

International Economics

- » Throughout 1970s: Increased competition from Japanese car producers
- » Early 1980s: major recession in USA
- » Large rise in unemployment in auto industry
- » 1980: UAW and Ford Motors apply for protection against imports

VER in USA car industry 

- » Section 201 of USA trade laws: Protection can be granted provided that imports are a “substantial cause of serious injury”
- » “substantial cause” must be “no less than any other cause”
- » Problem: ITC determined that recession was a more substantial cause of injury
- » Other politicians tried to introduce legislation nonetheless to restrict imports

VER in USA car industry >

- » In anticipation of legislation, Japan “voluntarily” agreed to restrict imports
 - > 1.83 million cars in 1981
 - > 2.02 million in 1984
- » VERs lasted from 1981 to 1988
- » Rendered unnecessary in 1988 due to Japanese cars assembly plants built in USA
- » QUESTION:

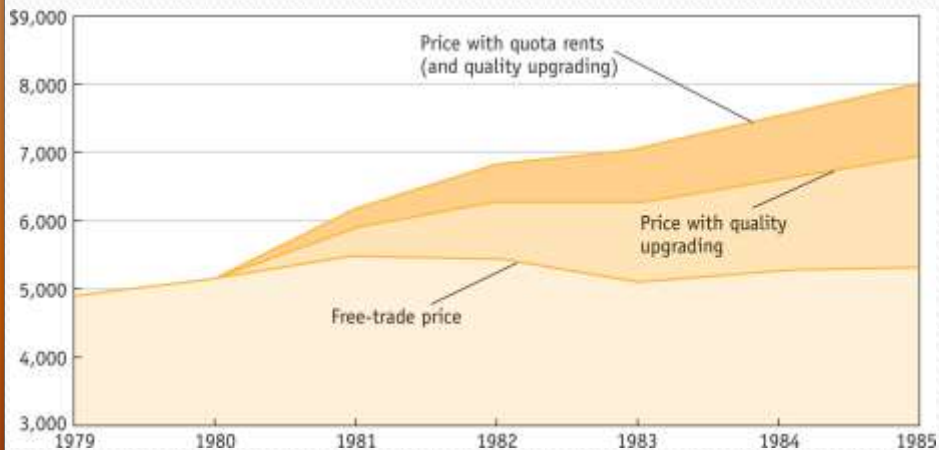
How did quota restriction
affect car prices in USA?

VER in USA car industry >

EFFECTS ON PRICES

- » Measurement issues: Disentangle
 1. Quality upgrading due to quantity nature of import restraint
 2. Price changes that may have occurred anyway
 3. Price increase due to quotas
- » Between 1980 and 1985, average price of Japanese cars increased from \$5,150 to \$8,050, i.e. a \$2,900 increase
- » \$1,100 was estimated to be the result of quota rents
- » \$1,650 was result of quality upgrading

VER in USA car industry >



Prices of Japanese car imports >

QUOTA RENTS

- » \$1,100 X 2 million cars = \$2.2 billion quota rents that went to Japanese manufacturers
- » Including higher prices on other imported cars leads to \$7.9 billion loss (due to lower competition)
- » Stock prices of Japanese car manufacturers increased

VER in USA car industry >

SMALL CARS

- » 1979-1981: Average price of USA small cars rose by 43%
- » NB Japanese cars were typically small cars in 1970s
- » Larger effect on poorer segment of population?
- » Political economy considerations balances:
 - > Influence
 - > Interests
 - > Ability to organise
 - > ...

VER in USA car industry >



Average price of USA small cars >

SEQUEL

- » WTO has filled a loophole in its rules that now forbids the use of VERs.

VER in USA car industry >

- » 1962: EEC imposes a tariff on chicken imports from USA
- » USA retaliates with 25% tariff on imports of “small trucks” (aimed at popular VW van)
- » The tariff is still in place today
- » One estimates suggests that 40% of the resulting price increase results in a TOT gain for USA
- » Case of large country or foreign monopolist or both?
- » Unintended consequence: USA car industry concentrates on building gas guzzling trucks instead of efficient cars

Import tariffs on Japanese trucks >

Safeguard or Escape Clause			TOTAL 1980-2009		
Total 1980-1989	Total 1990-1999	Total 2000-2009	Negative ITC	Affirmative ITC*	Affirmative President
19	9	3	16	12	9
China-Specific Safeguard			TOTAL 1980-2009		
Total 1980-1989	Total 1990-1999	Total 2000-2009	Negative ITC	Affirmative ITC*	Affirmative President
NA	NA	7	2	5	1
Antidumping			TOTAL 1980-2009		
Total 1980-1989	Total 1990-1999	Total 2000-2009	Duty Levied	Case Rejected	Withdrawn
468	428	313	545	447	148

Import protection cases in USA >

Why so many anti-dumping cases?

