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**Reasons behind Chinese Producers' Various Responses
to EU Anti-dumping Investigation
----- A Case Study Test**



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Abstract

EU and China are important trade partners to each other; trade relationship is one of their crucial bilateral relationships. Within EU-China trade relationship, the dumping and anti-dumping issues play an important role. When EU commission initiates anti-dumping investigation, Chinese producers always have different responses. This study mainly focuses on the reasons behind Chinese producers' various responses facing EU anti-dumping investigations. By digging out the real reasons behind Chinese producers' various responses, this study is expected to make some contribution to the dumping and anti-dumping discussion between China and EU in academic level and to make some contribution to the policy adjusting of both sides in political level.

Some hypotheses drawing from a Chinese lawyer Tao Jingzhou's claim in an interview are tested in this study. These hypotheses listed some possible factors affecting Chinese producers' responses. There are many anti-dumping cases between China and EU, CFL-i (Integrated electronic compact fluorescent lamps) case initiated in April 2000 was chosen as a research object for case study in this research. When it comes to theory, Hirschman's theory of exit and voice is used as the basic theory structure of this study. His followers especially Barry and Birch refined Hirschman's model into exit-voice-silence. This model is implemented in this study as a theory approach.

By interviewing some key people in the Chinese producers involving in CFL-i case and comparing the interview results with hypotheses, some conclusions are coming out:

First, in the case study level, Chinese producers' choice of options is in a dynamic process. With the change of situation, a certain producer can choose different option in different period of time. While this study verified the variables influencing the choice of Chinese producers mentioned by Tao Jingzhou in the hypotheses such as degree of depending on EU market, sufficient of funds, supports from local government, financial system, ownership of the company and the diversity of products, it found several other variables which also affect the decision making of Chinese producers such as nationalism, previous success experience.

Second, when it comes to political level, for Chinese side, Chinese government especially local government should be more supportive when their enterprises are facing anti-dumping investigation from EU. In EU's part, according to what has been discussed in the case study, currently it is not the time for EU to take China as a market economy treatment. However, its harsh criteria for applying for MET and individual treatment would get continuous severe critical from Chinese producers and government, which will negatively affect its trade relationship with China. For both sides, bilateral negotiations on anti-dumping duty or undertakings would be good for the long-run interests of both sides.

Keyword

EU, China, Anti-dumping, Exit, Voice, Silence

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Abbreviations:

AD	Anti-dumping
CFL-i	Integrated electronic compact fluorescent lamps
ELC	European Lighting Companies Federation
EU	European Union
GATT	General Agreement on Tariffs and Trade
LITE	Lighting Industry and Trade in Europe
MET	Market Economy Treatment
OEM	Original Equipment Manufacturer
WTO	World Trade Organization

Chapter 1: Introduction

1.1 Background Introduction

According to neoclassical economic theory, free trade could increase global economic welfare thus it should be a win-win situation for all trading partners.¹ However, under the name of protecting fair trade, various methods of trade protectionism are used in international trade. Dumping is a typical behavior in international trade which is considered unfair competition. According to GATT Article VI,

“The Contracting parties recognize that dumping, by which products of one country are introduced into the commerce of another country at less than the normal value of the products is to be condemned if it causes or threatens material injury to an established industry in the territory of a contracting party or materially retards the establishment of a domestic industry...”²

GATT Article VI lists the regulation of comparison between the normal value and the export price. Later in 1994, as one of the fruits of Uruguay Round, an Agreement on Implementation of GATT Article VI was signed. According to this agreement, “a product is to be considered as being dumped i.e. introduced into the commerce of another country at less than its normal value, if the export price of the product exported from one country to another is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country.”³

For protecting the industries from injury of dumping, anti-dumping actions are taken by the importing part. Imposing punitive duty is one of the most important anti-dumping actions. Correspondingly, anti-dumping laws appear. Besides GATT Article VI and the following codes, which constitute GATT (WTO) anti-dumping law, there are national anti-dumping legislations, among which US anti-dumping law and EU anti-dumping law are two important ones.

1.2 Worthiness of This Study

This study mainly focuses on the reasons behind Chinese producers' various responses in front of EU anti-dumping investigations. The worthiness of this study could be construed in the following two layers. First, the anti-dumping cases between China and EU are always hot issues in their bilateral relationship due to the following reasons:

¹ Douglas. A. Irwin, *Free Trade Under Fire*, (Princeton and Oxford: Princeton University Press),2002, pp. 21-69

² Cited by Li Wenxi, *Determination of Dumping under GATT and EC Antidumping Regimes*, (Lund: Juristf Örlaget), 1995, p.40.

³ Implementation of Article VI of the GATT 1994, Article 2, 2.1

1. The label of “Made in China” has boomed throughout the world after 1980s. While Chinese products please foreign customers; they also arose much opposition from their trade partners. Anti-dumping investigation is one of them.

Chinese international trade develops very quickly after the open policy being implemented. With Chinese exporting surging and the renaissance of trade protectionism, Chinese products faces austere anti-dumping investigations. From 1979 to 2003, 33 countries have initiated about 500 anti-dumping investigations to Chinese products. China is the country who has been most frequently sued by dumping. The rate of anti-dumping cases pointing at Chinese products compared to the total anti-dumping cases in the world has increased from 3.6% in 1980s to 13.3% in 2004. Due to these numbers of fact, some Chinese economists claimed that China was the world’s most severe victim in the field of anti-dumping.⁴

2. European Union is one of the most trade partners of China and the one who initiates anti-dumping investigations to Chinese products the most.

European Union is the one of the most important trade partners to China and vice versa. In 2002, the total amount of trade between China and the EU was US\$86.76 billion, among which Chinese export to the EU was US\$48.22 billion. However, at the same time, European Union is the first unit who initiated anti-dumping investigation regarding to import products from China. Until now the EU has initiated more than 100 anti-dumping cases to Chinese products and becomes the unit who launches most anti-dumping investigations to products from China. According to statistics from Van Vael & Bellis, during the period from 1995 to 2003, China ranked the first in the many individually targeted countries by the Commission’s AD investigations with a case number of 74, which is more than twice of the second targeted country India (with a case number of 33).⁵ Table 1 shows the percentage of anti-dumping cases against Chinese products comparing to all the AD case initiated by the EU. According to the Commercial Department of China, until August 2005 the total sum of assets involving in the EU anti-dumping investigations to products importing from China has been up to US\$0.9 billion, accounting for 60% of the overall sum.⁶ In these recent years, the EU launched more and more anti-dumping investigations to Chinese exporter producers in various industries these years.

⁴ The Most Severe Victim in Anti-dumping, Available on 25 November 2005 from <http://2003.homeway.com.cn/1bi-html/news/important/20021018/380651.shtml>

⁵ Van Bael & Bellis, fourth ed., *Anti-Dumping and Other Trade Protection Laws of the EC*, 2004, (Hague: Kluwer Law International), p.14.

⁶ Liu Yinghua, *EU Initiated Most AD Investigation to China*, Beijing Morning Post, 14th Sep 2005, Available on 15th Sep 2005 from: <http://trade-info.cec.eu.int/doclib/html/113191.htm> (Chinese Resource)

Table 1. Comparison of the Amount of the EU Anti-dumping Cases and the EU Anti-dumping Cases to China

year	1980-1984	1985-1989	1990-1994	1995-2003
Amount of the EU Anti-dumping Cases	212	175	196	270
Amount of the EU Anti-dumping Case to China	10	16	26	41
Percentage	4.72%	9.14%	13.27%	15.19%

Sources: Anti-dumping Case Analysis Report, Development Center of Chinese State Department, 2004⁷

3. It could be foreseen that anti-dumping will continue to be one of the hottest issues between China and the EU in the next following years.

After China's entry to WTO, more Chinese enterprises are participating in international trade. In May 2004, the fifth enlargement of the EU was done and 10 new members from Eastern European joined. According to the enlargement agreement, the EU common regulations including anti-dumping regulations will be automatically implemented to these new members. Moreover, the industry structure in China and that in these new members have many similarities so that the products competition will be severe. Due to these reasons, anti-dumping investigations initiated by the EU against Chinese products in the following years will continue to be substantive.

Second, different Chinese producers have different responses to the EU's anti-dumping notification. The reasons behind these various responses are important for both sides.

1. Various Responses

Since the modification of the EU anti-dumping regulation in 1998 and 2000, the EU has not taken China as a Non-Market-Economy Country. However, the EU has not taken China as a Market Economy Country either. Individual exporting producers will be regarded separately according their own conditions based on their application for the Market Economy Treatment (MET). Moreover, after the modification, other than imposing one uniform anti-dumping duty rate to all Chinese producers, every producer can has the chance to apply for individual anti-dumping duty rate individually.⁸

China began its market reformation in the year 1978 and is not really involved in the international free trade system until 1990s. So it is understandable that not many

⁷ Development Center Edition Board, Anti-dumping Case Analysis Report, Development Center of Chinese State Department, 2004, p.86 (Chinese Version)

⁸ This will be explained detailed in Chapter 4.

Chinese exporting producers answering the notification of anti-dumping investigation from the EU in the early times such as 1980s. After decades of development and practice, Chinese producers has learned some international trade rules and are supposed to become more rational and sophisticated in dealing with international lawsuit. In addition, as mentioned above, the EU edited its anti-dumping law in 1998 which is largely related to Chinese producers. However, under this outer and inner background, Chinese exporting producers' responses to the notification of anti-dumping investigation from the EU are still various. At the end of 2001, China became a member of WTO, which means that all the trade issues should be solved under the framework of WTO. Nevertheless, the situation in responding to the EU anti-dumping investigation does not change a lot.

Generally Chinese producers' responses can be divided into three different kinds: 1.answering the investigation and applying for Market Economy Treatment or individual duty; 2.giving up the EU market or giving up the certain products and concentrating on other markets or other products; 3.knowing nothing about anti-dumping or undervaluing the effect of anti-dumping investigation or having no ability to react to the EU notification.

2. Reasons behind various responses are important for both sides.

This study is expected to make some contribution to search the reasons behind these various responses, which I believe is valuable for both Chinese producers and the EU commission. On one hand, the EU's anti-dumping investigations will continue. Why certain producers choose certain responses in previous cases are useful for the producers involving in the future cases as a decision making guide. Moreover, when facing the EU anti-dumping investigation, Chinese producers especially some medium or small ones are always puzzled. They do not know whether they should reply to the EU's notification or not. They do not know the possibility of getting triumph in the EU's investigation. This study is expected to offer some references for these Chinese producers when they are making their decisions. One the other hand, it has become a hot topic after 1998 when is a proper time for the EU to take China as a market economy country. By digging out the real reasons behind Chinese producers' various responses, hopefully this study could lay out a true picture of Chinese producers' situation so that the EU commission could consider when they discuss whether it is the time for them to grant China a whole market economy treatment.

1.3 Aims of the Study

The aim of this research is to explore the real reasons behind Chinese exporting producers' various responses to the EU anti-dumping investigations by analyzing deeply a case study. By doing this, the study is expected to make some contribution to the dumping and anti-dumping discussion between China and the EU. However, this research will not discuss about the fair or unfair of dumping and anti-dumping

activities nor the confine of free trade and the validity of protectionism. It will more focus on the individual Chinese exporting producers' activities after being noticed of anti-dumping investigation by the EU. Moreover, although anti-dumping duty's effect on Chinese exporter producers will be mentioned in this study, it is not the aim of the research. Based on this belief, the aim of this research will be trying to give answers to the following questions:

After being accused by dumping, what kind of Chinese producers took the following actions and why?

1. Applying for MET in the EU investigation?
2. Applying for individual duty rate in the EU investigation?
3. Giving up the EU common market and turning to other foreign market?
4. Giving up the EU common market and focusing on domestic market?
5. Giving up the current products and turning to other similar products which are not on the EU anti-dumping list?
6. Giving up the current channel of exporting by starting Original Equipment Manufacturer (OEM) or setting up factories in a third country?
7. Undervaluing the effect of the EU anti-dumping investigation and simply ignore the notification from the EU?
8. Realizing the effect of the EU anti-dumping investigation but having no ability to take any action?

According to Anti-dumping Case Analysis Report edited by Development Center of Chinese State Department in 2004, the number of Chinese producers choosing the action 7 and 8 is around 60%. The left 40% choose actions different from 1 to 6. There may be some producers who took more than one actions listed above. The aim of this study is to dig out the reason why a certain producer choose certain action or actions.

1.4 Hypothesis

Why different Chinese export producers choose different responses to EU anti-dumping investigation is the central question in my study. In order to answer this question, I will test some hypotheses previously put forward by a Lawyer analyzing anti-dumping cases especially cases between China and the EU.

