

## Unpacking the Complexities and Impact of Dumping on Africa's Manufacturing Industry: A Special Focus on Zambia's Textile and Auto-Electronic Industry (Conference ID: CFP/659/2018)

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### **Abstract-**

*The problem facing most African countries and Zambia in particular is the increase of second hand and cheap products on its market. Newly Industrialised Countries in Asia and the industrialised Western countries as well as Multi-national corporations have been exerting their economic muscle by flooding the African and Zambia's market with cheap textile, automobile and auto electronic products. This surge has been necessitated by the adoption of a wholesome liberalisation of the African market in order to be integrated into the world economic system in line with the principles of the Washington Consensus. Further the increased reliance of Africa and Zambia in particular on international aid for development and humanitarian assistance has perpetuated its dependency on the developed economies in the West and in Asia. The study reveals that dumping of textile, automobile and auto electronic products in Zambia has been practised in order to penetrate and gain market share, however, in the process the local manufacturing industries and infant industries in the textile, automobile and auto electronic industry have been pushed out of business. Notwithstanding the little gains realised through collection of revenue from these imports and the subsequent creation of employment to the locals, the dumping practices have inter alia raised some serious human and environmental health concerns. The study concludes that a new policy framework by government to regulate the quantity and quality of imports on the Zambian market through introduction of anti-dumping measures in line with the rules of the World Trade Organisation is paramount. This study will rely on qualitative research grounded on the review of existing literature through the meta-synthesis approach, use of key informants for in-depth interviews.*

### **Key Words**

## *Dumping, Anti-dumping measures, manufacturing industry, auto-electronic industry*

### **Introduction**

Globalisation has intensified the integration of the world and international trade has increasingly become a centrepiece of the global economic order. Buoyed by capitalist ideology which is dominating the global economic system, the difference between how rich a country is, or not, is highly defined by its share of international trade. It therefore goes without mention that developing countries are poor because of their small share in global trade (Obalade, 2014).

The trade component offers benefits not only on the economic front but also harbours a lot of political leverage. Human history is replete with examples of how trade has impacted and changed the trajectory of human history over several centuries. In the pre-World Wars, the European power bloc dominated world trade but the first and second World Wars devastated their economies to such an extent that the United States of America took advantage of the status and emerged as a global superpower, in part because of profits made from large exports of arms to the European allies.

The transnational and transcontinental trade has always had profound effect in international relations mostly because it has taken the structural-hegemonic form rather than the win-win situation. Maintaining the domination in trade has always had monetary benefits in the form of current account and capital account surplus; which are vital in economic growth and prosperity of domestic economies.

To achieve or main economic superiority therefore, states have found themselves in trade-distortion practices such as dumping which is a method by exports to push their goods into another market to break existing industries in a domestic market. For developing countries, dumping comes with both opportunities and threats. The benefits brought about by the liberal market principles as well as globalization has and can help, Third World countries use dumping to prop-up their economies as well as uplift the standards of living of people. On the other side, though, the threats posed by dumping range from environmental, health, socio-economic and cultural. This paper therefore discusses the complexities and impact posed by dumping to Third World countries in general and Zambia's textile and auto-electric industry in general.

## Methodology

The research adopted a qualitative research methodology reviewing and synthesising a body of literature made up of relevant studies and knowledge that addresses the dumping and anti-dumping subject. The narrative review of literature was used to integrate, evaluate and interpret the findings of multiple research studies from books, journal articles and internet sources. Further, the study utilised qualitative approach to collect, analyse and present data. For the purposes of collecting data in-depth interviews were conducted with selected key informants. Meta-synthesis was adopted in analysing and, synthesising key elements and themes about dumping.

## An Overview of the Concept of Dumping

Dwivedi (2015) describes dumping as a practice of exporting goods at a price lower than the domestic price. In other words, when a country exports its products to other countries at a price lower than its domestic price, it constitutes dumping. Further, when a monopolist or a monopolistically competitive firm sells its products in a foreign country at a price lower than the price it charges in the domestic market, it constitutes dumping. It is however important to note that the practice of trading cheap imports under fair and competitive conditions does not constitute dumping. According to General Agreement on Tariffs and Trade (GATT) and World Trade Organisation (WTO) Anti-Dumping Agreement, dumping occurs when the export price of goods imported into a country is less than the normal value of articles sold in the domestic market of the exporter (Salvatore, 2013).

