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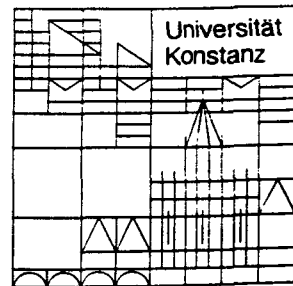
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**Dumping and Antidumping
in EC-CMEA Trade**

DUMPING AND ANTIDUMPING IN EC-CMEA TRADE

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Abstract:

CMEA governments export "soft" goods at high price discounts to the west to generate hard currency. Dumping is therefore particularly prevalent in times of balance of payment or debt crises. EC producers "injured" by CMEA exports initiate AD investigations. The discretion of the EC administering agency and its political accountability results in relief being granted to politically influential interest groups through AD measures. Undertakings are the predominant measure for rent transfer and for collusive reasons. Important implications for the Eastern European trade policy makers and producers follow.

Dumping and Antidumping in EC-CMEA Trade

1. Introduction

Market access to EC markets is crucial for the adjustment and development of the Eastern European (EE) economies. Market access, however, has been frequently denied by trade barriers. The principal EC instrument of protection has been the application of antidumping laws (Eymann and Schuknecht, 1990, Messerlin, 1989).

Planned economies are particularly sensitive to antidumping claims because - in the absence of factor markets - costs of production are not known. Eastern European goods have so far been "soft" goods suitable for CMEA trade (Schrenk, 1990, Hillman and Schnytzer, 1990) but they can not compete directly with Western substitutes because of quality differences. If the EE countries attempted to compensate for low quality with low prices, this would facilitate AD complaints against EE imports.

The basic questions that emerge when looking at EC markets are how soft are "soft" goods and can quality be compensated for with lower prices? Were AD provisions evoked as a consequence of EE sales in EC markets? Were "soft" goods a source of competitive concern for EC producers and what does the EC protectionist response tell us about "soft" goods? How compatible have EE products been with western markets so far and how has that affected the number of AD complaints? The answers have implications for the restructuring needs of the EE countries in the process of transition from socialism.

Export orientation to western markets has been impeded by the nature of the CMEA trading system¹: the EE enterprises preferred

¹ The CMEA was dissolved in early 1991.

CMEA sales to western sales because sales were guaranteed and provided rents to firm managers and employees (Hillman and Schnytzer, 1990). CMEA goods were readily acceptable in CMEA exchange but western market exchange was more problematical. This suggests that "dumping episodes" have particular characteristics. While enterprises preferred the easy life of CMEA exchange, the EE governments' preference was to earn hard currency, especially when they had to cope with external debt or balance of payment crises. The question arises whether such pressure affected the prevalence of AD complaints in the EC.

The following two sections look at the institutional side of EC AD protection and CMEA trade policy making and provide a model of the CMEA trade practice in western markets. Section 4 investigates empirically the hypotheses derived in the previous sections. The concluding section 5 provides implications for the restructuring needs of EE economies and their trade relations with the EC.

2. An Institutional Analysis of the EC Antidumping Policies

a) The Politicized Application of the EC Antidumping Regulation

Unlike in the US, where AD is technically determined (Finger, Hall, and Nelson, 1982), the EC procedure allows for politicized protection.² The EC regulation is based on the GATT antidumping code. This code is very general and not specified much by the EC. The EC's administering agency, the Commission, has significant discretion and interprets the regulation as it deems relevant to the case. Accountability to the EC Council - the forum of member

² In US, special interests pressure resulted in a protectionist bias in the rules rather than the administrative procedure (Finger and Murray, 1991).

governments - ensures that political interests will be taken into account in the application of administrative discretion.

A brief description of the AD process (as discussed in detail in Schuknecht and Ursprung, 1990), suggests the political determination hypothesis. The EC process has five phases: application, preselection, investigation, decision, and appeal. Applications for opening an AD investigation are forwarded to the Commission. The Commission can reject an application or initiate an investigation at its own discretion at the preselection stage after consulting the Council's Advisory Committee. Approximately half of the applications do not pass this first hurdle.

The investigation is conducted by the Commission and needs to prove the existence of both dumping and injury in order to evoke an antidumping measure. In the case of state-trading countries, production costs are unknown. Dumping then exists when the price of an imported product within the EC is lower than the "constructed" production costs of a similar product in a comparable market economy. The dumping reports do not indicate whether the constructed production costs are adjusted according to quality differences. "Injury" is evaluated on the basis of a change in profits, employment, and market shares. The formal criteria for the evaluation of dumping and injury are relatively vague and leave significant discretion to the Commission.

Political scrutiny also takes place at this stage: the findings of the investigation can be rejected by the Council with a 54/76 majority. Indirect political control is exerted through the nomination of the Commissioners, their reappointments, salaries and national careers.