There are some scientists and lawyers in China who have already concentrated on this question. Based on there researches and discussions, a common cognition has been concluded that the producers will compare the gain (if they win the lawsuit) and lost (if they give up the lawsuit) and will estimate the possibility of winning before making decisions, in the case that they notify the EU's investigation. The hypotheses which will be used in this study are from a lawyer Mr. Tao Jingzhou, the Head Representative of Coudert Brothers LLP Beijing Office. Tao Jingzhou is reputed by

his rich experience delegating the anti-dumping cases between China and the EU. In one of Tao's interview by a journalist from China Lawyer, Tao discussed what kind of Chinese producers always appealed back to EU and what did not. As a summary, Tao's point of view is as following:

1. The more dependent the producers are on the EU market, the more willing they are to consider applying for MET or individual treatment.
2. The more funds the producers have, the more willing they are to consider applying for MET or individual treatment.
3. The more internationally standardized the producers' operation system especially financial system is, the more willing they are to consider applying for MET.
4. The more support and encouragement the producers can get from local government and industrial association, the more willing they are to consider applying for MET or individual treatment.
5. Private-owned enterprises and joint-venture enterprises are more willing to consider applying for MET or individual treatment than state-owned enterprises.
6. If the situation is opposite to what listed above, the producers are less willing to consider applying for MET or individual treatment while more willing to be passive in the case.
7. The more diversified the products of the produces are, the more willing they are to consider giving up the products involving in AD investigation and developing the other products.

The main task of this research is to test these hypotheses by exploring a case study in detail. Several criteria will be set in choosing the case in order to make sure that the case is representative enough. Under these criteria, case of CFL-i (Integrated electronic compact fluorescent lamps) from 2000-2005 was chosen.⁹ By testing these hypotheses, it is expected that the answer to the question "Why certain producers chose certain options?" would be given.

1.5 Possible Limitations

During the case study of this research, several Chinese producers are reluctant to cooperate with the author to provide some statistics. Moreover, there are some Chinese producers who have already bankrupted after the EU anti-dumping investigation in the early 2000 and 2001. Several people involving in this period of time are hard to find to interview. Due to the situation above, the author has to change several interviewers to make sure enough information could be get. This would be the limitation of this study. And due to this limitation, while the aim of this study is to find which factors are influencing Chinese producers' actions, figuring out the degree of each factor's influence is not the purpose of the author. That could be saved for the following study.

⁹ The detail criteria will be discussed in Chapter 6.

1.6 Disposition

The first Chapter of this thesis gives a general introduction to the background of problem and the motivation and aims of this research. Besides, by inferring the hypotheses from the previous work, the first Chapter gives a simple framework of this thesis. The Second Chapter gives a brief introduction of the methodology used in this thesis. This chapter will answer the following questions: How and why do qualitative and quantitative approach and case study method are used in this research? How is the interview process disposed? Where are the information and data analyzed in this research from? What empirical literatures and theoretical literatures are reviewed for this research? Chapter 3 is the theoretical framework for this thesis. The main theory used in this research is Hirschman's Exit, Voice and Loyalty model, which has been refined and developed by his followers. Chapter 4 and Chapter 5, separately, expound as a background the EU AD Law and the Chinese economic environment. Chapter 6 is the whole case study, a detail analysis of the CFL-i case. Chapter 7 is the conclusion part.

Chapter 2 Methodology

2.1 Qualitative and Quantitative Approach

2.1.1 Mainly Qualitative Approach

Qualitative research, according to Bryman, which "usually emphasizes words rather than quantification in the collection and analysis of data,"¹⁰ is supposed to be intuitivist, constructivist and interpretive. In my study, analyzing different kinds of documents¹¹ is an essential part of the research. Qualitative research is always criticized especially by quantitative research adherent.¹² Admittedly, it might be true that qualitative research has some shortcomings. It is nevertheless the most proper approach in my study since the main part of analysis in my study is the case study. Chinese producers' responses will be divided into three main categories and be analyzed. In my case study, in order to realize the very reasons behind each exporting producers' activity, I take several interviews to perceive their way of thinking during decision making. The interview method confirms the necessary of qualitative approach. Several companies are reluctant to give detail statistics, but rather to give description words during the interviews. This lowers the possibility of using quantitative approach. Although there are a few statistic analyses, this statistic analysis is mainly based on the statement of interviewees. So as I have stated in section 1.4, due to the short of detail statistics, while it is possible for me to figure out

¹⁰ Bryman. Alan, *Social Research Methods*, (Oxford: Oxford University Press), 2001, p. 506.

¹¹ e.g. documents from the EU external relation files, documents from Chinese commercial department, and documents from related newspaper or empirical literature

¹² Bryman. Alan, *Social Research Methods*, (Oxford: Oxford University Press), 2001, pp. 282-283.

which factor is influencing the choice of Chinese producers, it is hard for me to say to what extent a factor is influencing this choice.

So in my case study, what I am doing is that after each interview, I reduce the information getting from the interviewee, divide the independent variables into several groups and then compare these independent variables with the ones deducting from hypotheses.

2.1.2 Quantitative Approach Adjunctive

As a complimentary to qualitative approach's disadvantage, quantitative is also an approach that I can not slide over considering the little statistic data information gathered during the research. Both qualitative and quantitative approaches have their advantages and disadvantages. While qualitative approach is relying mainly on words and rich, deep data, quantitative approach is replying mainly on numbers and hard, reliable data.¹³ In my study, there are some hard data such as the market share of the products, the profit of the manufactures. So in detail analysis quantitative approach is applied. However, it should be emphasized again that the main analysis approach in this study is qualitative research.

2.2 Case Study

As mentioned in previous part, case study is important for my research, almost the core part. I will test the hypotheses by analyzing the CFL-i case deeply. Bryman's definition to case study is "a research design that entails the detailed and intensive analysis of a single case"¹⁴. Yin¹⁵ gives a more "technical definition"¹⁶. No matter what definition is, Yin points out that case study, as one of the many research strategies, is preferable when "How" or "Why" questions are being asked, when the investigator do not have much power to control the events, and when the focus is on a contemporary phenomenon within some real-life context.¹⁷

¹³ Bryman, Alan, *Social Research Methods*, (Oxford: Oxford University Press) 2001, p. 285

¹⁴ Bryman, Alan, *Social Research Methods*, (Oxford: Oxford University Press), 2001, p.501

¹⁵ Yin, Robert K, *Case Study Research: Design and Methods*, 2nd edition,(London: Sage Publications), 1994, p. 12

¹⁶ 1.A case study is an empirical inquiry that

- investigates a contemporary phenomenon within its real-life context, especially when
- the boundaries between phenomenon and context are not clearly evident.

2.The case study inquiry

- copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result
- relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result

¹⁷ Yin, Robert K, *Case Study Research: Design and Methods*, 2nd edition,(London: Sage Publications), 1994, p.1

When it comes to my study, the AD investigations initiated by the EU started since 1979 and never stops. On the contrary, it goes to the direct of a wider range and more frequently. The purpose of my research is to probe into the deep reasons hiding behind Chinese exporting producers various responses. In another word: Why certain producer chose certain activity not others? In this research field, there are hundreds of AD cases throughout many industries. Going deeply into a single typical AD case between China and EU is an ideal choice.

Case study has been criticized in several aspects such as lack of rigor, limited of scientific generalization, the long time of taken and the massive, unreadable documents that they result in.¹⁸ However, Yin¹⁹ and Roger Gomm²⁰ put forward out several points to defend case study. Moreover, by responding to these criticisms, scientist like Van Evera suggested several advantages of case studies compared to other scientific research method: case study has merits in controlling the impact of omitted variables; testes performed with case studies are often strong.²¹ Based on these discussions, case study should be the right choice to my research if properly designed.

Considering its typical and representative, I will choose the case of CFL-i initiated on 17 May 2000 following the complaint lodged on 4 April 2000 by the European Lighting Companies Federation. In this case, there are Chinese lamps manufactures that fight for MET or individual duty rate (VOICE); there are Chinese lamps manufactures that shift to other foreign market or domestic market (EXIT); there are Chinese lamps manufactures that ignore the notification from EU (SILENCE). I will choose one or more typical manufactures for each activity and go deeply in order to find the factors influencing the manufactures to make certain decisions.

2.3 Interview

When discussing the merits of case study comparing with other methods especially history, Yin suggested that “case study’s unique strength is its ability to deal with a full variety of evidence ----- documents, artifacts, interviews and observations...”²² As mentioned by Yin, several interviews are lodged in this case study. An interview is “a survey method designed to collect extensive information from each respondent in the structured, semi-structured and unstructured way”²³.

¹⁸ Ibid. pp.9-11

¹⁹ Yin, Robert K, *Case Study Research: Design and Methods*, 2nd edition,(London: Sage Publications), 1994, pp. 9-11

²⁰ Roger Gomm, Martyn Hammersley, Peter Foster, *Case Study and Generalization*, Case Study Method: Key Issues, Key Texts, 2000 (London, Thousand Oaks, New Delhi: SAGE Publications), pp.98-112

²¹ Stephen. Van Evera, *Guide to Methods for Students of Political Science*, (New York: Cornell University Press), 1997, p.100

²² Yin, Robert K, *Case Study Research: Design and Methods*, 2nd edition,(London: Sage Publications), 1994, pp. 8

²³ Kotler, P. *Marketing Management*, (London: Prentice Hall.), 2002, p.82.

In this study the interviews I take are semi-structured interviews²⁴. The interviewees in my study are managers of Chinese exporting producers who have experienced the EU AD investigation in the CFL-i case. The interviews are taken through telephone or email.

2.4 Data Collection

2.4.1 Resources of Data

According to Yin, there are six sources for the evidence for case studies, which are documents, archival records, interviews, direct observation, participant-observation, and physical artifacts.²⁵ Meanwhile, according to Quinn, the choice of data collection resources depends on answers to certain questions:

- Who is the information for? Who will use the findings?
- What kind of information is needed?
- How will the information be used? For what purposes?
- When is the information needed?
- What resources are available?²⁶

By given answers to the above questions based on my study especially the case study, I draw the conclusion that three of these six sources will made up to my data collection methods: documents, archival records, and interviews.

In my research, the documentations and archival records include data from a wide range of sources: data from the EU Documentation Center and the EU official website; data from Chinese Commercial Department Documentation Center and its official website; data from Xiamen Private Enterprise Association Documentation Center; data from Linköping University library and National Library of China; data from empirical literatures and previous researches; data from newspaper and other mass media. In addition, there is rich data from interviews.

2.4.2 Primary Data and Secondary Data

According to the discussion above, in my research there are both primary data and secondhand data. Primary Data will be mostly gathered through the EU official documents, Chinese Industrial Association official documents, Company report and industry report from official website, Chinese Commercial Department official

²⁴ Compared to quantitative interview, qualitative interviewing, which is divided into two major types: unstructured and semi-structured interviewing, “tends to be flexible, responding to the direction in which interviewees take the interview and perhaps adjusting the emphases in the research as a result of significant issues that emerge in the course of interview.”(Bryman. Alan, *Social Research Methods*, (Oxford: Oxford University Press), 2001, p.313)

²⁵ Yin, Robert K, *Case Study Research: Design and Methods*, 2nd edition,(London: Sage Publications), 1994, p.78

²⁶ Patton, Michael Quinn, *Qualitative Evaluation and Research Methods*, 2nd edition, (Newbury Park: Sage Publications), 1990, p. 12.

documents and the interviews to certain Chinese exporting producers. Primary Data is paid special attention in analysis.

Other than primary data, some secondary data is gathered as well. Those data can be divided into two parts. First, there is data collected from empirical literatures and some academic journals and data analyzed by previous researchers. Second, there is data collected from reliable mass-media such as newspaper, journals and internet.

2.5 Review of Relevant Literature

2.5.1 Theoretical Literature

Albert Hirschman's *Exit, Voice and loyalty: Responses to Decline in Firms, Organizations, and States* is used as the theory basement during my model constructing in the case study. In this reputable book, Hirschman established an Exit-Voice-Loyalty approach to explain the reasons of customers' and members' choice in front of the quality declination of the products or the deterioration of the organization.

Hirschman's concepts in this model are very thought-provoking, attracting many following scholars to refine and rethink this model in the light of empirical evidence. Brian Barry and A.H. Birch developed this model by criticizing the shortcomings of the original model. In 1974, Brian Barry pointed out three criticisms to Hirschman's framework in 1974 in his work *Review Article: 'Exit, Voice, and Loyalty'*. According to Barry, the existence of "Loyalty" was understandable while the role played by loyalty should be re-considered. In addition, Barry pointed out that other than declination, customers' belief in the possibility of improvement could also be the first factor in the model. Moreover, Barry rectified Hirschman's model by illustrating two distinctive steps of the decision making process. A.H. Birch gave a further expounding and analyze in his article *Economic Models in Political Science: the Case of 'Exit, Voice, and Loyalty'*. He introduced two other concepts: agitation and retaliation. Taking account of these two concepts, Birch revised Hirschman's model again.

