

An import surge as a trigger for protectionism: A consumer's perspective

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Abstract

Import surges have been likely to induce acts of trade protection such as anti-dumping suits. While traditionally the rationale behind these acts is explained from political aspects, this paper provides an economic rationale behind them. Our model has three features: (1) a discrete demand shift from an existing home country's product to a new foreign product, (2) Cournot competition under free entry and exit in an importing country, and (3) a monopolistic exporter. With the model, this paper demonstrates that discrete demand shift dumping raises the price of an existing home product. Since this implies that domestic consumers are worse off, the act of trade protection can be beneficial to domestic consumers. By taking the US Black-and-White TV market during 1960's as an example, the paper provides a structural estimation showing that equilibrium conditions hold. With the estimates, our simulation exercise demonstrates that if the US government restricts the Japanese TV import by reducing consumer's subjective probability belief to obtain the Japanese TVs by 95%, the consumer surplus increases by about 47%.

Key words: import surge; discrete demand shift; Cournot competition under free entry and exit; US Blank-and-White TV market; market quality

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