Eymann and Schuknecht (1990) conducted an empirical test of the political discretion hypothesis and found that the EC uses AD to prevent "injury" from imports to politically influential domestic producers. It is hypothesized that this behaviour also applies to EE countries. The "softness" of CMEA products, however, suggests that price discounts and therefore dumping margins must be high but injury relatively low. "Softness" is relatively less important for homogenous products that are "quality insensitive". It is easier to penetrate western markets with such products. I therefore expect a concentration of dumping cases in sectors where price discounts are high and where quality differentials and technology requirements are less important. The resulting paradox is, the more compatible CMEA products are with the west, the more AD complaints are put forward.

b) The Particular Role of Undertakings

While there are general rules for the decision between rejecting or accepting an antidumping claim, the Commission is not constrained in its choice of protectionist instrument. It has two means of protection at its disposition: the levying of a duty or an "undertaking", i.e. a voluntary price increase by the foreign producer. The latter instrument is less protectionist because it transfers part of the protectionist rent to the exporter. Undertakings are negotiated and require the consent of the Commission and the domestic and foreign producers.

If EE exporters reduce the price discount for lower quality through an undertaking, the likelihood of injury from EE imports decreases. EC-Producers are not concerned by the fact that undertakings transfer protectionist rent to the exporting country.

The instrument of protection does not at all affect the competitiveness of CMEA exports. While rents from voluntary price increases accrue directly to the exporting firms of market economies and can increase their overall competitiveness, additional foreign exchange in CMEA countries does not go to the exporting industry but into the foreign exchange pool. A large share of undertakings compared to duties would be consistent with the "soft" good characterization of CMEA products and the lack of concern by EC producers about the rent transfer.

Undertakings can serve as a collusion device for EC producers and CMEA traders (Hillman, 1990, Stegemann, 1990). CMEA monopoly trade organizations have an incentive to obtain premiums for "advantageous sales or purchases" and to meet or exceed foreign revenue targets. "Advantageous sales" can be attained for instance through price fixing arrangements with EC producers through undertakings in the context of antidumping. Antidumping then serves as a collusion device to increase the foreign exchange income for FTOs.

3. CMEA Trade

a) The institutional side of CMEA trade

CMEA trade has so far been conducted via Foreign Trade Organizations (FTOs) with a monopoly in external commercial relations. The organization of foreign trade is illustrated in figures 1 and 2.³ Each FTO is responsible for conducting the trade of a certain category of products. FTOs are assisted by trade representations in other countries in conducting trade and

³ The charts represent the Soviet System. They are compiled from Tischenko (1985) and Aerssen (1969). The system of the other CMEA countries worked similarly. Wolf (1988), and Schrenk (1990) survey CMEA foreign trade.

generating information on the particular market situation. The State Committee for Foreign Relations advises the FTOs on trade with LDCs and the other CMEA countries. Representation of enterprises producing exportables is limited which often leads to informational inefficiency (Schrenk, 1990).

The FTOs have to fulfill the foreign trade plan. This is drafted by the Ministry of Foreign Trade, the State Planning Committees, and the Ministry of Finance. All three institutions are subordinate to the Council of Ministers. The aim of the plan is to balance foreign trade and to coordinate it with the domestic economic plan. Two constraints result for the FTOs: they must achieve a balance of payment and fulfill the foreign trade plan.

Frictions arise from the fact that enterprises and FTOs are geared to intra-CMEA trade, while EE politicians set additional hard currency targets to promote industrialization or to meet their financial obligations to the West. Firms' production targets are quantity orientated. The lack of quality orientation is reinforced by the firms' "right to sales", which helps to maintain full employment (Hillman and Schnytzer, 1990). The resulting "softness" of exportables lead to the FTOs orientating their trade towards the CMEA. In addition, the Soviet Union has been willing to trade "hard" goods (oil, raw materials) for "soft" goods on favorable terms of trade. The resulting rents to governments and firms consolidated intra-CMEA trade links (Hillman and Schnytzer, 1990).

Foreign trade between CMEA countries was organized as follows (Schwenk, 1990): First, information about the requirements for and the availability of tradeables were exchanged. The volume and composition of trade was set up in medium term protocols and trade

was balanced by sub-categories. The domestic relative prices between countries do not reflect production costs but distributional and political priorities. Pricing in intra-CMEA trade was therefore based on the moving average of world market prices for the past five years converted into transfer rubles. In the end, the price guidelines and the actual exchange price were often unrelated because trade had to result in an "approximate adherence to the five-year-plan targets and a planned bilateral zero net balance between the negotiating countries." (Hillman and Schnytzer, 1990)

To minimize problems resulting from the inconsistency of domestic and CMEA exchange prices, FTOs and firms interacted at domestic prices. Windfall profits and losses from the price difference were neutralized by "price equalization" skimming profits and compensating FTOs for losses. Trade surpluses in transfer rubles were involuntary trade credits of no value because the surplus country could not purchase other products from the surplus.