Hirschman did not stop refining his exit-voice model so that it could be more suitable for the real case. 10 years after his contributive book, Hirschman wrote an article *Some Uses of the Exit-Voice Approach* published in American Economic Association. Then in 1986 an article named *Exit, Voice, and Loyalty: Further Reflections and a Survey of Recent Contributions* published in Social Science Information. The latest development of Hirschman's theory is by Scott Gehlbach's study *A Political Model of Exit and Voice* started in 2004. In this research, Gehlbach innovatively differentiated between static and dynamic effects of exit.

From the very beginning, Hirschman knew that his Exit-Voice Approach could be applied in a very broad range of territories. As Hirschman anticipated, there are

following studies applied this approach into various fields. For example, labor market, auto industry, medical care market and regional nationalism²⁷.

As far as I know, no work has been done to apply Hirschman's Exit-Voice theory into anti-dumping issues. However, under the guidance of my supervisor, I found this theory could explain Chinese producers' responses to the EU anti-dumping investigations very well, which is exactly what this study does. When the EU initiated anti-dumping investigation, the EU market situation for Chinese exporting producers is just like the customers whose products' quality decreased or the members whose organization started to decline. Moreover, just like the customers who want the quality of products to get back to normal, and the members who want their organization to become normal, Chinese exporting producers would like their exporting situation in the EU market to get back to the previous situation, which means they can sell their products without any punishment duties. In order to achieve this aim, Chinese producers choose different options. Some of the producers choose to reply to the EU Commission and apply for MET or individual duty, which could be seen as VOICE. There are some other Chinese producers who choose to give up the certain products or the EU market or the current way that they enter the EU market, all of which could be seen as EXIT. In fact there are many other Chinese producers who fail to recognize the deterioration of situation or even they are aware of the deterioration they have no ability to choose the first two options, the results of this are always ending up with bankrupt. This third choice is SILENCE, which is not put forward by Hirschman but by a following scientist in the study of Hirschman's model.²⁸ Hirschman and his followers analyzed why certain customers or members choose certain options, which is fit for my aim of study: why certain Chinese producers take certain actions to the EU investigation. So it could be seen that this model of exit-voice-silence is suitable to my anti-dumping study.

2.5.2 Empirical Literature

Dumping and anti-dumping is a hot topic in the debate between free trade and protectionism, so there are many books and articles written discussing dumping and anti-dumping. In some related book such as Douglas. A. Irwin's *Free Trade under Fire*, the validity and competitive of dumping and anti-dumping has been discussed. Also

²⁷ These empirical literatures are listed as following:

The Exit-Voice Tradeoff in the Labor Market: Unionism, Job Tenure, Quits, and Separations, *The Quarterly Journal of Economics*, Freeman, Richard B, 1980. (labor market)

Comparative Supplier Relations in the U.S. and Japanese Auto Industries: An Exit/Voice Approach, *Business and Economic History*, by Susan Helper, 1990. (auto industry)

Voice in Medical-Care Markets: Consumer Participation, *Social Science Information*, Stevens, Carl M, 1974. (medical care market)

Regional Nationalism in a Global Context: Exit, Voice and Loyalty from a National Perspective, by Claire Sutherland. (regional nationalism)

²⁸ This will be discussed detailed in Chapter 3.

there are many articles and books discussing dumping and anti-dumping between China and the EU. Among these empirical literatures, two trends should be aware of. First, some scholars always focus on the perspective of law. That is, by explaining the items of the EU anti-dumping law and sometimes comparing the EU anti-dumping law with US anti-dumping law, they are trying to tell the Chinese producers how to deal with the EU anti-dumping law. For example, the EU Anti-dumping Law after 1998 and China's Countermeasures edited by Chen Zhou, *EU Anti-dumping Law and EU-China Trade* written by Jiang Xiaohong. Second, some scientists and scholars are always interested in talking about why and how Chinese producers should fight for EU anti-dumping lawsuit by analyzing the past cases and the current situation. For example, the EU Anti-dumping Situation and the Practice of Chinese Producers edited by Chen Yansheng, *The Effect of Industry Association in EU-China Anti-dumping Cases* written by Bu Yi. Nevertheless, only a few of them recognize the question of why certain producers choose certain actions in the EU anti-dumping cases although it is important.

Chapter 3: Theoretical Framework

By noticing that “no study, systematic or casual, theoretical or empirical, has been made of the related topic of competition’s ability to lead firms back to ‘normal’ efficiency, performance, and growth standards after they have lapsed from them”²⁹, in his well known book *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*, Albert Hirschman discusses how business firms or organizations discern their lapse and go back to the previous status by introducing a framework of exit and voice. When deteriorations happen, which could be, according to Hirschman, the quality of the product declines, or the service of an organization becomes worse, there are always two responses from the customers who buy this product or the organization members: exit and voice. The exit option, according to Hirschman, can be explained by “some customers stop buying the firm’s products or some members leave the organization”³⁰. This exit behavior will cause the drops of the firm’s selling quantity and so following the revenue and the membership downslide of the organization, which will gain the attention from the managers of the firm and the administrators of the organization. The voice option, on the other hand, can be explained by the firm’s customers or the organization’s members expressing “their dissatisfaction directly to management or to some other authority to which management is subordinate or thorough general protest addressed to anyone who cares to listen”³¹. This voice behavior, similar to the exit one, could gain the attention from the firm and organization and correct it wrongdoing to be back to the right track.

By exerting his framework, Hirschman cites many examples in a wide range from

²⁹ Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*; (Cambridge: Harvard University Press), 1970, p.22

³⁰ *Ibid*, p.4

³¹ *Ibid*, p.4

political issues to economic issues, from macro social life to private individual problems in order to prove that his theory could be widely used. After this book in 1970s, many scholars modified or criticized this framework by applying this model into various fields. Hirschman himself revised his framework later in 1993 as well.

3.1 Exit, Voice, and Loyalty in 1970 --- the Original Framework

Since the aim of my study is to find out the real reasons behind Chinese export producers' different responses to the EU anti-dumping investigation, it is important to have a look at how Hirschman addresses the motivations and conditions behind the option of exit and voice separately.

3.1.2 Who Exit and When Exit in Hirschman's Framework?

Hirschman gives a detail explanation of how the option of exit works when a business firm deteriorates by introducing the demand function and reaction function. Once the quality declines, there are some *quality-concern* customers who quickly give up the products from this firm and turn to the same products from its competitors. This drop of demand will be followed by revenue loss, which will call the attention of the managers of the firm, who are supposed to discern the wrongdoings and correct them. Hirschman has an implication here ---- the customers who choose the option of exit are the ones who concern the quality of the products much. There are many customers of a certain product. Because the appreciation of quality is different from customer to customer, "a given deterioration in quality will inflict very different losses on different customers."³² Some of them may purchase this product mainly because of its good quality; some of them may purchase this product mainly because of its reasonable or low price. Apparently the first category of customers is more likely to choose exit when the quality of the products declines.³³ Even for the first category, there are customers who are more sensitive to the quality of products than others. Again, the former ones would be more likely to choose exit when the latter may even have not perceive the change of quality.

Hirschman explains several situations that exit option may not work as it suppose to be. First, demand elasticity with respect to quality change should neither be too high nor too low. If this elasticity is too high, which means a large number of customers abandon the firm, the firm will have no chance to correct its amiss and go back to the normal track. On the other hand, if the elasticity is too low, for example, there is no other firm to produce the same products or maybe the same products produced by other firms are even in a worse quality, even though there are lots of customer dissatisfaction, there are not much revenue loss and thus the firm will hardly wake up to its mistake, no mention to rectify it and recuperate. Another possible exit option which may be inefficient mentioned by Hirschman is, at the angle of firms, it may

³² Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*; (Cambridge: Harvard University Press), 1970, p.49

³³ The second category of customers is more likely to choose exit when the price of the products goes up.

receive new customers while losing old ones. This is pretty much possible to happen, according to Hirschman, when “a uniform quality decline hits simultaneously all firms of an industry”³⁴. If we look at his analyze here from another angle, there is another implication about when customers choose exit. First, the other products produced by other firms are available in the market and second, the quality of the other products is higher so that they can be satisfied.

Through the introduction above, we can easily find several variables influencing the option of exit, quality-conscious of the customer, the availability and characteristics of substitute and consumer surplus. If illustrated by equation, it could be

$$F(\text{exit})=X(\text{quality-conscious of customers, availability of substitute, characteristics of substitute})$$

Note: The factors in the brackets are influencing the choice of exit.

3.1.2 Who Voice and When Voice in Hirschman’s Framework?

Compared to exit, which is relatively “a clear-cut either or decision”³⁵ and simple to make, the voice option is more complicated and conditional. According to Hirschman, there are two evaluations to be done for the one who considers choosing voice, whether they are aware it or not: (1) the capability of influence the firm from which they buy the products and (2) whether it is worthwhile to “trade off the certainty of exit against the uncertainties of an improvement in the deteriorated product”³⁶. For the first evaluation, it should be stressed that here the capability could be their power to influence the firms or the power of others who are supposed to bargain with the firms. When it comes to the second evaluation, it should be mentioned that the cost of those who choose voice can be seen as two parts: (1) the direct cost, the time and money they spend to launch these voice activities in the attempt to achieve changes and (2) the indirect cost (or the opportunity cost) of giving up the higher-quality products.

So there are at least three situations in which voice will be chose:

I. When there is no chance of exit. That is when, as mentioned in previously section, the demand elasticity with respect to quality is so low, and to the utmost, zero. A monopoly market can be one of this situation in realistic. Hirschman takes the market situation in some less developed countries “where one simply cannot choose between as many commodities, nor between as many varieties of the same good, nor between as many ways of traveling from one point of the country to another, as in an advanced economy.”³⁷ In this situation, the consumers could hardly exit from the products

³⁴ Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*; (Cambridge: Harvard University Press), 1970, p.26

³⁵ Ibid p.43

³⁶ Ibid p.77

³⁷ Ibid p.34

especially some must-need products even though they are discontent with the quality. So the only thing they can do is to make their voice heard by the managers or authorities or government who can improve it. And that is why voice option is much more preferable in organizations than in firms: apparently, consumers have more choices of other firms producing the same products than members' choices from other similar organizations.

II. When there is convenient communicate mechanism through which the consumers can complain cheaply and effectively or when there is a group of consumers who are confident for their influential ability upon the firms from which they buy the products. This is much related to the two evaluations mentioned above. Hirschman also mentions that previous experience plays an important role in the exit-or-voice decision making. If, according to their previous experience, the consumers draw the conclusion that voice option is low cost and high efficiency, their propensity to resort to the voice option is larger.

III. When there is loyalty. Hirschman introduces the concept of loyalty which holds the consumers staying with the firm whose products deteriorate even they have other better products available in the market. Loyalty is different with faith. It is not an irrational behavior. It is much more like a strong belief that after a period of time the faltering firms or organizations can back to normal and their demand or interest can be satisfied or protected as before. With the presence of loyalty, the possibility to choose voice option becomes larger. However, it does not mean that there will be exactly no exit as long as there is loyalty. As a calculated behavior, after being stay with the faltering firm or organization for a period of time and realize that it is hopeless to recover from the deterioration, these loyalists could turn to exit no matter how much the cost will be. This is so-called "the loyalist's threat of exit", which could enhance the efficiency of voice if the managers or the supervisors realize.

Hirschman points out that "voice is most likely to function as an important mechanism in markets with few buyers or where a few buyer account for an important proportion of total sales". This is because First, these kinds of people always are more powerful in influencing the faltering firms and Second, the fewer of the consumers, the easier they can unite together to launch a collective action. Together with the above three situation, it could be seen that the customers and members who are more likely to choose voice are always those who have more influential powers on the firms or organization, those who can and are willing to afford the cost of voice, those who believe that voice option will work in a positive way and those who have strong loyalty to the lapse firms or organizations. Again, by equation,

$$F(\text{voice})=X(\text{available of exit, the cost comparison voice and exit, effective of voice mechanism, loyalty}).$$

Note: The factors in the brackets are influencing the choice of voice.

Besides, it should be mentioned that “Hirschman distinguishes between vertical voice (individuals privately and separately expressing themselves to the organization's management) and horizontal voice (organized discussions and activities of consumers or employees). Each kind requires different channels.”³⁸ “... Once voice is recognized as a mechanism with considerable usefulness for maintaining performance, institutions can be designed in such a way that the cost of individual and collective action would be decreased. Or, in some situations, the rewards for successful action might be increased for those who had initiated it.”³⁹ In fact Hirschman mentions collective action as a common way in voice option several times in his dissertating. Since compared to exit, voice is costly, the way that can decrease the cost and increase the successful possibility of voice option is preferable. That is why collective action is sometimes chosen by the consumers or members.

