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Dumping, the deteriorating element of domestic businesses: An empirical evidence from Pakistan's industries

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ABSTRACT:

Dumping is the unfair sale of goods at a lower price (on a foreign market) than their fair market value on the domestic market of the producing country. This harms the local economy and lowers the price and profit of the importing country, According to the WTO Anti-dumping Agreement, the importing nation may impose antidumping taxes to counteract the exporter's pricing advantage.Data for this study were gathered utilizing a 360-person sample size of the chosen cluster and a personally delivered questionnaire. AMOS and SPSS software were used to analyze the data. The underlying variables have been evaluated using factor analysis. The factors were then investigated using structural equation modelling (SEM)and the proposed model's fitness and discovered that it is the best fit for the said purpose. Imports and industry have been used as dependent, whereas, dumping as independent variable. AMOS has been used to evaluation of fitness of model. SPSS is used for analysis of the data collected. Finally, it has been found that dumping has strong relationship with Imports and Industry.

Key words:

Dumping, anti-dumping law, material injury

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I. INTRODUCTION

According to Article 2.1 of Anti-Dumping Agreement (1994), if a product is available in the trade of another country at lesser value than its price charged at the country of production. Due to WTO, International trade has expanded manifold and has resulted in fostering opportunities for almost every one everywhere in the world. In the future, international trade also becomes the main source of wealth for all nations, especially developing nations, as it increases productivity; however, it would be more effective if each nation had its own area of expertise in the commodities and services it produces.

However, domestic producers face a number of problems that negatively impact their business, such as dumping. The domestic industry may suffer from dumping if its sales volume, market share, and sales prices decline.In turn, this may lead to decreased profitability, job losses, or, in the worst case scenario, the collapse of the home industry.Pakistan's exports as a percentage of GDP are dropping, its export options are limited, and its imports as a percentage of GDP are about the same. Dump imports are one of the main factors harming domestic industry on the composition side.

Due diligence steps performed by the relevant authorities either control or lessen the negative effects of dumping. The "Anti-dumping" measure is one of those. Anti-dumping is a step taken to address the situation brought on by the dumping of goods and its impact on trade. Therefore, the goal of anti-dumping duty is to correct the impact of dumping on trade distortion and restore fair trade. Anti-dumping procedures are permitted by the WTO to be used as a weapon for fair competition. Anti-dumping is not a safeguard for domestic industry; rather, it is a tool for maintaining fair trade. It guards the home industry from harm brought on by dumping.

No matter the reasons for applying anti-dumping charges, their main goal is to reduce the competitive impact of imports on domestic manufacturers, which happens the moment when the price at which these imports are sold on the domestic market rises and their trade volumes decline. Thus, AD tariffs are utilized in place of regular tariffs(Aggarwal 2004: Moore & Zanardi 2009).Due to import competition, domestic businesses use the anti-

dumping provision to their advantage and protest to the government about "prejudicial" foreign activities. Following the submission of an application, the national authority looks into the validity of the assertions made by domestic manufacturers and decides whether or not to bring a case. Decisions made by the authority are influenced by larger macroeconomic government problems because it is the executive department of government (Feaver & Wilson 2004).Evidence implies that the likelihood of AD initiations is increased by unstable macroeconomic conditions, such as a downturn in the economy, joblessness, and a negative balance of payments(Aggarwal 2004; Feinberg 2007; Vandenbussche & Zanardi 2008).AD actions are predicted to reduce imports, which will strengthen the domestic economy and industry.

The aforementioned reasoning, however, ignores the crucial issue that anti-dumping measures, unlike regular tariffs, are nation-specific and might lead commerce to shift from named to unidentified nations, lowering the anti-dumping protection offered against cheap imports. It may prompt businesses in importing and exporting nations to take tactical steps to lessen the impact of anti-dumping measures.

Anti-dumping sanctions' effects on Pakistan's trade have not been fully examined. Even though it has recently expanded to become one of the most active customers. Although Ganguli (2008) provides some scarce proof of the impact of AD levies on the value of total imports, the effects of AD actions on pricing and the number of imports are still unknown. Additionally, even though he studies how AD penalties affect imports, it is still unclear if trade is sensitive to the employment of the anti-dumping mechanism itself.

Anti-dumping is an expensive method of protection. Domestic manufacturers must spend a lot of money on petition filing, lobbying, and lawsuit appeals. Before enacting a concrete anti-dumping policy that limits imports, the national authority is required to investigate and take into account substantial economic facts. Investigations are difficult to conduct and take roughly a year. For a user country, Compared to the expenditures associated with the introduction of ordinary tariffs, these procedures include significantly higher administrative and operational costs.Additionally, final anti-dumping rulings can be contested at the WTO Dispute Settlement Body as well as domestically. The user nation paid exorbitant sums of money to fight these legal fights. The potential for growth and investment in developing countries with limited investible resources may be negatively impacted in the long run by this transfer of funds from good uses to protection. A user country or corporation must consider the potential economic In addition to financial expenditures, the target nation may incur reprisal costs. Retaliation may take the form of political retaliation or the filing of retaliatory anti-dumping cases, for example(Moore & Zanardi 2009).Similarly, for more study about anti-dumping and its effect in different dimensions, we refer (Rafaat &Salehizadeh 2002, Khatibi 2008, Khatibi 2009, Konings, Vandenbussche, & Springael 2001, and Baruah 2007).