CMEA "soft" goods were very suitable for intra-CMEA trade. FTOs, however, were under strong political pressure to export also to the west. The politicians wanted to modernize their economies and speed up industrialization (e.g. Poland in the seventies). The balance of payment constraint provided hard currency targets for exports to the west. In the short run, it could be bridged by credits, but ultimately debt repayment obligations also forced the FTOs to generate hard currency. Premiums for plan fulfillment and "advantageous" sales or purchases provided further incentives to the FTOs to export to the west. The problem that arose for the

CMEA countries was to sell "soft" CMEA products in quality conscious and competitive western markets.

b) FTO Pricing Behavior in Western Markets

Although CMEA enterprises and FTOs have been geared towards intra-CMEA trade, the institutional study suggests that political constraints force the FTOs to export to the west. Costs of production are unknown and can not determine pricing behaviour. FTOs know that they have "soft" goods on their hands. They have to choose a price for EC sales that compensates for quality differences, knowing full well that exports are vulnerable to AD provisions because of the price difference. The basic problem is therefore a pricing problem situated in the micro realm. As long as the FTOs' pricing strategy is applied, dumping is likely to be a continuous phenomenon.

When facing an AD claim, FTOs prefer a price undertaking to a duty because the price differential is transferred to the FTOs. Having a monopoly in foreign trade, they can collude with EC producers by setting a price floor (Hillman, 1990). In the case of unconcentrated EC markets or a large number of EE exporters, collusion becomes less feasible. On the other hand, an undertaking involves higher transaction costs and negotiations by FTO representatives. Undertakings are likely to be the predominant but not the exclusive instrument of protection under AD.

The political motivation of low priced exports to western markets results in some hypotheses with regard to the prevalence of CMEA exports and resulting AD claims. FTOs are under more pressure to generate hard currency with "soft" goods in times of balance of payment problems. The rigidity of foreign trade plans

increases the likelihood of balance of payment problems with market economies. Changing world market prices might lead to unexpected imbalances in the foreign exchange account. Tischenko (1985) reports such a situation for the USSR in the early eighties.

If countries can bridge balance of payment problems with western credits, the budget constraint for hard currency becomes soft. FTOs may still have to "dump" when the country faces a debt crises and the hard currency constraint becomes binding again. Fluctuations in dumping claims will then result from macro problems: the number of AD claims will correlate with balance of payment and debt crises.

4. An Empirical Investigation of EC-CMEA Antidumping Claims

a) The Incidence of EC Antidumping Claims against CMEA Countries

The application of antidumping laws is the most prominent instrument of trade protection against state-trading countries. Table 1 surveys features of CMEA antidumping decisions. Over 20% of the total number of decisions involved the former GDR, Czechoslovakia, Hungary, the Soviet Union, Romania, and Bulgaria (table 1a) although these only provide 10% of the EC's imports from non-EC countries. They are therefore the countries which have been treated most disadvantageously by the AD policy.

The average ad valorem equivalent of protective measures is 32.5% for affirmative decisions leading to an average decline of import quantities by 36% within three years. The comparative ad valorem equivalent for all countries is 23% leading to a decline in imports by approx. 50% (Messerlin, 1989). These figures suggest at first that EC producers care more about competition from EE

countries than from other countries and therefore request stricter measures for CMEA "soft" goods. This finding seems to conflict with the previous hypothesis that CMEA "soft" exports pose less of a threat to EC industries than other exports. However, the export elasticity for CMEAs is much lower than for other countries. The figures suggest an elasticity of approx. one for CMEA exports and more than two for all exports. The lower elasticity is compatible with the different constraints on CMEA FTOs and other exporters. FTOs have to fulfill their export plans and do not take profitability into consideration. Higher levels of protection are therefore necessary to achieve the same amount of relief from import competition. Although the protectionist margin against CMEA goods is higher, de facto protection is lower since exports only decline by about one third.

As hypothesized, CMEA "soft" goods are soft and they do "injure" EC producers but to a lesser extent than other countries' exports. The figures in table 1b) indicate that in 42% of the CMEA dumping cases the Commission found a dumping margin in excess of 30% which compares to 16% of the decisions against other countries. This finding can be interpreted as a significant price discount for quality differences. At the same time, injury inflicted by CMEA goods is small: the market share of EC producers decreased by more than 5% in only 10% of the cases which compares to the same proportion of injury in 27% of the decisions against other countries.