3.1.3 Exit-Voice Model in Hirschman's Framework

Until now, we can introduce Hirschman's thought-provoking framework --- Exit-Voice Model. In his 1970s book, Hirschman thinks that exit and voice are rather two complementary options than exclusive options while in a certain case, one of them is in a dominated status. In other words, Hirschman argues that while both of these options have the possibility to force the firms or organizations back to normal, neither of them can be assumed to work efficiently under all conditions, so a combination of exit and voice is needed in order to achieve their final aim.

However, two points are put forward by Hirschman for this framework. First, firms or organizations, especially organizations sometimes tend to structure themselves to respond primarily to one mechanism, exit or voice, but not both of them. This is exactly the case in my study. After being complained by dumping, Chinese export producers' exiting offers no help for the result of anti-dumping investigation.⁴⁰ The second point brought out by Hirschman was the possibility of the optimal pattern of the exit-voice combined model to maximize the effectiveness. It relies again on the quality elasticity of demand, which is volitional rather than immobile. In some situation it is believed that throughout the whole process of deterioration there is strong elasticity at the first stage but inelasticity at the later stage or maybe inelasticity at the first stage and strong elasticity at the later stage. This will influence the optimal pattern of exit-voice model. In my case study of anti-dumping investigation, there are some Chinese producers choosing voice at first and then exit or first exit and then voice, Hirschman's model can in some extent help to explain these phenomena.

³⁸ Marc Rodwin, *The Neglected Remedy: Strengthening Consumer Voice in Managed Care*, the American Prospect Online Edition, available on 20th July 2005 from:

<http://www.prospect.org/web/page.wv?section=root&name=ViewPrint&articleId=4783>

³⁹ Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*; (Cambridge: Harvard University Press), 1970, p.42

⁴⁰ Although it may help its own interest and profit, which will be discussed later.

3.2 Silence -- the Forth Concept

In the original book of *Exit, Voice and Loyalty*, Hirschman does not put forward the concept of *Silence*.⁴¹ However, many scholars after Hirschman suggests that there should be a forth concept. They have different preference of names on this forth concept such as *neglect*, *passive* and *silence*. Although in different words, the connotation of this forth concept is the same. In fact, although Hirschman does not give out this forth concept, the implication of silence is involved in his discussing the loyalist behavior modified by severe initiation and high penalties for exit⁴². Hirschman mentions that the customer or members “may have a considerable stake in self-deception, that is, in fighting the realization that the organization he belongs to or the product he has bought is deteriorating or defective.”⁴³ It could happen that some customers or members may force themselves to ignore the deterioration of the firms from which they buy products or the organizations they belong to considering the high cost they have already bared when entering or the high penalty they will suffer if they exit. Or, they are confident that there will be some one who will do something to change this situation. So they will probably choose neither exit nor voice but keep silence and wait.

This option of silence was initially put forward by Kolarska and Aldrich 10 years after the publication of *Exit, Voice and Loyalty*. In 1980, Kolarska and Aldrich points out in there article *Exit, Voice and Silence: consumers' and managers' responses to organizational decline* published in *Organizational Studies* that other than exit, voice and loyalty, there is another option: silence. That is, not able to or not willing to react to the organization declination and keeping silence. The reason of this might be failure of recognizing the deterioration, lack of alternative or the easy control of the customers. Anyway, the managers may find that they have not enough ability or not enough motility to change the situation. In 1983 and 1990, there are two other researches on customer dissatisfaction put forward a choice named *Negative Word-of-Mouth* behavior, which also enriched this theory.⁴⁴

Silence is different with the original concept of loyalty taken by Hirschman in many aspects. First, while loyalty is an active option of forcing themselves to ignore the deterioration of products they buy or organizations they belong to, silence is not always an active option because in sometimes there are some customers or members who are not sensitive enough to the quality of products or the service of the organizations so that they would not take any action but keep silence. Second, Loyalty has nothing to do with customers or members' ability, it only related to will. Or they

⁴¹ He only puts forward the third concept of Loyalty, which becomes the most critical criticism to his model. This will be explained in detail in the following section.

⁴² Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*; (Cambridge: Harvard University Press), 1970, pp.92-98

⁴³ *Ibid* p.93

⁴⁴ These two researches are: *Negative Word-of-Mouth by Dissatisfied Consumers: A Pilot Study*, *Journal of Marketing*, by Winter, Richins, Marsha L, 1983. and *Voice, Exit, and Negative Word-of-Mouth Behaviors: An Investigation Across Three Service Categories*. *Journal of Academy of Marketing Science*, by Singh, Jagdip, 1990.

are confident to the firms or organizations' back to normal so they would rather afford a short-term of declination. However, it is not always the case in silence since silence much more emphasizes the ability and motility to change the situation. For example, sometimes even the customers or members realize that it is much better to voice or exit and they are willing to do so, they would not do so because they are lack of money or time to choose these options. Third, Loyalty is much more like an inside reason while silence is much more like a result.

In my study, more than 50% Chinese export producers keep silence in front of the notification of anti-dumping investigation from the EU Commission. It would be an important part of my study to dig out the reasons behind these silences.

3.3 Criticisms, Modifications, and Development of Exit-Voice Model

Hirschman's original framework in 1970s is far from precise. However, it is truly an intellectual work which offers us a new point of view to explain the many phenomena from political level to economic level. His concepts in this model are very thought-provoking, attracting many scholars following to refine and rethink this model in the light of empirical evidence. Hirschman himself kept on critically revising his model in various respects as well in the following two decades in order to refining its model to a broader application. "In this sense, the criticism, modifications and additions ... (as debatable as each of them may be) do not speak against the model developed by Hirschman but rather attest to its vitality and to the continued stimulation emerging from it."⁴⁵

3.3.1 Criticisms and Modifications to Hirschman's Model by Barry and Birch

Brian Barry is an important commentator by pointing out three criticisms to Hirschman's framework in 1974. First, Barry harshly criticizes the third concept brought forward by Hirschman "Loyalty". He thinks it is merely an "ad hoc equation filler"⁴⁶ but "not a significant phenomenon"⁴⁷. According to Barry, the existence of "Loyalty" is understandable while the role played by loyalty should be re-considered. If we can think together with the two equations listed above, it could be easier to say that loyalty should be much more located in the variables influencing the option of exit and voice rather than parallel with exit and voice.⁴⁸ If we modify the above two equations according to Barry and merge them into one equation, we can get:

⁴⁵ Leonard Schoppa, *Exit, Voice and Women's Movements in an Era of Low Fertility*, p.6

Available on 15th Dec 2005 from <http://www.people.virginia.edu/~ljs2k/aps2005.pdf>

⁴⁶ Brian Barry, "Review Article: 'Exit, Voice, and Loyalty.'" *British Journal of Political Science* 4:1 (January 1974), pp. 95

⁴⁷ Brian Barry, "Review Article: 'Exit, Voice, and Loyalty.'" *British Journal of Political Science* 4:1 (January 1974), pp. 97

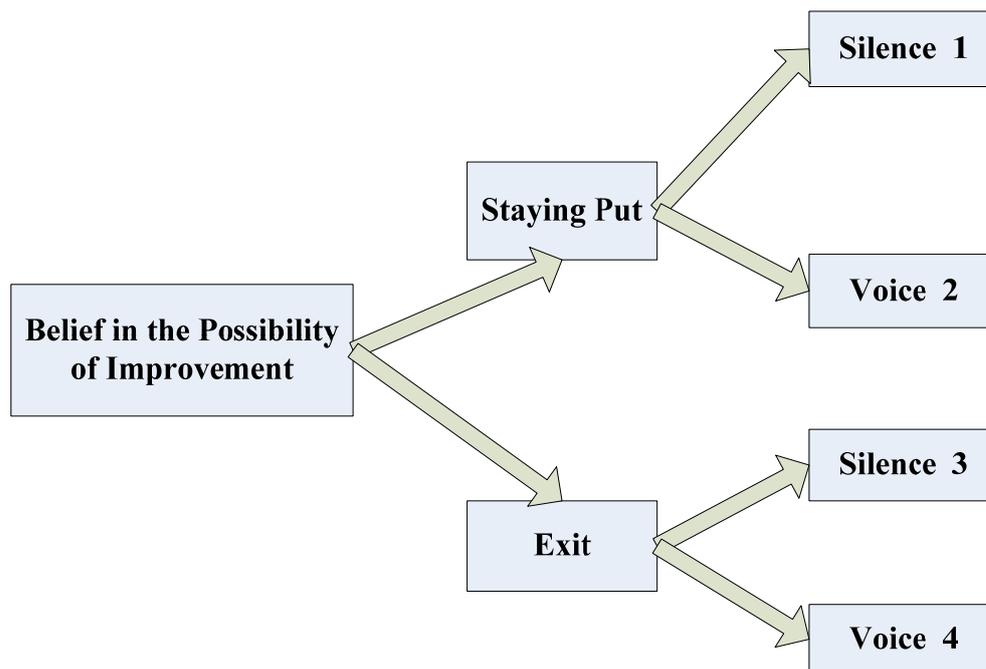
⁴⁸ That is to say, loyalty should be much more located in the right side of the equation rather than in the left side.

$F(\text{exit/voice})=X(\text{comparison of the cost of each option})$
 $=X(\text{quality-conscious of customers, availability of each option, effective of each mechanism, cost of each option, loyalty})$

Note: An implied assumption in Hirschman’s model as well as in Barry’s is that the customers and members will consider the cost and gain of both exit and voice option before making a decision.

Barry’s second criticism is aiming at the very headstream of Hirschman’s model. He denies Hirschman’s assumption that customers and members’ belief that the firm and organization will become better comes directly from a decline in the quality of the performance. In fact, as Barry points out, it is not always the case. Even there is no declination at all; the customers and members would form the belief in the possibility of improvement, which, instead of declination, should be the first factor in the model.⁴⁹ The third criticism from Barry is that he thinks there should be two distinctive steps for the decision making of customers or members while Hirschman falsely collapses them into one. For Barry, there should first be a choice between exit and non-exit and then a further choice between voice and silence. It is based these three criticisms that Barry rectifies Hirschman’s model as following:

Figure 1. Birch’s rectification of Hirschman’s model



Source: Brian Barry, “Review Article: ‘Exit, Voice, and Loyalty.’” *British Journal of Political Science* 4:1 (January 1974), p.74

When it comes to Barry’s second criticism, another scholar A.H. Birch gives a further expounding and analysis in his article *Economic Models in Political Science: the Case of ‘Exit, Voice, and Loyalty’*. While agree with Barry that “the decline in performance

⁴⁹ Brian Barry, “Review Article: ‘Exit, Voice, and Loyalty.’” *British Journal of Political Science* 4:1 (January 1974), p.90

is only related in a contingent way to belief in the possibility of improvement”⁵⁰, Birch also realized that it will make model clear and simple to explain by postulating decline as the first move in the process. Moreover, Birch gives out another possible reason forming the belief in the possibility of improvement. That is the “activity of political agitators, who may not be themselves directly involved in the organization but who arouse a desire for improvement among those who are involved.”⁵¹ By introducing a concept of Agitation as a separate factor, Birch offers us a way to distinguish two different kinds of voice choosers: 1. the ones who are discontent with the quality of products or the service of organizations and would like to voice other than keep silence; 2. the one who are previously content with the current situation but decide to voice because of the agitation, which arouses their feelings of dissatisfaction.

Besides the complementarily to Barry’s second criticism to Hirschman’s model, Birch also imports another factor: retaliation. Noticing that Hirschman is slightly unrealistic in his failure to recognize the existence and effect of retaliation, Birch insists that retaliation is very important since it, in many times, could hold the possibility of voice. Birch cites the same example with Hirschman and he explains in another point of view. When a school’s education quality declines, sometimes parents are afraid of voicing the school head considering the possible retaliation to their children even they concerns the declination and they can afford the money and time cost of voicing. In Birch’s concrete example, some parents first transfer their children to another school and then start protesting and other ways of voice. In this case, according to Birch, “exit was the necessary precondition of voice.”⁵² Birch criticizes Hirschman’s original model by blaming that the latter has paid too much attention on the relationship of the efficacy of voice and people’s ability thus neglected if they can reasonably expected to bear. Taking account of this, Birch thinks that the model is need to be substantially revised and his version of the model is illustrated as figure 2.

