Agrees to Probe EU Duties on Chinese Footwear," *Bloomberg Businessweek* (www.businessweek.com), May 18, 2010; "Settling Trade Disputes: When Partners Attack," *The Economist* (www.economist.com), February 11, 2010.