Dumping margins and changes in market share of EC producers are not well correlated (table 1c). In 52% of AD claims with dumping margins over 30%, the EC market share did not decline. For lower dumping margins between 10% and 30% and under 10% the figures are

45 and 11% respectively, indicating more injury inspite of lower dumping margins. This is the opposite from what would be expected. On the other hand, decreases in the market share of EC producers of over 10% are concentrated in cases with dumping margins over 30%. These ambiguous findings suggest that it is not the degree of "dumping" that determines injury.

Claims against CMEA products are concentrated in areas with low average wages and low technical sophistication (table 1d). The 1980 average wage was lower than 15000 ECU in 36% of the cases which compares to 20% for other decisions. CMEA AD claims mostly concern basic chemicals and household machinery (55%) while only 7% of the cases involve other machinery or consumer electronics (table 1e). These figures compare to 39% and 27% respectively for industrialized countries. These findings can be interpreted to suggest that the FTOs indeed try to export relatively homogenous and technologically basic products to minimize the "soft"-hard good conflict. They also suggest that higher compatibility leads to more import competition from Eastern Europe and therefore to more AD claims.

b) EC Antidumping Enforcement towards Centrally Planned Economies

The above analysis of the administrative procedure in the EC suggests that the better domestic producers can demonstrate injury and the more politicians depend on their support the better their chance is of obtaining relief from import competition through antidumping measures. The following test looks at the two alternative means of AD determination for CMEA cases: the political discretion versus technical track hypothesis.

Subsequently, these findings are compared to the results of Eymann and Schuknecht (1990) for the total sample.

The endogenous variable takes the value of one in the case of the dumping claim being accepted and zero when a claim is rejected. The independent variables chosen for the estimations of binary logit models encompass political and technical variables. The results of these estimations, i.e. estimated coefficients of the respective variables, reflect the direction of this impact on the probability of a case being accepted.⁴

Variables of the political track hypothesis:

The variable list reflects the impact of interest groups on the decision-making process. Value added per sector and number of employees per sector represent differences in the lobbying power. The choice of these two variables is based on the proposition that sectors with high employment and value added are particularly effective lobbyists in favour of affirmative and highly protectionist decisions (Finger, Hall, and Nelson, 1982). Positive signs of the coefficients can be expected.

The following two variables refer to the degree of organization and unanimity among petitioners for an AD measure. Associations are the officially recognized and inclusively organized representatives of EC industries, and also have the necessary experience and contacts to affect EC policy. Decisions are likely to be more protectionist when an application has been forwarded by an association. The respective variable takes the value of one when the petitioner is an association. A positive sign of the coefficient is anticipated.

⁴ For a more detailed discussion and data sources see Eymann, Schuknecht (1990).

When single EC firms in the petitioning industry explicitly refuse to cooperate with or object to an application, a considerable weakening of the petitioners' case can be expected. The respective dummy takes the value of zero when the AD report indicates resistance from an EC competitor; its coefficient is expected to show a positive sign.

EC AD reports include additional industrial policy arguments such as "dependence on foreigners", or "social and political importance". The corresponding variable takes the value of one when the EC AD reports indicate direct or indirect intervention by EC governments into the process. A positive impact on the probability of an affirmative decision is expected.

A dummy variable is included to clarify the effects of the institutional change in the last quarter of 1984 initiated by the EC Council. It is supposed that the implementation of formal rules for the injury evaluation led to a tightening of the procedure. We expect an increase in the number of rejections as compared to acceptances for the years 1985 to 1990. The variable takes the value of one for the period 1980-84; its coefficient is expected to have a positive sign.

Variables of the technical track hypothesis:

The degree of technical dumping determination is examined with the help of variables also used by Finger, Hall and Nelson (1982). The latter argue that high average wages in a sector indicate high human capital intensity, which is used as a proxy for the existence of a domestic cost advantage. The protectionist bias in the decision-making mechanism increases the probability of

affirmative findings in the case of cost disadvantages. The expected sign of the respective coefficient is negative.

The administrative injury determination is illustrated by lay-offs, changes in market share and profits. A dummy variable is included (1=lay-off) when the AD reports indicate lay-offs by petitioners and the predicted sign for the coefficient is positive. The coefficient for the variable for changes in the exporters' market share is expected to have a positive sign because increases in foreign market shares should lead to more affirmative decisions. Increases in the market share of EC producers should affect the decisions adversely, yielding an anticipated negative sign. Changes in profits are represented by a dummy variable taking the value of one when decreased profits are indicated in the AD reports and zero otherwise. The expected sign of the coefficient is positive.