Free trade is the biggest cause of dumping as it requires unrestricted and competitive business in foreign trade. Dwivedi (2015) further observes that dumping becomes practicable and profitable where the seller of a product has some monopolistic control over the domestic market, the product price in the foreign markets is higher because of high production cost, the demand for foreign goods is more price elastic than the demand for domestic products and where domestic and foreign markets are separated by distance and high cost of transportation so that the reverse export to the domestic market is impossible.

In the contemporary political economy, dumping is mainly done by oligopolies, monopolies and multinational corporations. Dumping does not, however, happen spontaneously; there are factors that influence it; for example, a limited concern for quality standards has often driven firms in these economies to supply goods whose quality is inferior, especially to Third World countries. Sen (2010) argues that dumping usually occurs because of several reasons, including when producers in one country are trying to stay competitive with producers in another country; or producers in one country are trying to eliminate the producers in another country and gain a larger share of the world market. Other reasons are when producers can make more profit by dividing sales into domestic and foreign markets, then charging each market whatever price the buyers are willing to pay; or where producers are trying to get rid of excess goods that they cannot sell in their own country.

The history of international trade is replete with the cases of dumping. During the period of the Great Depression in 1930s, dumping was frequently practiced in trade of both manufactured and primary products. Brander and Krugman (1983) notes that during the post-second World War period, the cases of dumping were recorded during the 1960s and 1970s. For example, the cases of dumping of colour television sets by Sony Company of Japan and dumping of cars by Volkswagen Company of German; both in the American market. Sony was selling its colour television sets in the American market at a price of US\$180 per set while its price in Japan was US\$333 for the same model.

During this period, some European car companies especially Volkswagen dumped their cars in America. These cases of dumping led to objections by the US government, which threatened to impose tariffs on their products. In response to the threat, Volkswagen and Sony set up their production units in the US and other dumpers raised their prices (Ibid).

There were also other cases of dumping during the 1980s. For example, in 1987, the Canadian government found that South Korean automobiles companies were dumping their cars in the Canadian market. Canada responded by imposing anti-dumping tariffs on the South Korean cars, though a year later Canada withdrew the measures as it was found that the kind of dumping was not harmful to the Canadian car manufacturers.

In 2013, a group of EU companies filed a formal complaint with the European Commission, the European Union's executive arm, in which they alleged that Chinese manufacturers were selling their products well below cost in Europe in order to steal market share. The European companies, under the name EU ProSun Glass, were seeking tariffs of more than 100 per cent on imported Chinese solar glass. The European Commission imposed anti-dumping duties on steel products from China to stop them flooding Europe's steel market after an investigation confirmed that Chinese hot-rolled flat steel had been sold in Europe at dumping prices (European Commission 2017).

## Types of Dumping

Primarily, there are three kinds of dumping: persistent dumping; predatory dumping; and sporadic dumping (Dwivedi2015).

*Persistent dumping*: persistent dumping is one that is adopted over a long period of time because of the persistence of the favourable conditions of dumping. Such conditions include where, for example a firm enjoys a monopoly or near monopoly power in the domestic market; or the foreign market's price of the commodity is higher because of high cost of production. Other conditions are if the demand for foreign goods is more price elastic than the demand for domestic products; and domestic and foreign markets are separated by distance and high cost of transportation so that the reverse export to the domestic market is impossible (Sawakami, 2001).

*Predatory dumping*: this is a temporary dumping that a country adopts for short periods intermittently, if required with the aim of eliminating competition in the foreign market. This kind of dumping provides monopoly gains to the dumping country. Predatory dumping is only maintained until such a time that competitors are eliminated then the monopolist raises the price to a higher level and thus exploits consumers abroad. This kind of dumping is therefore considered unfair method of competition (Tharakan, 2000).