1. Criteria are easier to meet
 - a) Safeguard tariff: "substantial cause of injury" + approval of president
 - b) Anti-dumping: "les than fair value", (ie below price in own market or below average cost)
2. Anti-dumping allows for agreement with foreign firms about prices and market shares (explain many withdrawn cases)
3. Prices often rise during anti-dumping investigation.
4. High incentives for USA firms to file for anti-dumping

Import protection cases in USA



1. Harley-Davidson in the USA
2. Computers in Brazil
3. Car industry in China

Infant industry protection



- » HD cannot compete with Japanese producers in early 1980s
- » HD was on the verge of bankruptcy
- » Applied for ITC section 201 protection
- » Good candidate for Infant Industry Protection:
 - > Unable to compete at today's international prices
 - > Good prospects for improved productivity in future
- » QUESTION: Why did HD fall behind so much? (No answer is provided) Usually, IIP is for new industry, not old one.

Harley-Davidson >

- » ITC ruled in favor of protection.
- » Reagan approved.
- » Import tariffs of 45% imposed in 1983.
- » (see next table)

Harley-Davidson >

Year	Import Sales (\$ millions)	Import Quantity	% Fall in Imports (from 1982)	Tariff (%)	Net Loss/ Average Sales (%)	Deadweight Loss (% millions)
1982	452	164,000				
1983	410	139,000	17	45	3.8	16.3
1984	179	80,000	69	35	12.1	38.4
1985	191	72,000	78	20	7.8	25.2
1986	152	43,000	116	15	8.7	26.4
January-March 1987	59	14,000	98	15	7.3	6.3
Total, 1983-1987						112.5

Harley-Davidson >

- » Protection allowed HD to get a bank loan to avoid bankruptcy filing
- » Comparison of deadweight losses from protection with value of future producer surplus suggests protection was justified.
- » During protection, HD greatly improved its productivity
 - > Just-in-time inventory system
 - > Smaller workforce
 - > quality control
 - > etc
- » (Why was this not done before?)

Harley-Davidson >

- » We have seen how to estimate deadweight loss.
- » **How would one estimate producer surplus?**
 1. Value of stocks should correspond to present value sum of future producer profits.
 2. Add value of debt.
- » Calculations yield roughly equal deadweight loss and producer surplus values.
- » In 2005, HD was worth 17 \$bil in stock market, ie more than GM

Harley-Davidson >

Was protection justified?

- » Yes if company had closed down otherwise.
- » But bankruptcy filing does not equate closing down.

Harley-Davidson >

- » 1977: Brazil begins a program to develop computer industry
 - > Imports of PCs were banned
 - > Domestic producers had to buy from local producers
- » Brazilian producers were not able to catch up with rest of world.
- » Next graph shows persistent 5 year lag in price of computing power.

Brazil computer industry >



Computer price in terms of
computing power >

- » The fact that industry could not catch up suggests that protection was a failure.
- » But what about positive externalities on other industries?

Brazil computer industry ›

- » Chinese import tariffs on cars
 - > 260% early 80s
 - > 80-100% by 1996
 - > 25% by 2006
 - > 10% in 2009
- » Also restrictions on types of cars to be used at province or city level
- » Import quotas were also applied

China car industry ›

- » Joint-ventures for production with foreign car makers began in early 1980s
- » Majority stakes by foreigners not allowed
- » Chinese control distribution within China.
- » Volkswagen China plant was particularly successful
- » Shanghai VW plant had local monopoly
- » GM opened two new plants in 2009

China car industry ›

- » Evidence shows that tariffs and local monopoly contributed to significant price increases and also lower incentives to produce better cars.
- » Verdict on IIP:
 - > Did provide a large incentive for foreign firms to build plants with local partners and transfer technology
 - > Protection is still required but much learning has occurred
 - > Consumers in China are now demanding better and cheaper cars
 - > Problem is we don't have a counterfactual: Maybe the Chinese car industry would have developed faster without protection?

China car industry ›