According to Birch’s analyze and his modification of Hirschman’s model, we could modify the equation as following:

$$F(\text{exit/voice/silence})=X(\text{comparison of the cost of each option})$$

$$=X(\text{quality-conscious of customers, outside or inside agitation, availability of each option, belief in efficacy of each mechanism, fear and evaluating of retaliation, loyalty, other unknown variables})$$

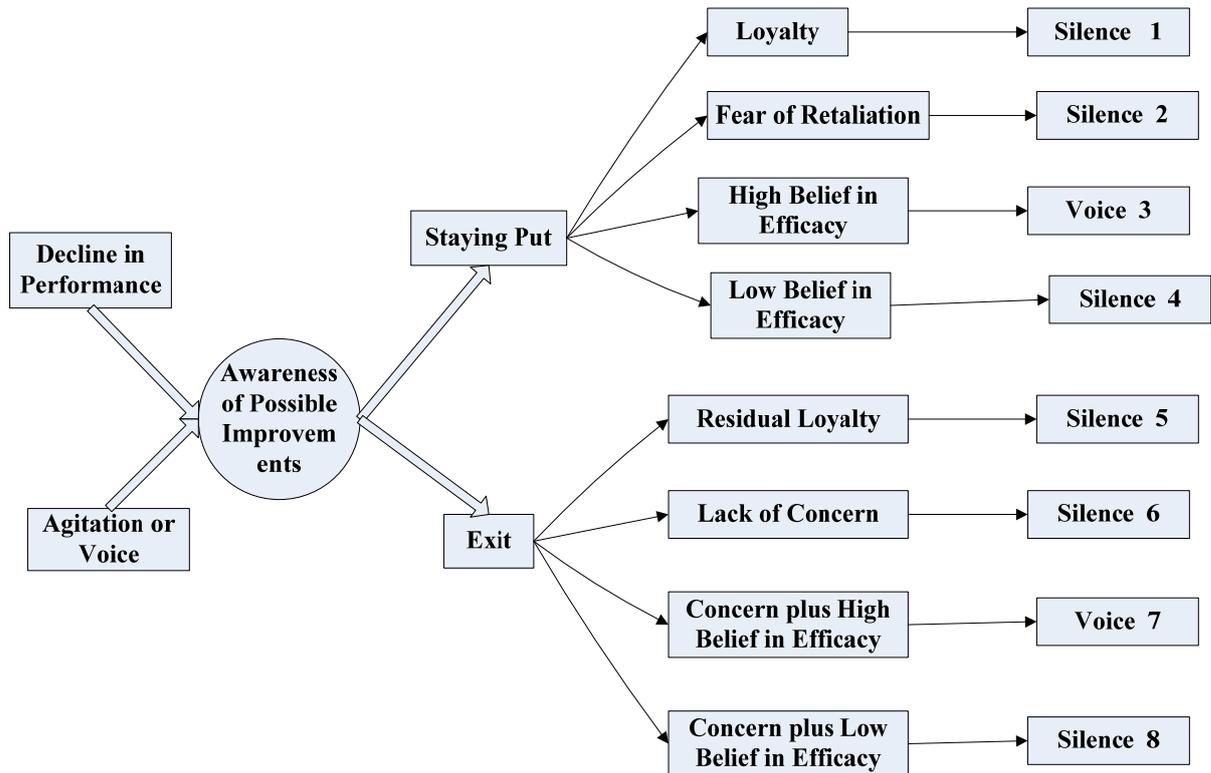
Note: The factors in the brackets are influencing the choice of exit, voice or silence.

⁵⁰ A.H. Birch, "Economic Models in Political Science: The Case of `Exit, Voice, and Loyalty." *British Journal of Political Science* 5 (1):69-82, 1974, p.79

⁵¹ Ibid p.79

⁵² Ibid p.77

Figure 2. Birch's rectification of Hirschman's model



Source: Brian Barry, "Review Article: 'Exit, Voice, and Loyalty.'" *British Journal of Political Science* 4:1 (January 1974), p.80

3.3.2 The Wide Application and the Refining of Exit-Voice Model

Hirschman's exit-voice model was originated in his effort to account for the enduring inefficiencies of the Nigerian railways. However, this simple model is enduringly popular for decades because of its applicability to various environments from political, economics and social life. In fact, in Hirschman's original book in 1970 he has already cited various examples to prove his model. His followers inherited Hirschman's original expectation to his model by applying exit-voice model in to a wide range of array such as labor market, auto industry, medical care market, regional nationalism, women's movement and state turbulence.

In the following three decades after his thought-provoking book, Hirschman did not stop refining his exit-voice model so that it could be more suitable for the real case. In 1976, he wrote an article *Some Uses of the Exit-Voice Approach*, in 1980 an article *Exit, Voice, and Loyalty: Further Reflections and a Survey of Recent Contributions*, and in 1986 *Exit and Voice: An Expanding Sphere of Influence*. In 1993, Hirschman applied his renewed exit-voice model to the collapse of East German Communism. In his formal article, Hirschman did not offer a formal model demonstrating exactly the interaction between exit and voice, which was criticized a lot. However, it was in his

1993 article discussing the German Democratic Republic that Hirschman gave out his explanation on how exit opportunities affect the propensity voice. That is what Hirschman called “hydraulic” model: “deterioration generates the pressure of discontent, which will be channeled into voice or exit; the more pressure escapes through exit, the less is available to foment voice.”⁵³ It is said that although widely applicable, Hirschman’s model as a theory has not developed correspondingly that much. Yet Scott Gehlbach’s study *A Political Model of Exit and Voice* started in 2004 was supposed to refine Hirschman’s theory. In this research, Gehlbach reexamined Hirschman’s classic model through a game theoretic interpretation of the relationship between exit and voice using the same empirical examination by revisiting Hirschman’s analysis of exit and voice in East German in 1993. Gehlbach innovatively differentiated between static and dynamic effects of exit. “Voice having been established, exit can increase the effectiveness of voice by increasing individuals’ bargaining power. But viewed from the perspective of the decision to establish voice to begin with, exit can reduce voice by increasing the relative attractiveness of silence.”⁵⁴ Gehlbach also put forward a point neglected by Hirschman, “When the exit of individuals is more costly to the *leadership*, voice may increase, since individuals understand that their exit option has increased their potential bargaining power *vis-à-vis* the leadership.”⁵⁵ Besides, Gehlbach also mentioned the factor that the possibility and degree the organization suppress exit or voice. By considering the points brought by Gehlbach, our equation above should be changed again:

Equation A:

$$\begin{aligned}
 F(\text{exit/voice/silence}) &= X(\text{comparison of the cost of each option}) \\
 &= X1(\text{quality-conscious of customers, outside or inside agitation,} \\
 &\quad \text{availability of each option, belief in efficacy of each mechanism,} \\
 &\quad \text{fear and evaluating of retaliation, loyalty, other unknown} \\
 &\quad \text{variables})+ \\
 &\quad X2(\text{quality-conscious of customers, outside or inside agitation,} \\
 &\quad \text{availability of each option, belief in efficacy of each mechanism,} \\
 &\quad \text{fear and evaluating of retaliation, loyalty, other unknown} \\
 &\quad \text{variables})+ \\
 &\quad X3(\text{quality-conscious of customers, outside or inside agitation,} \\
 &\quad \text{availability of each option, belief in efficacy of each mechanism,} \\
 &\quad \text{fear and evaluating of retaliation, loyalty, other unknown} \\
 &\quad \text{variables})+ \\
 &\quad \dots
 \end{aligned}$$

Note: X1, X2, X3... means factors influence their choice in the period of time 1, time 2, time 3...

⁵³ Albert O. Hirschman, “Exit, Voice, and the Fate of the German Democratic Republic: An Essay in Conceptual History.” *World Politics* 45:2 (January 1993), p. 176.

⁵⁴ Scott Gehlbach, *A Political Model of Exit and Voice*, 2005, Available on 15 December 2005 on <http://www.wcfia.harvard.edu/seminars/pegroup/Gehlbach2005.pdf> p.2

⁵⁵ *Ibid* p.2

The choice of exit, voice and silence is a dynamic one, in different period of time there will be different variables which influence the cost of each option. Along with the development of the process, the advantage and disadvantage of each option will change so that the customers and members may change their option.

3.4 Exit, Voice and Silence in My Study

When the Commission receives and verifies complain on Chinese products' dumping from an industry association within the EU, it notifies Chinese producers of their initiating of AD investigation. In this situation, the EU market for Chinese exporting producers are just like the customers whose products' quality decreases or the members whose organization declines. And just like the customers who want to the quality of products to get back to normal, Chinese exporting producers would like their exporting situation in the EU market can get back to the previous situation, that is, they can sell their products without any punishment duties. However, different Chinese producers have different responses to the notification from the EU in order to achieve this aim:

I. Sticking in the EU market by

1. Applying for MET?
2. Applying for individual duty?
3. Giving up the current channel of exporting by starting OEM or setting up factories in a third country?

II. Exiting the EU market by

4. Giving up the EU common market and turning to other foreign market?
5. Giving up the EU common market and focusing on domestic market?
6. Giving up the current products and turning to other similar products which are not on the EU anti-dumping list?
7. Giving up the current products and turning to other industry?
8. Not knowing the anti-dumping and the EU's notification.
9. Undervaluing the effect of the EU AD investigation and simply ignore the notification?
10. Realizing the effect of the EU AD investigation but having no ability to take any action?

According to the modified model by Birch, choice I and II is the first step of choosing exit or non-exit. Then, choices 1 and 2 after choice I are just as the customers or members who choose to inform the firms or organization of the lapse of products quality or member service and try to influence them to take actions to change the current situation, all this could be seen as VOICE. Chinese producers who choose Choice 3 after choice I and choices 4, 5, 6, 7 after choice II are corresponding to the customers or members who choose to stop buying the products or withdraw from the organization so that these could be seen as EXIT. Choice 9 and 10 belong to

SILENCE. Choice 8 is currently silence. After a period of time, it can go for the other 9 choices. Moreover, AD investigation always lasts for several years. This maybe the choice after 20 days of the EU's notification, but the situation will change after 2 months, after half a year, after one year or even longer. For example, in most of the time the number of Chinese producers who appeal to MET or individual treatment is higher in the provisional duty decision making than in sun-set review. In other words, there are some Chinese producers who choose voice at first but exit or silence later. According to Gehlbach, the interaction between exit and voice is dynamic. In different period of time the disposition of independent variables is different. Hirschman and his followers analyze why certain customers or members choose certain options, which is fit for my aim of study: why certain Chinese producers take certain actions to EU investigation. So it could be seen that this model of exit-voice-silence is suitable to my anti-dumping study.

Equation A listed several factors which will influence the choice of exit, voice and silence in difference period of time. These factors are independent variables in my study:

**Table 2. Independent Variables in the Case Study
Corresponding to Equation A**

Factors in Equation A	Corresponding Independent Variables in My Study
quality-conscious of customers	producers' degree of dependence on the EU market
outside or inside agitation	? (Need to be found out in the following case study)
availability of each option	companies' ability resorting to each option
belief in efficacy of each mechanism	based on previous case
fear and evaluating of retaliation	high or very high punitive duty
loyalty	? (Need to be found out in the following case study)
other unknown variables	? (Need to be found out in the following case study)

Tao Jingzhou, Head of representative of Coudert Brothers LLP Beijing Office, is reputed by his rich experience delegating the anti-dumping cases between China and the EU. In one of Tao's interview by a journalist from China Lawyer, Tao discussed what kind of Chinese producers always appeal back to EU and what not. As a summary, Tao's point of view is:

1. The more dependent the producers are on the EU market, the more willing they are to consider applying for MET or individual treatment.

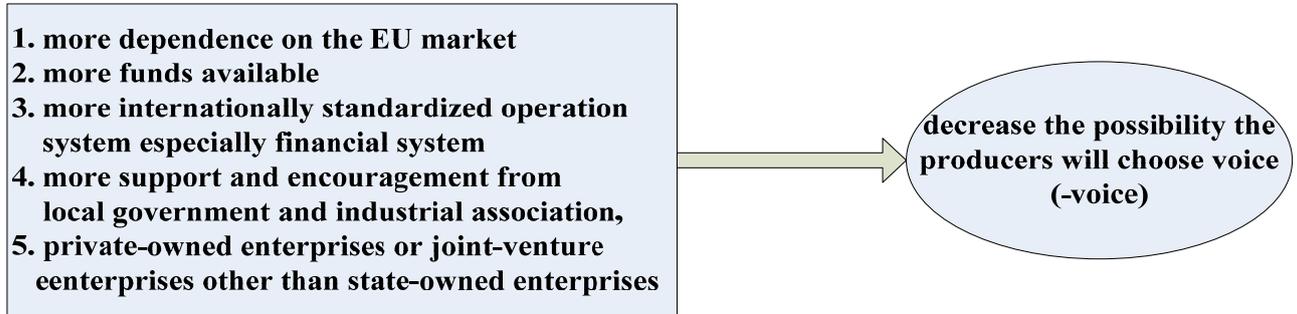
2. The more funds the producers have, the more willing they are to consider applying for MET or individual treatment.
3. The more internationally standardized the producers' operation system especially financial system is, the more willing they are to consider applying for MET.
4. The more support and encouragement the producers can get from local government and industrial association, the more willing they are to consider applying for MET or individual treatment.
5. Private-owned enterprises and joint-venture enterprises are more willing to consider applying for MET or individual treatment than state-owned enterprises.
6. If the situation is opposite to what listed above, the producers are less willing to consider applying for MET or individual treatment while more willing to be passive in the case.
7. The more diversified the products of the produces are, the more willing they are to consider giving up the products involving in AD investigation and developing the other products.