*Sporadic dumping*: sporadic dumping is done occasionally and for short periods of time. This kind of dumping is generally resorted to under such conditions as, when there is excess supply for some unpredictable reason; a sudden fall in the domestic demand due to extraneous factors; and overproduction due to an erroneous production planning. In order to get rid of excess production, the monopolist sells its product in the foreign market at a price lower than its price in the domestic market. Often the objective in this case is to prevent a downside in the domestic price (Ibid).

## Effects of dumping

Dumping is an interference with the free trade system. It distorts the price structure, and therefore violates the Pareto optimality conditions. It is therefore considered injurious to the world's economic welfare. Dwivedi (2015) however asserts that not all kinds of dumping are injurious to the world's economic welfare. The anti-welfare effect of dumping depends on its nature.

Dewett(1998)observes that sporadic dumpingfor instance is the least harmful, for it occasionally increases the supply of commodities in the importing countries and increases their welfare without reducing the welfare of the exporting country. On the other hand, predatory dumping is the most harmful form of dumping especially to the welfare of the importers as it drives their domestic producers out of business and, thereafter results in the exploitation of consumers.

Ajakaiye (2006) argues that the welfare effect of persistent dumping takes a mid-point. It adds to the world welfare under such conditions as, increasing employment and production in the exporting country; it does not throw the domestic producers out of business and does not prevent the growth prospects of import substitute industry in the importing country. If production and employment conditions in exporting countries are different these conditions, dumping may be injurious to world welfare.

## Opportunities posed by dumping to developing countries

Dumping does provide a lot of opportunities to developing countries. In support of dumping, Jong (2016) argues that if foreign firms were prepared to sell their goods below costs, importers should allow them as the trend can help improve the standard of living and economic power of the developing countries by consuming the dumper's finished goods and use their intermediate goods to cut down on the importer's production costs. This implies that acts of predation can become opportunities for subsidy.

This is why anti-dumping legislation has the potential to deny than improve access. In the end, especially in consideration of globalization which has shrunk the world to a single-interconnected and interdependent order, it should be realized that ownership, in this context, of production centre, is no longer the main source of economic well-being.

Notwithstanding, in order to appreciate how developing countries can tap into the opportunities presented by dumping, it is important to assess the opportunities brought about by dumping by considering the main characteristics of African countries.

- **Lack of industry:** The industrial sector in most African countries is at the primary stage of development. Its contribution to GDP is less than 10% employing 2 to 4% of the labour force. African countries have suffered economic challenges because of lack of industry. In this respect, developing countries have been known as the source of raw materials because they are unable to process them into finished goods. In this regard, dumping can go a long way in helping these countries access finished products at lower price, though, as argued by Dwivedi (2015) such a benefit could be short term compared to the long-term danger of collapsing domestic industries.
- **High cost of production:** Owing to poor economic infrastructure such as roads, railway, telecommunication, energy and transport, African countries cannot be competitive at the global stage. Premised on this, domestically produced goods tend to be expensive. With dumping from industrialized countries, however, African countries tend to benefit as they receive the products at a lower price than its domestic price.
- **Lower Per-Capita Income:** African countries have lower per-capita income compared to developed countries. For example, Zambia has per capita income of about US\$1, 500. Because of low per capita, dumping would flood the market, therefore enabling people to participate in the mainstream economy by accessing goods and services they need. The argument of low purchasing power in developing countries, whilst true could be the core reason why domestic industries should be promoted so that they provide products and services that respond to the situation of poor countries.

In Zambia shortly after independence, the government of President Kenneth Kaunda implemented protectionist policies and established various industries across all sectors. For example, the country produced Tarino, a refreshment beverage. However, when these protectionist policies were abolished with the introduction of free market policies, Tarino industries, like many other import-substitution industries collapsed under the weight of Western competition. The argument therefore that dumping could be the answer to developing countries' low purchasing power may not always hold true.



- Competition: For the developing world to succeed in international trade, it is important to be competitive in the area of quality production of goods and pricing. Dumping has potential to make developing countries lift up their production, quality and pricing matrix, which when done, has the potential of transforming them into emerging economies. The East Asian countries as well as the BRIC are classic examples of this as they have now become competitive on the global market.

## Threats

Dwivedi (2015) opines that “it has generally been proved that dumping benefits the exporting country. This is because they have the economic and financial strength that cannot be matched by developing countries. In this context, developed countries can afford to sell their products at a loss in the markets of poor countries for purposes of removing any local competition and taking over the market.