Results:

The estimation results for CMEA cases as presented in estimation 2.1/table 2 refer firstly to two of the injury proxies, i.e. lay-offs and changes in EC market share⁵ and secondly to most of the political variables, i.e. industry size and a unified front within the petitioning industry. The message from this is that political discretion rather than technical rules is the vehicle for antidumping protection. Antidumping measures provide relief from injury for politically influential EC producers. The goodness of fit index of 0.47 is particularly high for CMEA countries,

⁵ The coefficient of the average wage variable is not robust in different model specifications and therefore not included in this list.

indicating a fairly well specified model when political and technical track variables are combined.

Comparing the results for CMEA cases and the overall sample (estimation 2.2), it is worthwhile noting that the means for the dumping determination are fairly similar across country groups. Industry size and cooperation within the petitioning industry as well as injury through lay-offs and changes in market share are significant determinants of AD decisions in both cases. Relief against injury from imports, however, seems to be less important in cases against CMEA economies: the coefficients of the injury variables are either less significant or, in the case of profits, insignificant. This finding conforms with the previously discussed soft-hard goods distinction. Injury motivates AD claims but CMEA "soft" goods do less harm than other imports.

The insignificance of government intervention can be explained with the same argument as mentioned above: "soft" CMEA goods do not inflict enough damage to necessitate government intervention.

c) Undertakings in EC-CMEA Trade

The previous institutional analysis in section 2.b) suggested that the interaction of "soft" and hard goods in western markets, the rent transfer into the foreign exchange pool instead of to firms, and the potential for collusion would probably lead to a large share of undertakings. Table 1f) supports this hypothesis: 73% of the CMEA affirmative decisions result in a voluntary price increase. Less than half of the other affirmative decisions involve undertakings.⁶

⁶ CMEAs obtain more reductions in the level of protection as well. 66% of CMEA traders obtain measures at less than the full dumping margin while this figure only amounts to 52% for other countries. This finding supports the soft good hypothesis. The overall share

The collusion hypothesis can be tested by arguing that an increasing number of firms and products involved in an AD claim reduces the potential for collusion because of the free-riding incentives in cartels. A unified front in the EC's petitioning industry raises the potential for collusion for the same reason. A test of the choice between price undertakings and duties in AD decisions with two sets of variables indicating the potential for collusion, i.e. the degree of organization and agreement and the number of firms and countries involved, however, did not yield significant results.

If a low initial price is set for bargaining purposes, undertakings should be more prevalent in cases with high dumping margins. Collusion however, is more likely in markets with compatible EE and Western products. If high dumping margins result from price discounts for particularly "soft" and incompatible goods, and low dumping margins from compatibility, collusion through undertakings is more likely in cases with low dumping margins. The empirical evidence in table 1g) supports the latter hypothesis. 94% of the of the affirmative decisions with margins of less than 10% result in an undertaking. The corresponding figure for cases with margins over 30% is a 59% share of undertakings.⁷

Messerlin (1990) provides convincing evidence for the collusion hypothesis. He looks at those exports that were targeted by antidumping claims and for which the corresponding EC industries

of acceptances, however, does not differ from other cases (table 1f).

⁷ Interestingly, 36 affirmative decisions do not indicate a dumping margin, 92% or 33 of which end in an undertaking. This finding illustrates the Commission's latitude in how to decide and what to report. The practice of non-reporting facilitates disguising the real motive underlying antidumping decisions.

were involved in anti-cartel cases. Messerlin argues that the AD regulation is captured by industries to enforce their cartels. The degree of abuse of the AD regulation is significant: about one quarter of the AD cases are "twin" cases that have also been covered by anti-cartel cases. 34 cases (out of a total of 98 twin cases) and 55% of the anti-trust cases against anti-competitive agreements under Art. 85:1, Treaty of Rome were twin cases initiated against CMEA countries - almost all of them resulting in an undertaking. These cases are also concentrated in product categories with little distinction between soft and hard goods, for example basic chemicals. Messerlin discusses the cartelization of two chemical product markets involving AD claims against CMEA countries in detail.

d) Dumping and Hard Currency Shortage

CMEA governments set hard currency targets for their FTOs. The "softness" of CMEA products, however, results in price discounts in Western markets and numerous antidumping claims largely as a result of this pricing strategy. Earning hard currency is particularly important in times of debt and/or balance of payment crises. The number of AD claims is likely to increase when such crises occur and FTOs try to raise exports to the west.

If the number of dumping cases is correlated with CMEA trade deficits or changes in currency reserves, the hard-currency-shortage hypothesis would be confirmed.⁸ Since the volume of "emergency" dumping is insufficient to reverse the trade balance,

⁸ Data on trade balances is taken from the OECD trade statistics; data on currency reserves was only available for Hungary and Romania and was taken from the IMF Financial Statistics. The respective variable contains the growth rates of reserves to avoid problems of deflation.

the expected sign for both coefficients is negative. If trade deficits are debt-financed, dumping cases should correlate with debt crises and debt-rescheduling agreements.

