Course Title: International Economics

Course Code: ECON3019

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Topic: Export Subsidy and Dumping

Export Subsidies

- Export subsidies are direct payments (or the granting of tax relief and subsidized loans) to the nation's exporters or potential exporters.
- It can also take the form of low-interest loans to foreign buyers to stimulate the nation's exports.

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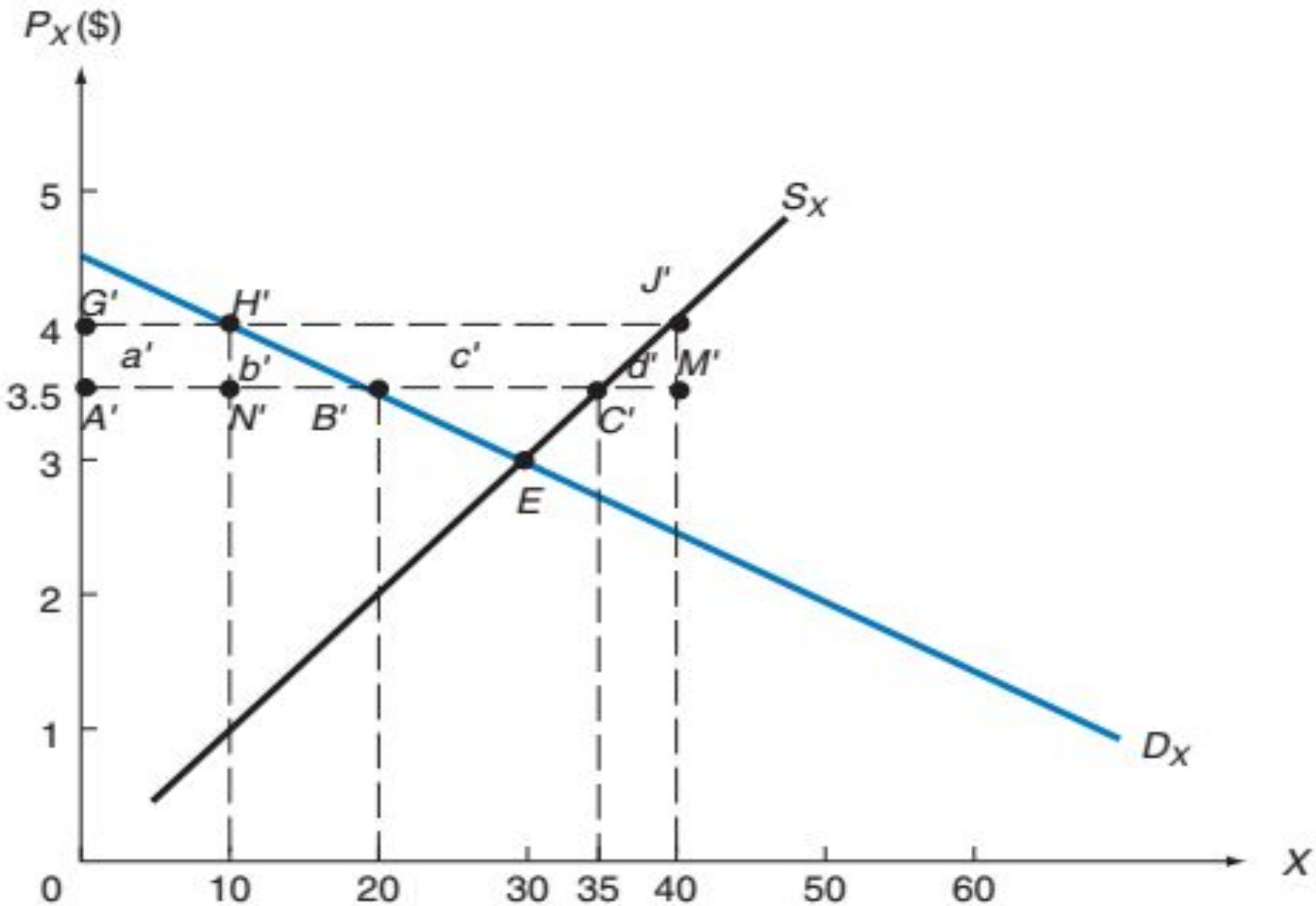

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- D_x and S_x represent Nation 2’s demand and supply curves of commodity X.
- At prices above \$3 (point *E* in the figure), Nation 2 became an exporter rather than being an importer of commodity X.
- If the free trade world price of commodity X were \$3.50, Nation 2 would produce 35X (*A’C’*), consume 20X (*A’B’*), and *export* the remaining 15X (*B’C’*).

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- If the government of Nation 2 (assumed to be a small country) now provides a subsidy of \$0.50 on each unit of commodity X exported (equal to an ad valorem subsidy of 16.7 percent), P_x rises to \$4.00 for domestic producers and consumers of commodity X.
- At P_x = \$4, Nation 2 produces 40X (*G'J'*), consumes 10X (*G'H'*), and exports 30X (*H'J'*). The higher price of commodity X benefits producers but harms consumers in Nation 2. Nation 2 also incurs the cost of the subsidy.

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- Specifically, the decrease in domestic consumers surplus is area *a′*+ *b′*.
- The gain in domestic producers surplus is area *a′*+ *b′*+*c′*, and the government subsidy is *b′*+*c′*+ *d′*.
- Here the area *d′* is not part of the gain in producer surplus because it represents the rising domestic cost of producing more units of commodity X.
- Nation 2 also incurs the protection cost or deadweight loss of the sum of the areas of triangles *B′H′N′* = *b′* and *C′J′M′*= *d′*.

Dumping

- Dumping is the export of a commodity at below cost or at least the sale of a commodity at a lower price abroad than domestically.
- Dumping is classified as persistent, predatory, and sporadic.

Types of Dumping

- Persistent dumping, or international price discrimination, is the *continuous* tendency of a domestic monopolist to maximize total profits by selling the commodity at a higher price in the domestic market than internationally .
- Predatory dumping is the *temporary* sale of a commodity at below cost or at a lower price abroad in order to drive foreign producers out of business, after which prices are raised to take advantage of the newly acquired monopoly power abroad.
- Sporadic dumping is the *occasional* sale of a commodity at below cost or at a lower price abroad than domestically in order to unload an unforeseen and temporary surplus of the commodity without having to reduce domestic prices.

- **Reference:**

Salvatore D (1998), International Economics, Prentice Hall.