It is because of dumping that infant industries in poor countries have largely failed to compete against, for example huge multinationals involved in electronics, food, textile, and manufacturing. The threats of dumping in developing countries can destroy the growth of infant industry in developing countries. For example, Agmat et al (2017) contends that South Africa’s poultry industry is under threat because of dumping and an estimated 20, 000 jobs in the industry could be lost. This is because South Africa cut its anti-dumping duties on American chickens under the African Growth and Opportunity Act (AGOA) agreement.

World over, it has proven that industrialisation is a critical component in the economic development of any country and evidence shows that no country or region has ever achieved prosperity and a decent socio-economic life for its citizens without the development of a robust industrial sector (AfDB, 2015). This is why while consumers may benefit from the availability of a wider range of cheaper goods, industries in African countries are slowly being forced out of trade.



Dumping risks putting developing countries in balance of payment challenges. Most developing countries like Zambia have deficit balance of payment because of being net importers, thus weakening the local currency. The problem of a weakened currency entails reduction in the purchasing power which further impacts on the wellbeing of people as the cost of living goes high.

Further, dumping has exposed Africa to environmental threats. For example, United Nation Environment Programme published an article in 2016 which detailed the practices of dumping of dirty fuels and vehicles in Africa by European companies. According to UNEP (2016), clean fuels were being mixed with dirty fuel streams and other toxic substances in European ports for export to Africa; a process called “blending” “mixing dirty products with cleaner ones to achieve fuel with “African Specifications”. The major and immediate benefit that are derived from dumping of ‘blended’ fuel is that it is cheaper but that long-term effects are more dangerous.

Dirty fuels and vehicles are resulting in major health impacts in African countries. African cities are urbanizing and motorizing more rapidly than any other continent. Outdoor air quality is quickly deteriorating, with vehicle emissions being a major source (Jong 2016).

The World Health Organization (WHO) estimates that 7 million people die prematurely every year due to air pollution, about half of this due to outdoor air pollution, and that 98 per cent of cities over 100,000 inhabitants in low- and middle-income countries exceed WHO standards for key air pollutants (WHO, 2015).

One of the biggest dangers comes from small particulates, which enter the bloodstream through the lungs and cause damage across the whole body. WHO studies show that some of these pollutants accumulate in the brain. Vehicles are a key source of small particulates – in Africa, dirty fuels and old vehicles emit up to 100 times more of these particulates than in places like Europe (Ibid). For example, diesel fuels shipped to Nigeria and neighboring countries are at 3,000 parts per million sulfur. While this is not illegal, as standards in receiving countries are lacking or outdated and awareness is limited, it is unethical and unacceptable (Jong 2016).

## Zambia's Textile and Auto-Electric Industry and Dumping

Zambia's auto-electric industry and textile industry are dominated by imported products from outside the country. Over 70% of the vehicles on Zambian roads are used vehicles of all sorts of ages and quality imports from mainly Japan and the United Kingdom. Limited awareness and outdated or absent standards in most developing countries allow for such exports.

The textile industry is dominated by imports of second-hand clothes, popularly known as *salaula* in Zambia. The clothes range from shirts, skirts, trousers, shoes and even undergarments. These clothes have flooded the Zambian market and they fetch as low as K1. The importation of these fabrics has brought about mixed reaction from the citizens not only in Zambia but in Africa in general. During an interview with one female client at the salaula market in Kabwe, she revealed that the second-hand clothes are good for the country as they are affordable and even allow the low-income families to have decent dressing. It was also observed that the clientele base for second hand clothes is not limited to low income families. Middle income and high-income persons also shop from the second-hand open market. During an interview with one female client she indicated that it is better to buy from second hand clothes for they are unique, high quality and cheap than to buy clothes from the big retail shops at the malls.