Mr. Tao Jiangzhou cited the above findings through his years of lawsuit experience and from an angle of a law, if we put our classifying of exit, voice and silence into Tao Jiangzhou's point of view, we could get our three main hypotheses in figure 3.

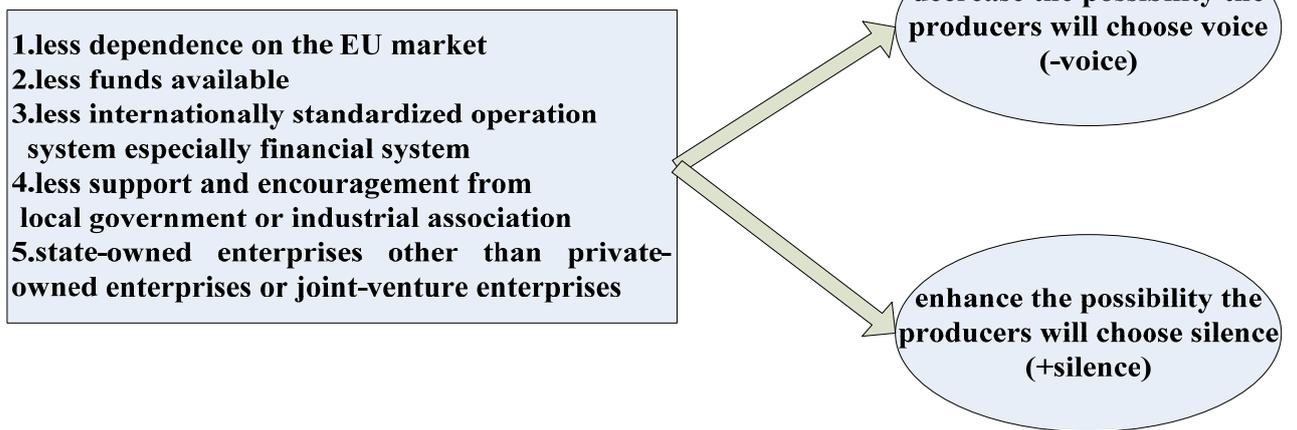
These three hypotheses are some empirical assumptions from an experienced lawyer. It has nothing to do with voice-exit-silence model. However, I just use the concept of voice, exit and silence to clarify his standpoints in order to make it easier to compare with the analysis findings in the following case study. In the case study, I will apply the modification model of voice-exit-silence and the Equation A getting from the development of Hirschman's theory into a concrete anti-dumping case to analyze what are the actual reasons behind different options of different producers. And then I will compare the result I get from case study with the hypotheses here.

Figure 3. Hypotheses in the Case Study

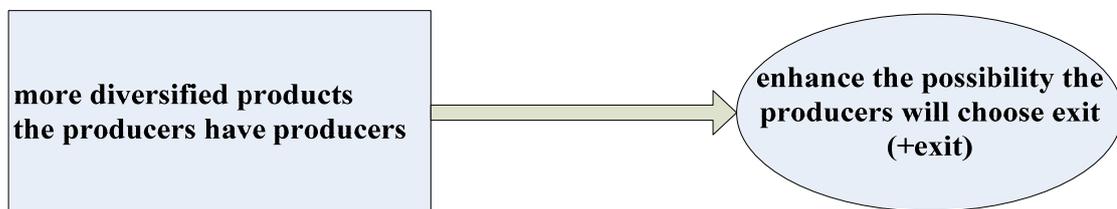
Hypothesis 1.



Hypothesis 2.



Hypothesis 3.



Note: +voice means these factors have positive influence on the option of voice;
 -voice means these factors have negative influence on the option of voice;
 Same rules go to +silence and +exit.⁵⁶

⁵⁶ These symbols have the same meaning in the following tables in Chapter 6.

Chapter 4: EU Anti-dumping Law

4.1 Procedure and Roles Played in Anti-dumping Investigation

According to EC Regulation 384/96 and the following modifications, the competence of taking any anti-dumping action is an exclusive competence for EU. Under EU's current anti-dumping regulation, the process of a normal anti-dumping case is as following:

Figure 4. The Process of a Normal AD Case of the EU



When it comes to the notification of anti-dumping information, a detail should be mentioned here, “Where the number of exporters involved is particularly high, the full text of the written compliant may instead be provided only to the authorities of the exporting country or to the relevant trade association.”⁵⁷ Besides, the units concerned will be given at least 30 days to reply the questionnaires although an extension could be granted in case enough due cause could be proved in particular circumstance. In terms of the parties who do not cooperate with the investigation, for example, do not reply the questionnaire or do not properly and completely reply the questionnaire, according the rule of best information available basis, decisions will be made without the unavailable information no matter how it will influence the results.

⁵⁷ Article 5 (11), Regulation (EC) No.384/96. EC Anti-dumping Law: A Commentary on Regulation 384/96, (Chichester : John Wiley & Sons) 1998, p. 584

Normally, “the provisional duties shall be imposed no earlier than 60 days from the initiation of the proceedings but not later than nine months from the initiation of the proceedings.”⁵⁸ Several rules should be mentioned. First, if the compliant is withdrawn or make undertakings to the Commission, the investigation proceeding will automatically terminated. Second, if after investigation and analysis, it has been realized that dumping is not justified or common interest has not been injured or the causal relationship is not verified, the investigation proceeding will be terminated. Third, normally the procedure for imposing anti-dumping duty is to impose provisional duty first and then the Committee will submit a proposal for definitive action to the Council one month before the expiry of such provisional duty, so if dumping and injury has been definitely determined and the Community interest calls for definitive intervention, definitive duty is finally imposed.

4.2 Regulations Related to Special Non-Market Economy Countries

According to Regulation (EC) No.384/96, all the exporting countries are divided into two kinds: market economy countries and non-market economy countries. While the normal value of the products imported from market economy countries could be calculated based on paid or payable price in domestic market or calculated directly by the constructed value, the normal value of products imported from non-market economy countries will be determined in accordance with the price or constructed value of an appropriate market-economy third country, named analogous country.⁵⁹

In 1998, EU Anti-dumping Regulation was amended unilaterally by introducing a “special market economy regime” with respect to anti-dumping investigation of imports of products from Russian Federation and People’s Republic of China. This revising of the Commission’s anti-dumping practice was, mentioned as “recognition of the efforts made so far by China and Russia to transform their economies”⁶⁰. As listed in Council Regulation 905/98, “...in particular, it is appropriate to specify that normal value may be determined in accordance with the rules applicable to market economy countries in cases where it can be shown that market conditions prevail for one or more producers (in China and Russia) subject to investigation in relation to the manufacture and sale of the product concerned.”⁶¹ This regulation modification entered into force on 1 July 1998. After that in October 2000, the Regulation was modified again by Council Regulation 2238/2000, extending the “special market economy regime” to Ukraine, Vietnam and Kazakhstan as well as other non-market

⁵⁸ Article 7 (1), Regulation (EC) No.384/96, EC Anti-dumping Law: A Commentary on Regulation 384/96, (Chichester : John Wiley & Sons) 1998, Regulation (EC) No.384/96, p.587

⁵⁹ Ibid Article 2, pp.573-579

⁶⁰ Cited by V.B.B., Communication from the Commission to the Council and the European Parliament on the Treatment of Former Non-Market Economies in Anti-Dumping Proceedings, COM(97) 677 final, at 1, Anti-dumping and Other Trade Protection Laws of the EC, 4th ed, (New York : Kluwer Law International, 2004) p.129

⁶¹ Council Regulation 905/98, 1998 O.J. (L128), European Union Documents, Available on 30 October 2005 from <http://europa.eu.int/eur-lex/lex/Notice.do?val=227703:cs&lang=en&list=236157:cs.234464:cs.227703:cs.&pos=3&page=1&nbl=3&pgs=10&hwords=&checktexte=checkbox&visu=#texte>

economy countries that were WTO members at the date of the initiation of the anti-dumping proceeding. Two years later in November 2002, Russia was formally granted as a fully fledged market economy country provided of the essential progress and huge steps Russia has made in order to fundamentally alter its economy conditions. So from then on, the normal value of products originating in Russia could be calculated directly without the statistics from the third country.

Until now, China still belongs to the first group of all the non-market economy countries exporting products to EU market according to the statement of V.B.B. Generally speaking, “it is recognized that the progress of reform has fundamentally altered their economies and has led to the emergence of firms for which market economy conditions may prevail.”⁶² However, the Commission believes that not all producers in China are operating under the rule of market economy conditions.

When an anti-dumping investigation is initiated with respect to products exporting from China, all the Chinese exporters concerned will be defaulted as non-market economy condition unless the exporters with verifiable market economy conditions claim for MET and/or individual treatment at the early stage of investigation. Usually, the deadline of such claims will be mentioned expressly in the notice of initiation of AD investigation and in the questionnaires the exporters are expected to receive. It is usually around 21 days after the initiating of investigation.

4.3 Criteria for Chinese Producers

The export producers who claim for MET treatment should make themselves shown, by written documents with sufficient evidence, that they can satisfy the following criteria according to Council Regulation 905/98:

- decisions of firms regarding prices, cost and inputs, including for instance raw materials, cost of technology and labor, output, sales and investment, are made in response to market signals reflecting supply and demand, and without significant State interference in this regards, and costs of major inputs substantially reflect market values,
- firms have one clear set of basic accounting records which are independently audited in line with international accounting standards and are applied for all purposes,
- the production costs and financial situation of firms are not subject to significant distortions carried over from the former non-market economy system, in particular in relation to depreciation of assets, other write-offs, barter trade and payment via compensation of debts,
- the firms concerned are subject to bankruptcy and property laws which guarantee legal certainty and stability for the operation of firms, and

⁶² V.B.B., *Anti-dumping and Other Trade Protection Laws of the EC*, 4th ed, (New York : Kluwer Law International, 2004) pp.130-131

- exchange rate conversions are carried out at the market rate.⁶³

The producers who fail to be granted MET are permitted to apply individual treatment, together with other producers who are meant to apply individual treatment from the very beginning. After several modifications in 1998 and 2000, the current request for individual treatment candidates is as following:

- freedom to repatriate capital and profits (this criteria is only applicable to wholly foreign owned firms and joint ventures);
- export prices and quantities, and conditions and terms of sale are freely determined;
- the majority of shares belong to genuinely private person. State officials appearing on the board or in key management positions should be in the clear minority. The presumption is that a State-controlled company cannot guarantee its independence from State interference, and the burden rests with the exporter to prove otherwise;
- exchange rate conversions are carried out at the market rate;
- State interference is not such as to permit circumvention of measures if exporting producers are given different rates of the duty.⁶⁴

The exporting producers who claim MET and/or individual treatment but failed to obtain, as well as all the other producers, will be treated as normal non-market country producers. That is, the products concerned will be imposed by a single rate of duty set in according to normal value which “shall be determined on the basis of the price or constructed value in a market economy third country, or the price from such a third country to other countries, including the Community, or where those are not possible, on any other reasonable basis, including the price actually paid or payable in the Community for the like product, duly adjusted if necessary to include a reasonable profit margin”⁶⁵. This third country is the so-called analogue country.

Chapter 5: Domestic Environment in China

5.1 The Economic Reformation in China

In 1978, after the Third Plenary of the Eleventh Party Congress, China began to move away from its rigid planned economy and open its door to the outside world by a series of market reforms under the catchwords of “Inviting in” and “Sending out”.