The pricing strategy should lead to a basic amount of antidumping claims independent of macro problems. A significant constant term is therefore anticipated.

The following equations are tested:

$$\begin{aligned}\text{cases} &= \alpha C + \beta(\text{trade deficits/currency reserves}) \\ \text{cases} &= \alpha C + \beta(\text{trade deficits/currency reserves}) \\ &+ \tau(\text{debt reschedulings})\end{aligned}$$

The results: The findings of the estimations in table 3 confirm the relevance of the pricing strategy and of debt reschedulings for the prevalence of AD measures most strongly.

The existence of a basic number of AD cases is illustrated by the constant term which has a significant coefficient for the estimations for all CMEAs, Rumania, and (not indicated) for Hungary, the former GDR, and Bulgaria.

In a debt crisis, countries resorted to dumping in addition to asking for debt relief from creditor banks. This is true for the total CMEA sample as well as for the individual countries as illustrated by estimation 3.1 (all CMEAs)⁹ and 3.2 (only Romania). The results for Poland are similar to Romania.

The coefficient of the trade balance variable is only significant for those countries which faced a strict balance of payment constraint and which did not reschedule debt: the Soviet

⁹ When estimating (3.1) without the Soviet Union and the CSSR (which did not accumulate excessive debt), the results were very similar except for much improved DW statistics.

Union (3.3) and Czechoslovakia (3.4). The fact that the USSR and CSFR did not accumulate excessive foreign debt is also illustrated by the small discount on their debt traded in secondary markets. Discounts have been very high for Poland and Romania.

Data on currency reserves was not available except for Romania and Hungary. The result for Romania (3.2) indicates that a decline in reserves may have influenced the trading agency's decision to dump. The level of significance, however, is low. For Hungary, dumping and changes in currency reserves do not correlate.

The case of Hungary is somewhat distinct from the other CMEA countries. Although both Hungary and Poland accumulated significant debt, Hungary did not default. Hungarian dumping does not correlate with balance of payment problems either. Although Hungary has been oriented towards CMEA trade in "soft" goods, it has been more successful in penetrating Western markets (Hillman, 1990a). Central planning was abolished in 1968. The debt constraint was less dominant and the Hungarian government's grip on the export behavior was weaker - both factors leading to less politically induced dumping.

5. Conclusion

CMEA governments export "soft" goods at high price discounts to the west to generate hard currency. As a consequence, dumping is particularly prevalent in times of balance of payment or debt crises. EC producers "injured" by CMEA exports initiate AD investigations. The discretion of the EC administering agency and its political accountability result in relief being granted to politically influential interest groups through AD measures.

Undertakings are the predominant measure for rent transfer and for collusive reasons.

The politicized application of antidumping poses a dilemma for EE governments which want to ease their economies' transition from socialism by promoting exports to the west. The root of the problem is that antidumping is designed to provide relief from import competition to "injured" EC producers and that it is not oriented to enforce some commercial standard of fairness as the EC rhetoric implies. Both "soft" goods with high price discounts and more compatible exports provoke antidumping claims. EE firms that do not adjust to western standards as well as firms that make an effort to produce compatible products can see their efforts undermined by EC protectionism.

These findings have important policy implications. Open EC markets provide an incentive to EE producers to restructure their production in the transition from socialism. Export-oriented strategies should therefore be accompanied by negotiations on whether the application and initiation of antidumping measures against EE products should be suspended. A smooth transition from socialism would save EC governments a significant amount in direct payments to stabilize the EE economies. An alternative would be to join the EC or the EES. Firms should consider the sensitivity of exports to antidumping claims, particularly in politically influential industries. They may want to concentrate on products in industries that have a weak EC producer lobby.

Table 1: CMEA Antidumping Characteristics

1a) The Country Incidence of AD Claims

	Bulgaria	Poland	Soviet Union	Hungary	
	GDR	Rumania	CSSR		total
cases	11	32	25	29	35
					38
					18
					188

1b) Dumping and Injury of CMEA Compared to other Cases

	% of cases CMEA	other	obs.
Dumping Margin	less 10%	8	35
	10 - 30%	23	28
	higher 30%	42	16
	no info	21	27
Decrease in EC market share	more 5 %	10	27
	0 - 5%	15	15
	increase	49	43
	no info	26	16

1c) The Correlation between Dumping Margin and Injury in CMEA Cases

decrease EC market share, % cases	> 10 %	10 - <0	no decrease	no info
Dumping Margin				
less 10%	0	28	11	61
10 - 30%	2	27	45	26
higher 30%	19	9	52	20
no info	7	9	57	27
total	10	15	48	27

1d) Average Industry Wages for CMEA and other Cases

	% of cases CMEA		other	obs.
Average Wage per industry, 1980, 1000 ECU	< 15	36	20	424
	15-20	43	47	
	> 20	21	33	

