

What's Ahead for Chinese Imports?

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Article:

On June 18th the U.S. Commerce Department issued a preliminary ruling that China is dumping wood bedroom furniture on the American economy. In the April HFR, I wrote a Furniture Dumping FAQ. So here's a follow-up FAQ on the ruling and what we can expect now.

What does the ruling say?

As many in the home-furnishings industry now know, dumping is defined to occur when imported merchandise is sold here for less than its "fair value." Of course, it's hard to know what the fair value of any product is, and it's even harder when the product is made in another country, under different laws and in a different culture. In practice, dumping often just means that the product is being sold here for less than in the exporting country.

Earlier this year, the U.S. International Trade Commission (ITC) ruled that domestic producers of wood bedroom furniture have been materially injured by Chinese imports. That surprised no one. The June ruling by the Commerce Department held that these injuries have been caused by illegal dumping, which also surprised no one. Commerce almost always finds in favor of anti-dumping petitioners when the alleged dumpers are Chinese. In addition, the Commerce ruling assigned various duties to Chinese producers.

When are the final rulings due?

After a period in which Commerce invites comments on its ruling, it will make a final decision on dumping and duties in early November. Then the ITC will revisit its ruling on injury to the domestic industry and make a final determination in December. But don't expect either preliminary ruling to be reversed. Some adjustment in the anti-dumping duties is possible, but it's hard to predict whether the adjustment will be upward, downward, or nil.

Why are retailers and importers relieved?

The anti-dumping duties were calculated by Commerce to reflect the degree to which various Chinese manufacturers were pricing their wares below "fair value." The petitioners requested duties ranging from 158 percent to 440 percent. Instead, Commerce's ruling assessed duties ranging from just under 5 percent up to 198 percent. Many retailers and importers are telling each other that in a game that was rigged in favor of the petitioners from the start, it could have been much worse. In contrast, the petitioners are struggling to put on brave faces. They got the ruling they expected but not the duties they wanted.

What duties were assessed?

Commerce identified the seven largest Chinese exporters as "mandatory respondents" and levied company-specific duties on them. Of these seven, the lowest duty was the 4.90 percent assigned to Lacquer Craft and the highest was the 24.34 percent assigned to Starcorp. An additional 82 companies, referred to as "Section A respondents," cooperated with the investigation and convinced Commerce that they are not controlled by the Chinese government. Those 82 exporters were assigned a duty based on the group's average pricing, resulting in a duty of 10.92 percent. All other Chinese producers that export wood bedroom furniture to the U.S. were assigned a duty of 198.08 percent.

The seven mandatory respondents account for about 40 percent of imports to the U.S., and the 82 Section A respondents account for another 40 percent. Therefore, the average duty on four-fifths of all imports in question is only about 11 percent. The much more punitive 198 percent duty will apply to only about a fifth of all imports.

Who pockets the revenue from the duties?

Since 2000, the so-called Byrd Amendment distributes anti-dumping duties to petitioners. Duties are collected from importers, not foreign manufacturers. Because some of the petitioners are themselves importers, we may witness the delicious irony of some petitioner/importers paying duties that will eventually be shared among their fellow petitioners.

Some research suggests that the Byrd Amendment's effect on the government is actually to lower duty rates to some degree (in order to maximize total duty revenue for its domestic producers). But the most likely effect on domestic producers is to make them more eager to join an anti-dumping petition. The Byrd Amendment is currently under review by the World Trade Organization, which has ruled preliminarily that it is inconsistent with the international trading rules the U.S. itself has championed.

What does the ruling imply about “the playing field”?

The call among anti-dumping petitioners is always to “level the playing field!” And originally, dumping was indeed believed to arise from market distortions in the exporting country, such as monopoly and government subsidies. However, as much as we like to imagine that the U.S. plays fair while other countries cheat, it turns out that the U.S. is frequently alleged to dump its products on other countries. And the examples go far beyond our egregious agricultural subsidies that depress world prices and impoverish farmers in poor countries. In fact, in recent years only two countries, China and Japan, have been accused of dumping more often than the U.S.

More importantly, the process by which anti-dumping duties are assigned pays little attention to whether market distortions are present. The duties assigned in this case help illustrate the point. Remember that the lower duties were reserved for those Chinese manufacturers deemed by the Commerce Department to be free of undue support by their government. But producers accounting for 80 percent of all of the imports in question qualified for these lower duties, which makes one wonder what the anti-dumping ruling really means. After all, the alleged influence and largesse of the Chinese government was the petitioners' primary justification for their action.

What can we expect in the future?

The first thing we can expect is that the average duty actually collected will be nowhere near the punitive 198 percent rate. Thanks to this ruling, the mandatory and Section A respondents will benefit dramatically relative to other Chinese producers. Why would an importer pay a duty that nearly triples the cost of imported goods when duties assigned to other sources are so much lower? The irony is that domestic producers have accused the Chinese government of effectively picking winners and losers through its subsidies and cooperative arrangements. Yet now, through its anti-dumping ruling, it's the U.S. government that will significantly alter the competitive landscape within Chinese furniture manufacturing.

Overall, the relatively low duties—if they stand—mean that the predicted stampede away from Chinese manufacturers is unlikely to happen. Adding 10- 12 percent to the cost of goods could well matter at the margins, and countries like Vietnam and Malaysia will benefit to some degree. But the dislocations will not be dramatic or immediate.

The effect on American furniture buyers won't be dramatic either. Even though the duties will be passed through initially to consumers, the competitive nature of the industry will mitigate the price effect at retail. Only when consumers have no choices can the entire duty be passed through to them, and therefore the impact of the duties will be shared among manufacturers, importers, and consumers.

Unfortunately for the cause of free trade, the World Trade Organization largely allows anti-dumping actions by member countries. Under WTO rules it's hard to employ the obvious protectionist tactic of tariffs, as the Bush administration learned when its steel tariffs were overturned by the WTO. But it's comparatively easy to accuse other countries of unfair trade practices and then embark upon a bogus anti-dumping exercise. Will this be the last such exercise in the home-furnishings industry?