This analysis of the dumping literature makes it clear that domestic industries are finding it difficult to compete with international firms due to the rise in domestic production. Dumping is a huge problem for global trade that directly affects foreign economy investment. Additionally, the aforementioned issue compels the government to carefully consider its economic policy options.

II. SIGNIFICANCE OF THE STUDY

Being developing country, Pakistan’s economy is very fragile and very responsive to external factors. It is very vital to understand the impact of certain variables i.e. Dumping, Imports and Domestic Industry on each other. This study has been undertaken with the objectives to discover the prevailing effect of dumping over imports of Pakistan and its impact on domestic industry’s performance. In particular, the following two research questions will be addressed in the present study.

1. What is the impact of anti-dumping law on imports of Pakistan?
2. What is the impact of dumping on Pakistan’s Industries?

III. RESEARCH METHODOLOGY

Research Design

The research attempted to develop a Structure EquationModel (SEM) that can be used for research purpose. Structured equation model (Abdul Latif 2020; Habib 2021) has been used being the most relevant for solution of the problem under study.

Population and Sample

Target Population is Khyber Pakhtunkhwa Industries whereas, a cluster sample i.e. Hayatabad Industrial Estate being the largest industrial estate comprised of all types of industries,has been chosen for this study. Thesample size was taken as 360.

Data Collection

A self-administered survey was used and put to the test. All of the questionnaire's statements asked for replies on a scale of 1 to 7 beforehand it was distributed in which "1" denoted "Strongly Disagree" and "7" denoted "Strongly Agree". The respondents, who were top executives from the target industries, were given the questionnaire. The reason behind selection of the respondents was their awareness of the issue under study and their positions in the selected sample.

Selected variables

A total of 18 variables or indicators are selected to study the (positive/negative) impact of dumping on Pakistan's imports and industry. These components are further evaluated by six sub-indicators, whose labels and details are given below:

D1: shows existence of dumped products in respondent's market
D2: represents awareness of dumping in respondents (Quantity Dimension)
D3: represents awareness of dumping in respondents (Price Dimension)
D4: Dumping insight by the exporter
D5: Dumping for elimination of excess inventory
D6: Gaining competitive advantage through dumping
Im1: Increase in imports in recent years
Im2: Increase of dumped products in Pakistan's Market
Im3: Increase in dumping in Pakistan in recent years
Im4: Increase of importer in market due to recent phenomenon
Im5: Frequent increase of imports despite financial crisis
Im6: Adverse impact on domestic industry
Ind1: Domestic industry less competitiveness as compared to their rival's abroad
Ind2: Adverse effects of rival firms abroad over the domestic industry
Ind3: Awareness of dumping adverse effects on domestic firms
Ind4: Current deteriorating effect on domestic industry due to rivals abroad
Ind5: Elimination of domestic industry from market due to dumping
Ind6: Every product may be dumped considering price dimension

The following diagram shows the overall experimental setup for our proposed study.

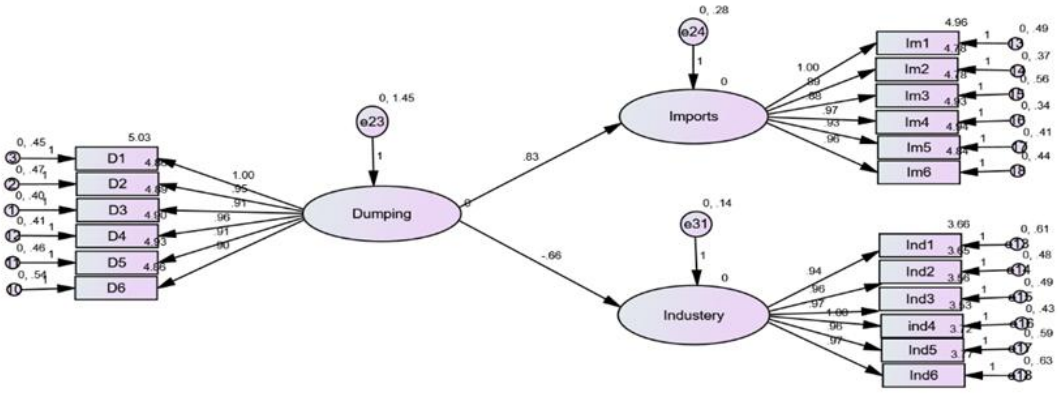

Fig. 1 Experimental setup scheme

IV. ANALYSIS AND RESULTS

Below is the table of correlation among indication/observed variable used in this study. All the values in table.4.1 are significant at level 0.000.