1e) The Sector Incidence of CMEA AD Cases

sectors	chemical products	steel + steel prod.	machi nery	electrical machinery	other
cases %	42	4	7	13	34

1f) Share of Acceptances, Undertakings and Reduced Levels of Protection

	CMEA	Other	Obs.
% Acceptances of total decisions	77	75	880
% Undertakings of affirmative decisions	73	47	663
% of affirmative decisions with reduced dumping margin	66	52	591

1g) The Correlation between Dumping Margin and Instrument in CMEA Cases

% of affirmative decisions	duty	undertaking
Dumping Margin less 10%	6	94
10 - 30%	25	75
higher 30%	41	59
no info	8	92
total	27	73

Table 2: Acceptance vs Rejection in Antidumping Cases against Centrally Planned Economies, 1980-1990

Variables	Results - Estim. coefficients (t-statistics)		
	(exp. sign)	(2.1)	(2.2)

Constant		0.00 (0.00)	-3.1 (-2.08)

Political Track Hypothesis:		(1 retaliation variable)	
Value Added in Industry	(+)	68.4 (3.05)**	11.9 (2.89)**
No of Employees	(+)	0.02 (2.26)*	0.14 (5.50)**
Applicant is Association	(+)	2.63 (1.77)*	-0.30 (-0.76)
No Refusal of Cooperation by EC firms	(+)	3.66 (1.61)*	1.90 (1.76)*
Industrial Policy Arguments	(+)	10.06 (1.17)	2.6 (4.65)**
Institutional Change 84/85	(+)	1.38 (1.3)	0.85 (2.33)**

Technical Track Hypothesis:			
Average Industry Wage	(-)	-204.3 (-2.78) ^{w**}	-27.2 (-1.89) ^{w*}
Petitioner suffered Lay-offs	(+)	2.95 (2.06)*	1.2 (3.17)**
Change in Market Share by EC Producers	(-)	-0.17 (-2.17)*	-0.07 (-2.53)**
Change in Market Share by Foreign Producers	(+)	-0.14 (-1.99)	-0.04 (-2.04)
Drop of EC Industry's Profits	(+)	0.45 (0.48)	1.3 (4.52)**

Rho_2QH		0.47	0.31
Observ.		123	577

Note: Coefficients reflect the variables' impact on the probability of acceptance, the expected direction is shown in second column. *(**): rejection of H_0 at 5% (1%) level. ^w: the coefficient is not stable in different model specifications.