Second hand clothes have also helped in creating employment and boosting entrepreneurship in Zambia. An employee from Development Aid from People to People (DAPP) was upbeat of the opportunities brought about by second hands clothes. "It is because of these clothes that I have an income at the end of every month". The majority of retailers of the second-hand clothes run their own enterprises (self-employed). Most retailers of second-hand clothes shared the same sentiments that although they face many challenges like lack of proper structures to sell from and ablution facilities in their areas of work, they are able to feed and send their families to school. Asked whether the business is sustainable that they sell some of the clothes for as low as K1, one retailer of female's clothes, highlighted that the business enables them to make profits of over 100%.

It is however, important to note that some of the second-hand clothes are not in sync with the African conservative culture as they are too revealing. The sell second hand of undergarments, such as underwear and braas is not socially and health hygiene. In as much as no research has been done

to establish the health effects of such clothes, it is plausible to assume that they pose a serious threat of the transfer and spread of skin and hygiene related diseases. The disposal of some clothes that are normally oversized and or are in a state where they are not suitable to wear is also an issue of major concern to environmental damage as they take time to decompose. Most second-hand selling facilities do not have a disposal place.

Zambia used to have a thriving textile industry mainly championed by Mulungushi Textile Industry and Kafue Textiles. However, the flooding of the local market with second hand clothes have among other factors adversely affected this sector. In the extreme Mulungushi Textile industry is grounded. Inasmuch as other factors like looting, inefficiencies in operation management and high production cost, the coming in of second hands clothes have pushed these industries to the periphery as they cannot compete with the cheap second-hand clothes.

Technology is one of the key drivers of globalisation. Since the developed world is the main source of technology, dumping would make it easy for developing countries to adopt new technologies which are ideal for their socioeconomic needs. For example, technologies like mobile phones, computers, and motor vehicles are good for the economies of Third World countries. Zambia does not have a vehicle assembly plant. Vehicles are imported from mainly South Africa, Japan and United Kingdom. It is important to note that vehicle exports agents like BeForward, JanJapan, SBT Japan, Auto Trader UK can sell a vehicle at as low as USD1.00. This is a classical case of dumping. These vehicles have however helped to improve the mobility of people in Africa and Zambia in particular. Downstream industries specialising in the sale of spare parts and repair garages as well as car dealers have sprouted all over helping in creating employment and empowering locals. During an interview with one of employee from the Auto Spare Garage, he indicated that business is very strong in the sector as nearly every household owns a motor vehicle now.

Unemployment is a big challenge most developing countries face. For example, Zambia's unemployment rate as at December 2017 was officially at 7.78%. It is however important to note that about 84% of Zambians are in the informal sector and dumping can be attributed to the growth of this sector. Notwithstanding these benefits, the second-hand vehicle imports pose a serious challenge to the environment and human life. It is important to note that a threat to the environment to most African countries is a threat to their lives as they are sustained by the environment. Zambia does not have a quota system in importation of vehicles limiting the age and make of vehicles.

Consequently, vehicles of all ages are imported into the country, some of them that will be nearing their lifespan.

Road traffic accidents are among the top causes of death in Africa among diseases such as pneumonia/bronchitis, HIV/AIDS, diarrrhea, stroke, heart diseases, tuberculosis (World Health Organisation, 2017). The increase in the number of road traffic accidents can also be attributed to the increased number of vehicles on the roads, the state of the roads and the driving culture. Coupled with the road accidents is the mounting of scrap metal mainly in African cities and Zambia as well. This however provides an opportunity for recycling industries, regrettably this industry is plagued by many challenges and chances of resuscitating it remain gloom. During an interview with one metal dealer, he bemoaned the situation in this sector. “Transporting scrap metal to the processing plants is more expensive than what one gets, at the end people are reluctant to send their scrap metal to the plants”.

## Conclusion

As the paper has shown dumping has been practiced for several years in international trade. With the collapse of the Soviet Union in 1991, the spread and domination of capitalism that followed has entailed huge competition for markets by States and corporations. Dumping has had profound impact on developing countries, both in the positive and negative sense. On the positive sense, dumping provides developing countries opportunities such as access to lowly priced products, encouraging domestic industries to improve the quality of their products, creation of employment, and adoption of foreign technologies.