⁶³ Council Regulation 905/98, 1998 O.J. (L128), European Union Documents, Available on 30 October 2005 from <http://europa.eu.int/eur-lex/lex/Notice.do?val=227703:cs&lang=en&list=236157:cs,234464:cs,227703:cs.&pos=3&page=1&nbl=3&pgs=10&hwords=&checktexte=checkbox&visu=#texte>

⁶⁴ V.B.B., *Anti-dumping and Other Trade Protection Laws of the EC*, 4th ed, (New York : Kluwer Law International, 2004) pp.132-133

⁶⁵ Article 2(7), Regulation (EC) No.384/96, *EC Anti-dumping Law: A Commentary on Regulation 384/96*, (Chichester : John Wiley & Sons) 1998, p.575

Price reform is a very significant aspect of economic reforms in China. From 1979 to 1984, “China has implemented its price reform and price adjustment. Six price readjustments were carried out, with considerable effects upon industrial and agricultural products and transportation.”⁶⁶ As far as price reform, it should be noticed that before reformation most of the price of goods especially the crucial farm produce and essential energy was under the control of government. “Beginning in 1992 in most urban areas, including by May 1993 in Beijing, the system for rationing grain and edible vegetable oil via a coupon rationing system, in continuous use since 1995, was abolished. The retail prices of grain and oil were fully decontrolled.”⁶⁷ When it comes to industrial goods, the situation is even more complicated. Before reformation, these goods were distributed by the state at fixed prices. Since mid-1984, the State formally sanctioned a two-tier price system for these goods. That is, part of the price of goods was determined by the market while part determined by the State. In the beginning even the market-determined prices were subject to a ceiling of no more than 20% over the state-fixed prices. It was not until the early 1985 that the 20% limitation was eliminated. Gradually, the portion of goods sold at the prices determined by market became larger and larger and in the late 1980s and early 1990s the planned prices for most industrial goods were canceled. In 1992 and 1993, the price reform process touched the field of energy and transportation, the most distorted and the toughest corner. For example, the price of coal and crude oil were ridiculously high before the reform. By the end of 1993, more than three quarters of all coal was sold at market prices. Considering crude oil, according to the statistics from World Bank, China reduced the share of planned output sold at the lowest of two official prices from two-thirds in nearly 1992 to just over a fifth in 1993, more than doubling its price.⁶⁸ The price of transport was totally under the control of the state as well before the change. It has been reformed several times from 1989 and the situation has been changed a lot.

Table 3. Share of commodities sold at state-fixed prices, 1978-93

Year	Retail Commodities	Agricultural Goods	Capital Goods
1978	97	94	100
1992	10	15	20
1993	5	10	15

Note: Percent is calculated as a share of transaction volume for each category.

Sources: Cited by Nicholas R. Lardy, World Bank (1993b,49-50); Niu Genying (1994,10)

⁶⁶ George Totten and Zhou Shulian, eds, *China’s Economic Reform: Administering the Introduction of the Market Mechanism*, (Stockholm: The Center for Pacific Asia Studies, 1992) P.126

⁶⁷ Nicholas R. Lardy, *China in the World Economy*, (Washington: Institute for International Economics, 1994), p.8

⁶⁸ Cited by Nicholas R. Lardy, *China in the World Economy*, (Washington: Institute for International Economics, 1994), p.9

We can evaluate the effect of price reform by calculating the share of commodities sold at state-fixed prices. From the table above, during the first 5 years of price reform, retail commodities changed the most, the share of retail commodities sold at state-fixed prices declined sharply from 97% to 5% with agricultural goods from 94% to 10% and capital goods from 100% to 15%. It is this significant transformation that convinced the World Bank to conclude that “the market mechanism now plays the major role in determining commodity prices” and that “commodity price reform can now take a lower profile in the reform agenda.”⁶⁹

Other than the price of goods, there is the price of labor. That is, the determination of salary also changed a lot after the beginning of economic reform. Previously, there was a rigid official salary pay scale; all salaries paid should be according to that scale, and thus was determined by the state. As an initial step of salary reform, the salary system in the small-scale township and village enterprises got rid of the state control and set the salary level according to the active market changes. In 1980s and 1990s, these kinds of enterprises boomed and developed quickly. “By 1993 these enterprises employed more than 110 million workers and produced a significant share of China’s manufactured goods output. In 1990 it produced about \$12.5 billion in export goods, a little over 10 percent of China’s total exports.”⁷⁰ The reform of salary system in other kinds of enterprises including state-owned manufacturing began in the following years. Until now, the whole salary system in China has been set under the direction of market economic.

When it comes to the assumption of price reform, there were two different opinions among Chinese economics thinking about price reform. The first group believed that the commodity prices should be completely determined by market forces and the only thing the state could control is the issuance of bank notes in order to regulate the general level of commodity prices considering that “only with a price to be determined by supply and demand can enterprises formulate correct decisions and rationally utilize their resources”⁷¹. The second group, however, while thinking it was not proper to have the prices controlled entirely by the market, held the point of view that it was necessary to integrate the desire of the market with certain price controls from the state. Through the development in 1980s and 1990s, it could be seen that finally it is the assumption from the second group that was applied. Therefore, although, as stated in the previous paragraphs, great steps had been made by China in price reform until early 1990s, many problems existed in Chinese price system and further works were needed to be done. For example, the price of important raw and semi-finished materials and energy were still centrally set by the state. In fact, this was one of the many important reasons that China was been recognized as a

⁶⁹ Cited by Nicholas R. Lardy, *China in the World Economy*, (Washington: Institute for International Economics, 1994), p.10

⁷⁰ Lardy 1992a, p.771, Cited by Nicholas R. Lardy, *China in the World Economy*, (Washington: Institute for International Economics, 1994), p.10

⁷¹ George Totten and Zhou Shulian, eds, *China’s Economic Reform: Administering the Introduction of the Market Mechanism*, (Stockholm: The Center for Pacific Asia Studies, 1992) P.131

non-market economy country directly by EU in the anti-dumping regulation.

5.2 Exporting Trade

The market and price reforms in 1980s and 1990s in China stimulated the tremendous surge of Chinese foreign trade in the world.

Table 4. China's Export since 1978

Year	Exports(US\$ million)	Ration of Exports to GDP(%)
1978	9955	4.6
1979	13614	5.2
1980	18099	6.0
1981	22007	7.5
1982	22321	7.5
1983	22226	7.2
1984	26139	8.1
1985	27350	9.2
1986	30942	10.7
1987	39437	12.5
1988	47516	12.0
1989	52538	11.9
1990	62091	16.3
1991	71910	18.0
1992	84940	18.1
1993	91744	15.3
1994	121006	22.3
1995	148780	21.3
1996	151048	18.4
1997	182792	20.2
1998	183712	19.3
1999	194931	19.5
2000	249203	23.2
2001	266098	25.2
2002	325591	26.3
2003	438371	35.4

Source: International Monetary Fund, International Financial Statistics, International Monetary Fund, Washington, DC.⁷²

⁷² Cited by Yung-Wing Sung, *The Emergence of Greater China: The Economic Integration of Mainland China, Taiwan and Hong Kong*, (New York: Palgrave Macmillan, 2005), p.36

From the table above, we could see that China's export amount has increased from US\$9,955 million to US\$47,516 million in 1988, US\$183,712 million in 1998 and US\$438,371 million in 2003. The amount is multiplying every 10 years.

These huge change listed above is due to the reform of China's foreign trade policy, which followed the market and price reforms. Before the Movement of Reforming and Opening in 1978, the foreign trade organizations in China were the only organizations with the authority to deal with import/export trade and all international business in China. There are four stages of foreign trade system reform in Chinese history after 1978. First, from 1979 to 1986, the government gradually transferred the authority dealing with import/export to the local level; Second, from 1987 to 1990, the imposing of signing contract in order to dealing with foreign trade⁷³; Third, from 1991 to 1993, the abolishing of government subsidy to foreign trade and the modification of foreign trade contracting system; Fourth, from 1994 to 2001, the abolishing of contracting system, continue opening of foreign trade and strengthening macro-regulation.⁷⁴ In 1979, there were only 14 organizations having the right to deal with import and export. Even in 1980s after reforms, only certain appointed organizations and companies under the Ministry of Foreign Economic Relations and Trade or under the various ministries and committees of the state, or under various local governments, had the right to import or export transactions.

It is only until May 1992 that this monopolization of right faced challenges for the first time. On 11 May 1992, *The Notification of Endowing Part of the Rights of Import/Export Transactions to Producing Companies* was authorized by State Council of China. However, not every producer producing products for foreign trade could be authorized. According to the Notification, only the state-owned producers which have its own foreign trade organization and have the fixed assets above RMB1000 million could apply for the right dealing with foreign trade. After 1998, several related regulations⁷⁵ was authorized one by one which gradually lowered down the qualification of producers. Due to these regulations, not only state-owned enterprises but also other forms of enterprises including private companies can have the right to deal with import and export transactions. Moreover, the request in registration assets was lowered down from RMB 1000 million to RMB 8.5 million and then RMB 500,000 in 2003. As the results of these regulations, the number of companies who have the right of foreign trade was increasing dramatically from 5000 to 116,000 in 1994.⁷⁶ From 1 July 2004, with the modification of Foreign Trade Law of China, the

⁷³ Foreign Trade Contactor

⁷⁴ Liu Qinglin, *The Path Analysis of China's Foreign Trade System Innovation after 1949*, Xinhua Wenzhai, Vol 14, 2004, (Chinese), Available on 12 Nov 2005 from http://www.usc.cuhk.edu.hk/wk_wzdetails.asp?id=3348

⁷⁵ These regulations are: *Provisional Regulation on Endowing Rights of Import/Export Transactions to Private Producing Companies and Research Institutions* (January 1999); *Regulation on Management of the Qualification of Companies who Apply for Rights of Import/Export Transactions*(July 2001); *Notification of Justifying the Qualification of Companies who Apply for Rights of Import/Export Transactions and the Approving Process* (September 2003)

⁷⁶ *The History of the Open Process of Foreign Trade*, Series of Economic News, 7 April 2004, Available on 12 November 2005 at <http://finance.sina.com.cn/g/20040407/0721706163.shtml>

fussy examining and approving process was abolished. Simpler registration process was implemented instead. In addition, even individual people could apply for foreign trade if they have the competence.

Chapter 6: Case Study

6.1 The Selection of the Case

As stated before, there are many anti-dumping cases between China and EU. When I was choosing one of them as a case study, I set up several selection criteria as following to consider.

1. The anti-dumping investigation should be initiated after 1998 since critical modifications to EU anti-dumping law have been taken in that year and this study is supposed to offer some contribute to current and hopefully future China-EU anti-dumping issues.
2. The anti-dumping case should be influential enough so that there could be enough information available for me to collect and analyze.
3. The anti-dumping investigation, including the following review investigation, should have finished so that I could have a full screen of the whole situation to avoid ex parte prospect.

I use the above three criteria filtering the original pool and get several candidates, which are the case of textile, case of TV-set, case of lighter and case of CFL-i (Integrated electronic compact fluorescent lamps). All these cases have been or are current hot anti-dumping issues between China and EU drawing significant attention from the government to academic sectors of both sides. Negotiations between the Chinese government and the Commission have occurred several times due to the key role Chinese textile plays in foreign markets including the EU. For example, after several rounds of negotiation in Shanghai, on 11th June 2005 agreement on Chinese textile exporting to EU market was finally reached, which includes the termination of several anti-dumping investigations, setting of import quota and the rate of annual quota increment. It seems that there are more political factors involved in the case of textile than other cases which in turn makes textile case more sensitive, complicated and apparently special, not typical. The case of TV-set became a hot issue again in 2002. However, it was just a late ending for a story that happened in the late 1980s and early 1990s, when the original anti-dumping investigation was lodged. If I go for that case, then some statistics in 1980s will be needed. However, some Chinese producers of that time disappeared or changed to other names or industry a long time ago so that it is hard to get necessary statistics. Compared to most of anti-dumping cases, this case was a special one because there was no application for MET or

individual treatment because it was a case of the commitment of several big producers' after negotiation with EU commission. When it comes to the case of lighter, it was neither a sensitive industry nor a special case with a special ending. The lighter industry in China mostly concentrates in Wenzhou, Zhejiang Province. So it was very much an anti-dumping investigation aiming at Wenzhou lighter producers. This industry concentration will limit the research sample, which reduces the representative and reliability of the case study. Finally, I chose the case of CFL-i because it could satisfy all the three criteria listed above and it is representative enough.

6.2 Introduction of the case

Since the initiation of economic reforms in the late 1970s, China's illumination industry has developed rapidly. Integrated electronic compact fluorescent lamps (CFL-i), as a kind of energy saving lamp, developed fast under the government's sparkplug of electronic energy saving. Other than satisfying the demanding of domestic market, with the reform and opening of foreign trade, some of the products were exported to international market including the EU market. Chinese CFL-i products are always sold at significantly low price levels and in substantial quantities.

On 4th April 2000, on behalf of EU CFL-i industry and representing all major production in the EU of the product concerned, European Lighting Companies Federation (ELC) lodged a complaint concerning dumping of CFL-i originating from China. On 17th May 2000, the Commission initiated the anti-dumping proceeding with regard to imports into the Community of integrated electronic compact fluorescent lamps (CFL-i) originating in China. 127 Chinese producers were involved. Within the requested period of time, 12 of them replied the questionnaires sent by the Commission. 10 of the 12 exporting producers claimed for MET with one of them⁷⁷ failing to respond and was later considered as non-cooperating.

Finally 2⁷⁸ of the 9 producers were given MET with the remaining 7 alternatively requesting individual treatment together with the 2 other producers⁷⁹. One⁸⁰ of these 9 later withdrew its claim so there are 8 of them. Later, 6 of these 8 were given individual treatment. Mexico was chosen as the analogue country for calculating normal value.