Table 4.1 Indicators Correlation Matrix

		D1	D2	D3	D4	D5	D6	Im1	Im2	Im3	Im4	Im5	Im6	Ind1	Ind2	Ind3	ind4	Ind5	Ind6
D1	Pearson Correlation	1																	
D2	Pearson Correlation	.778	1																
D3	Pearson Correlation	.759	.794	1															
D4	Pearson Correlation	.776	.746	.728	1														
D5	Pearson Correlation	.739	.666	.685	.768	1													
D6	Pearson Correlation	.666	.668	.736	.709	.739	1												
Im1	Pearson Correlation	.687	.672	.698	.628	.668	.640	1											
Im2	Pearson Correlation	.664	.649	.621	.651	.678	.626	.739	1										
Im3	Pearson Correlation	.704	.632	.634	.633	.668	.665	.729	.646	1									
Im4	Pearson Correlation	.678	.633	.621	.671	.684	.616	.734	.788	.713	1								
Im5	Pearson Correlation	.701	.671	.682	.707	.668	.635	.697	.729	.621	.789	1							
Im6	Pearson Correlation	.685	.645	.659	.654	.695	.621	.725	.726	.681	.742	.744	1						
Ind1	Pearson Correlation	-.555	-.592	-.564	-.560	-.552	-.622	-.422	-.422	-.474	-.429	-.470	-.532	1					
Ind2	Pearson Correlation	-.584	-.605	-.630	-.629	-.615	-.658	-.503	-.469	-.454	-.446	-.500	-.493	.633	1				
Ind3	Pearson Correlation	-.607	-.613	-.614	-.622	-.609	-.618	-.489	-.486	-.509	-.471	-.481	-.503	.566	.627	1			
ind4	Pearson Correlation	-.615	-.617	-.639	-.688	-.659	-.641	-.474	-.462	-.509	-.488	-.497	-.494	.537	.602	.613	1		

Ind5	Pearson Correlation	-.556	-.540	-.556	-.589	-.555	-.595	-.416	-.407	-.463	-.418	-.454	-.467	.521	.499	.558	.625	1	
Ind6	Pearson Correlation	-.534	-.526	-.576	-.579	-.562	-.622	-.405	-.408	-.451	-.421	-.430	-.432	.510	.535	.537	.600	.641	1

Model Fit

AMOS 21 was used for Analysis. Model fitness was measured using a variety of fit indices, and their cut-off values are reported in Table 4.2. If we observe Table 4.4 and Fig.1 and cross verified with Table 4.2 we can observe that each value falls within a reasonable range. So model is fit.

Moreover, Table 4.3 and Fig. 1 show the impact of dumping on import and industry. One unit change in dumping 83 percent positive change in import and one unit change in dumping bring 66 negative change in industry.

Table 4.2 Cut of Values Fit Indices

Goodness of Fit Index	Cut-off Values.
Absolute fit Measure	
Chi-Square.	Expected to be low
RMSEA (Root Mean Square Error of Approximation)	< 0.08
RMSR	<0.1
GFI (Goodness of fit Index).	> 0.90
Incremental Fit Measures.	
TLI (Tucker Lewis Index).	> 0.95
CFI (Comparative fit Index)	>0.95
NFI (Normed Fit Index).	>0.90 adequate fit >0.95 is a good fit.
Parsimonious Fit Measures	
AGFI (Adjusted Goodness of fit Index).	>0.90
CMIN/DF.	< 2.00

Source: Ferdinand, 2002: 61

Table 4.3 Regression Weights: (Group number 1 - Default model)

			Estimate	S.E.	C.R.	P	Label
Imports	<---	Dumping	.835	.045	18.462	***	par_16
Industry	<---	Dumping	-.659	.039	-17.064	***	par_17

Table 4.4 Fit Index for of the Model

NFI	CFI	GFI	TLI	CMIN/DF	SRMR	RMSEA
.929	.951	0.9	.943	1.98	.094	.077

V. CONCLUSION AND IMPICATIONS

From the result of Pearson Correlation test, it can be observed that all results received are very strong, direct and significant. Hence it can be concluded that selected variables are correct and can be confidently used for the purpose under study. From study of Table 4.3, it is clearly understandable that there is strong relationship between dumping and imports. If we bring one unit change in dumping, consequently, 0.83 unit change in import will be witnessed which is very strong and positive relationship.

Furthermore, from Table 4.3, it is concluded that there is a strong and inverse relationship between Dumping and Industry. In other words, if one variable increases, second variable will witness decrease. One unit increase in dumping will result in decline of 0.66 unit in performance of industry.

With the help of this study, it can be concluded that dumping has adverse impacts over the economy both in the form of increasing imports and decreasing performance of the domestic industry. Government has to devise such policies through which the issue under discussion may be resolved completely, if it's complete elimination is not possible then to the extent possible.

Anti-dumping law is already in practice; however, its effectiveness may be enhanced with the continuous improvement and up gradation.

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