But these benefits are outweighed by threats that exist. As argued, it is a proven reality that for any country in the world to develop, it has to depend on industrialisation of the domestic economy. The developed countries of the Western world, the Asian ‘Tigers’ as well as the emerging BRIC economies have had to rely on the strength of domestic industries. In this regard, dumping which, among others is a practice used by powerful States and companies to remove any domestic competition, has the potential of keeping developing countries unindustrialised and therefore poor. It is therefore the position of this paper that developing countries should counter dumping by any form legally possible including instituting anti-dumping measures, and embarking on export-led industrialisation, as the Tiger economies did.

## Recommendations

The WTO does not regulate actions of companies involved in dumping, but focuses on how States can react to dumping by disciplining anti-dumping actions (Article 6 of GATT). Since dumping is not illegal in itself, developing countries should devise novel ways in which to deal with it and also maximize from the benefits of international trade. One such way should be: -

- Creation of economic zones specifically for production of export products. This would entail for example, government providing incentives in terms of tax. Companies that operate in these zones should be able to meet minimum international standards of the products they produce. If that was done, developing countries would be able to produce commodities that are of high quality and competitive on the international market. The concept of export-led industrialization has been successfully used by East Asian countries such as South Korea, Singapore, Taiwan, and Hong Kong who also invested heavily in their infrastructure as well as in developing the intellectual abilities of their human talent, fostering and retaining their educated population to help further develop and improve their respective countries.
- Developing countries need to come up with policies and legislation that protects domestic industries. For example, most African economies are agriculture dominated; therefore, specific legislation should be put protecting agro-industries.
- Effecting WTO agreements on anti-dumping which basically gives members the right to apply trade remedies in the form of anti-dumping, countervailing or safeguard measures subject to specific rules. The importance of trade remedies was highlighted at the WTO Ministerial Conference in Doha, where Members agreed to negotiations aimed at clarifying and improving disciplines under the 'Agreements on Implementation of Article VI of GATT 1994 and on Subsidies and Countervailing Measures (International Trade Centre, 2009). An example of a country that has used this right is Brazil. In 2007, despite Brazil being a net importer, it was considered the fourth largest use of anti-dumping measures through imposition of duties among developing countries behind India, Argentina and South Africa. Brazil successfully implemented anti-dumping measures to protect domestic industries involved in agriculture production and textile (ITC 2008).

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## APPENDECIES

### Appendix 2: Key Informant Interview Guide

#### Introduction

My name is Blessing Matakawe are conducting a research together with Dr Maimbolwa Sepo Imasiku on the complexities and impact of dumping on the Zambian textile and auto-electronic industry in Zambia. The research findings will be presented at the Multidisciplinary Conference Lusaka 2018.

We are therefore inviting you to participate in this research by way of responding to a set of questions contained in this key informant interview guide. Please note that participation in this study is voluntary and you will be free to withdraw at any given time. The information gathered from this study will be used for academic purposes and all your responses will be treated with confidentiality and anonymity.

#### Questions

1. Age            15-20 [ ]    21-30 [ ]    31-40 [ ]    41-50 [ ]    51-60 [ ]
2. Sex            Male [ ]    Female [ ]
  
3. Nationality (a) Zambian [ ] (b) Other [ ]
  
4. Occupation.
  1. Trader
  2. Retail Shop Employee
  3. Dealer
  4. Other:.....  
.....  
.....
5. What is your understanding of dumping?
6. In what ways do you think that dumping affects the Zambian economy and in particular textile or auto electronic industry?
7. When did you start selling or buying second hand products Zambia?
8. Briefly explain how your business has evolved since you started.
9. What are the top 5 challenges you have been encountering in your own trade or profession?



10. What are the key issues that you think affect the importation and sell of second hands products in Zambia?
11. Do you have any other issues you would want to share with us?

## **Conclusion**

We would like to thank you for your cooperation throughout this research. The information you provided will go a long way in enabling us to produce an objective analysis of the effects and impact of dumping in Zambia's manufacturing sector (textile and auto electronic industry). As we indicated before, information gathered throughout this study will be treated with utmost confidentiality and anonymity.

## **Appendix 2: List of Interviews.**

1. 2 Female clients at Salaula market.
2. DAPP Zambia Employee.
3. 4 Second hand clothes Trader.
4. 1 Scrap Metal Dealer Five.
5. 2 Car Dealers.
6. 1 Auto Spares Parts Employee