Table 3: Determinants of CMEA "Dumping" - The Currency Shortage Hypothesis

OLS: Dependent variable is number of Antidumping cases against CMEA countries,

Sample: 1970-1989

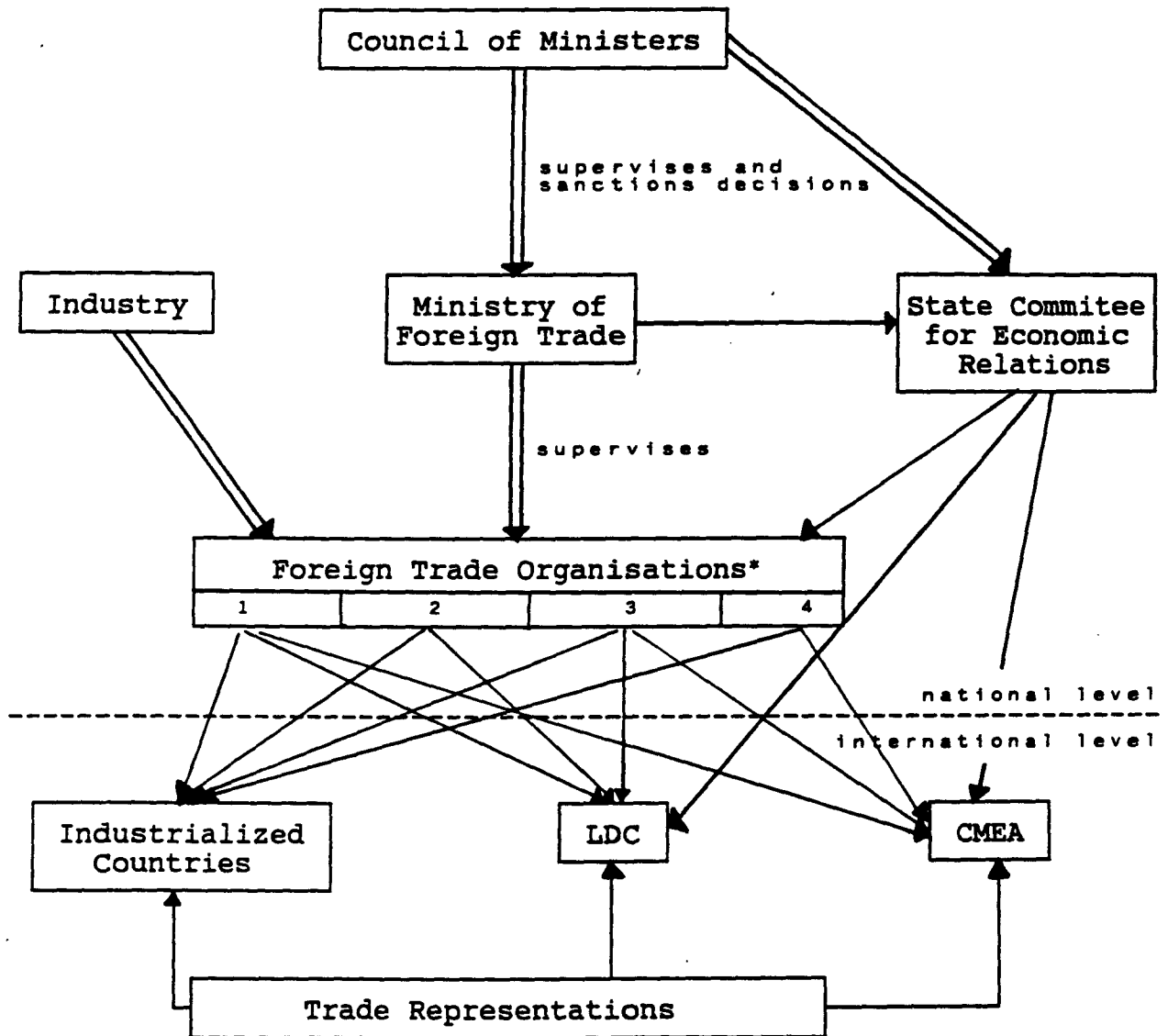
Variables		Results - Estim. coefficients (t-statistics)			
	expected sign	(3.1) all CMEA	(3.2) Rumania	(3.3) USSR ^a	(3.4) Czechosl. ^a
Constant		7.81 (2.79)**	2.00 (3.25)	1.19 (1.47)	-0.26 (-0.29)
Trade Balance	(-)	0.0009 (0.59)		-0.0008 (-1.97)*	-0.008 (-3.26)**
Currency Reserves	(-)		-1.32 (-1.54)		
Total Debt Reschedulings	(+)	12.03 (4.98)**	3.44 (2.48)**		
R ² adj.		0.57	0.23	0.13	0.34
DW stat.		1.49	2.39	1.19	1.92
F-statistic		13.59	3.13	3.88	10.67
No of obs.		20	15	20	20

*(w): rejection of H_0 at 10% level (unexpected sign)

***(w): rejection of H_0 at 5% level (unexpected sign)

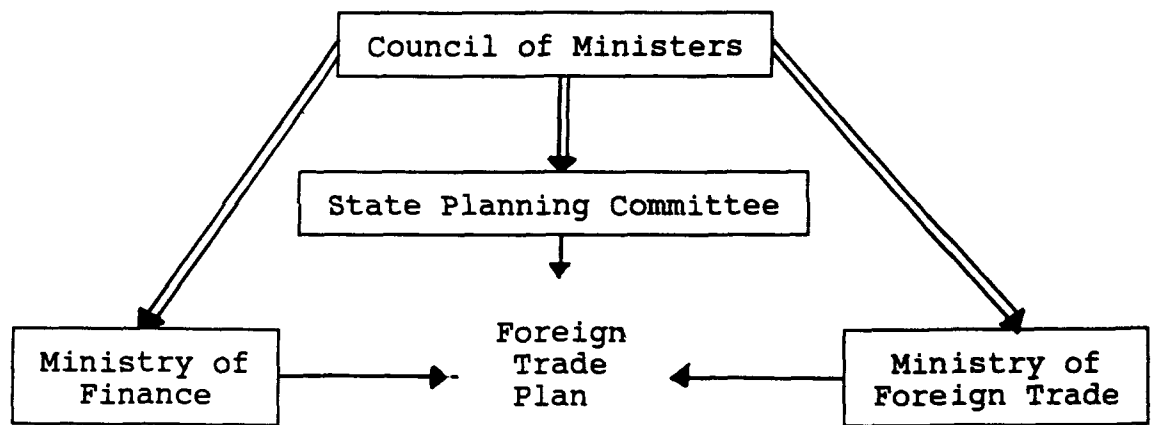
^a No debt reschedulings

Figure 1: Foreign Trade Practise of the Soviet Union



* operational realisation of Foreign Trade Plan

Figure 2: Draft of the Foreign Trade Plan in the Soviet Union



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