Therefore provisional anti-dumping duty was imposed on 7 February 2001:⁸¹

⁷⁷ NingBo Zhonglin (Group) Lighting Appliance Factory

⁷⁸ Lisheng Electronic & Lighting (Xiamen) Co., Ltd; Philips & Yaming Lighting Co., Ltd

⁷⁹ City Bright Lighting (Shenzhen) Ltd and Shenzhen Zuoming Electronic Co., Ltd

⁸⁰ Ningbo Super Trend Electron Co. Ltd

⁸¹ COMMISSION REGULATION (EC) No 255/2001, Official Journal of the L 38/8 European Communities,

8.2.2001, Available on 25 August 2005 at

http://europa.eu.int/eur-lex/pri/en/oj/dat/2001/l_195/l_19520010719en00080014.pdf

Table 5. Provisional AD Duty Imposed in CFL-i Case

Manufacturers	Rate of Duty (%)
Changzhou Hailong Electronics&Light Fixtures Co., Ltd	59,6
City Bright Lighting (Shenzhen) Ltd	17,2
Deluxe Well Enterprises Ltd	37,3
Lisheng Electronic & Lighting (Xiamen) Co., Ltd	0,0
Philips & Yaming Lighting Co., Ltd	39,2
Sanex Electronics Co., Ltd	21,2
Shenzhen Zuoming Electronic Co., Ltd	6,0
Zhejiang Sunlight Group Co., Ltd	35,4
All other companies	74,4

After 5 months, on 4 July 2001, a definitive anti-dumping duty was imposed.⁸²

Table 6. Definitive AD Duty Imposed in CFL-i Case

Manufacturers	Rate of Duty (%)
Changzhou Hailong Electronics & Light Fixtures Co., Ltd	59,6
City Bright Lighting (Shenzhen) Ltd	17,1
Deluxe Well Enterprises Ltd	37,1
Lisheng Electronic & Lighting (Xiamen) Co., Ltd	0,0
Philips & Yaming Lighting Co., Ltd	32,3
Sanex Electronics Co., Ltd	20,2
Shenzhen Zuoming Electronic Co., Ltd	8,4
Zhejiang Sunlight Group Co., Ltd	35,3
All other companies	66,1

In August 2002, OSRAM GmbH Germany lodged a complaint to the Commission again claiming that the anti-dumping measures imposed on Chinese CFL-i was not able to protect related EU companies as it was supposed to and requested for harsher measures. EU accepted the complaint from OSRAM GmbH Germany and initiated re-investigation on this case in October. Eight Chinese producers involved including Firefly Lighting (Xiamen) Co. Ltd, which will be analyzed in detail in the following section) responded to this re-investigation. On 21 November 2002, OSRAM GmbH Germany withdrew its complaint.

On 23 October 2003, two Chinese producers, Changzhou Hailong Electronics & Light Fixtures Co., Ltd and Zhejiang Sunlight Group Co., Ltd applied an annulment of the

⁸² COUNCIL REGULATION (EC) No 1470/2001, Official Journal of the L 195/8 European Communities, 19.7.2001, Available on 25 August 2005 at http://europa.eu.int/eur-lex/pri/en/oj/dat/2001/l_038/l_03820010208en00080021.pdf

definitive anti-dumping duty and failed to bring any change to their duty.

Responding to the request lodged on 16 August 2004 by Lighting Industry and Trade in Europe (LITE) on behalf of producers and importers of CFL-i in the Community, on 8 September 2004, EU initiated anti-circumvention investigation concerning the possible circumvention of anti-dumping measures imposed by Council Regulation (EC) No 1470/2001 on imports of CFL-I originating in China by imports of CFL-i consigned from Vietnam, Pakistan or the Philippines, whether declared as originating in Vietnam, Pakistan or the Philippines or not, and making such imports subject to registration. 5 Chinese producers were involved while only one of them (Firefly Lighting (Xiamen) Co. Ltd) defended itself by fighting against this complaint. On 9 June 2005, final results of this investigation came out imposing 66.1% anti-dumping duty to the CFL-i consigned from Vietnam, Pakistan or the Philippines. Firefly Lighting (Xiamen) Co. Ltd failed and was imposed 66.1% anti-dumping duty together with the other 4 producers, which are Lisheng Electronic & Lighting (Xiamen) Co., Ltd, City Bright Lighting (Shenzhen) Ltd, Ningbo Super Trend Electron Co. Ltd and Zhejiang Sunlight Group Co.

If we illustrate the process describing above in a figure, we will have figure 4.

6.3 Analysis of different options

From the description and illustration of the whole case in the above section and comparing to our classifying to voice, exit and silence, we could take out some representatives for certain options. First, Firefly Lighting (Xiamen) Co. Ltd and Zhejiang Sunlight Group Co. are two Chinese producers who can represent the ones who choose voice. Moreover, Firefly Lighting (Xiamen) Co. Ltd is the most typical considering it is the only one maintaining voice from beginning to the end. Yangyang Electrical Appliance Co. chose exit from the very beginning. Firefly Lighting (Xiamen) Co. Ltd and Zhejiang Sunlight Group Co. chose exit and voice at the same time. Ningbo Super Trend Electron Co. Ltd chose voice first but changed to exit later. The proportion of producers that chose silence is the biggest among the three options. Shandong Zhaoguang Group kept silent from the very beginning while Fuzhou Yongdeji Lighting Appliance Co., Ltd gave up voice after failing and transferred to silence. Just as what Birch said when he criticized Hirschman, there were two choices, exit and no-exit first or voice and silence further. Also as Gehlbach analyzed in his research, the interaction between exit and voice is a dynamic process. When it comes to a certain producer, it may have different options in different periods of time. So if we illustrate these representatives' choices according to Birch's modification model of Hirschman, we can get Table 7.

Figure 4. Process of CFL-i Case

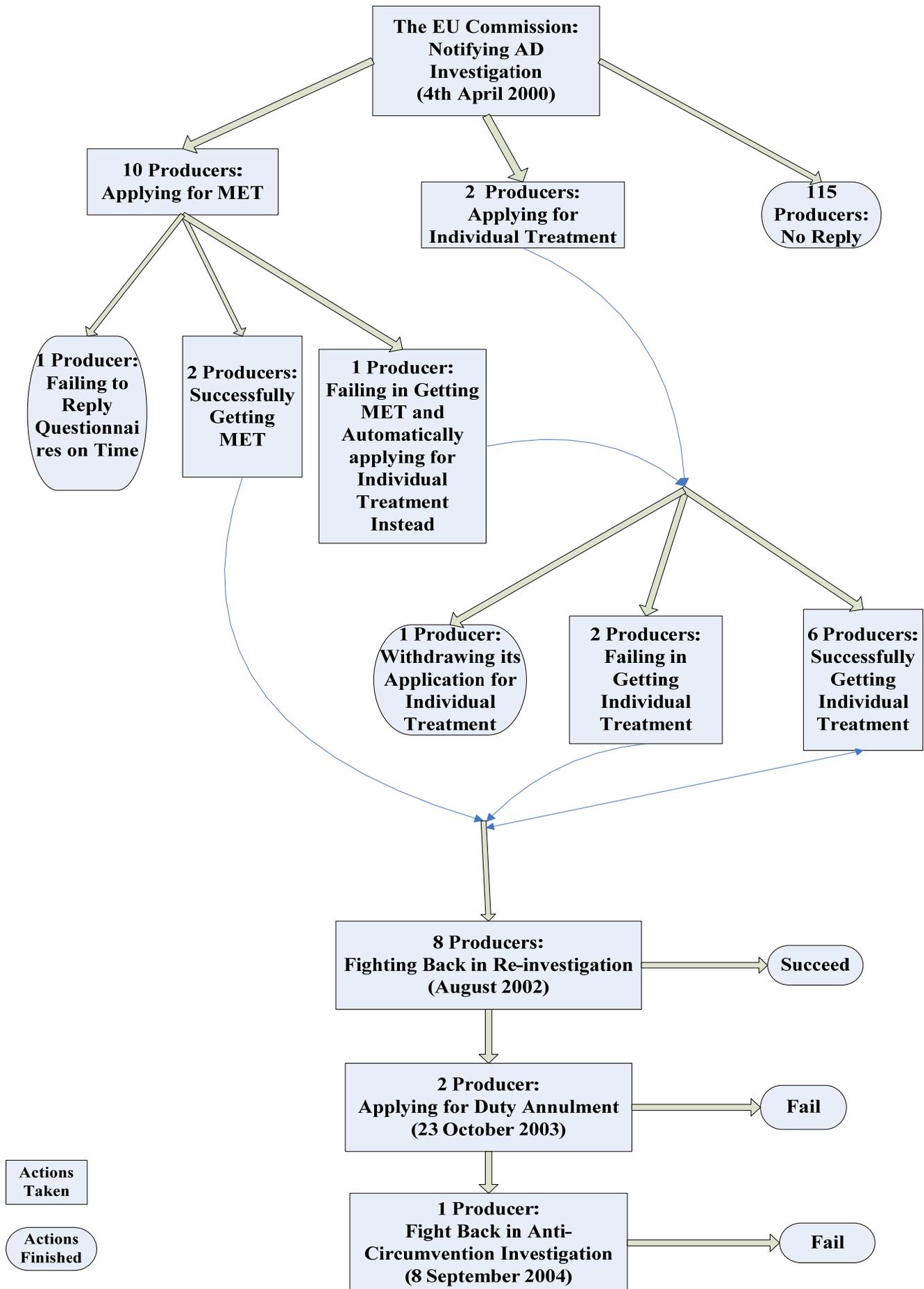


Table 7. Actions taken by 5 Representative Producers in CFL-i Case

Chinese Producers \ Period of Time	AD Investigation (2000-2001)	Reviews (2002-2003)	Anti-Circumvention (2004-2005)
Firefly Lighting	voice (failed)/ exit (succeeded)	voice (succeeded)/ exit(succeeded)	voice (failed)
Yangyang Electrical	exit(succeeded)	exit(succeeded)	—
Ningbo Super Trend	voice→exit (succeeded)	—	silence
Zhaoguang Group	Silence	Silence	—
Shenyang Power & Electric	Silence	Silence	—

Note: Hirschman stated that previous experience had an effect on customers or members' later choice. Considering this view and in order to make later analyze easier, I put "failed" or "succeeded" after the option of voice and exit. However, this "failed" or "succeeded" has nothing to do with producers' final interest or profit. It was much more like the direct result of whether they got what they wanted in the certain step.

Next, I will analyze the above 5 Chinese producers' motivations behind each option in each period of time one by one according to the questionnaires, telephone interviews and with reference to the Equation A. Be they email questionnaires or telephone interviews, I asked a list of basic questions based on the independent variables in Table 4 while the questions were adjusted from interviewee to interviewee.

1. Why did you do...? Why did not you do...? (First I give out an open question. Normally speaking, what interviewed answers firstly is something that they consider the most.)
2. How much did it cost you to...? Why do you think it worth?
3. How much did your CFL-i exporting to EU market account in your whole amount of exporting? And how much in your whole CFL-i output?
4. How many other foreign markets did you have? How many other products did you produce?
5. Did you confident for the result you will get when you applied for MET/individual treatment?
6. What plan did you have if you failed in obtaining MET/individual treatment when you decided to do so?
7. Who made the final decision? Was your decision influenced by other producers or other organizations?
8. Why did you change your mind when...? / Why did not you change your mind when...?
9. Are there some other reasons forcing you to make that decision at that time?

10. What's your plan next facing the current situation?

6.3.1 Firefly Lighting (Xiamen) Co. Ltd

Firefly Lighting Co. Ltd is a private owned enterprise. It was established in February 1995 by Mr. David Chia and Mr. He Runlin who graduated from Xi'an Jiaotong University with a bachelor degree of International Trade and a master degree of Electronics Engineering respectively. Firefly Lighting Co. Ltd could be seen as one typical Chinese producer who sticks on voice in the EU's notification of AD investigation. First, after the EU initiating anti-dumping proceeding on 17 May 2000, Firefly was one of the 12 exporting producers who replied the questionnaires back to the Commission properly and completely. However it gained neither MET nor individual treatment. In October 2002, when the EU accepted the compliant from OSRAM GmbH Germany and initiated re-investigation, Firefly was the first Chinese manufacturer who responded to this re-investigation and voice again. Meanwhile, during all this period of time, Firefly Lighting began to prepare setting up its branch factory in Pakistan, which could belong to the exit option. Two years later, when the Commission initiated anti-circumvention investigation process aiming at the abroad branches of Chinese producers, Firefly again was the only one who chose voice.

Mr. Zhang, assistant of the current General Manager Mr. Jia Qiang, replied my questionnaire. Several critical details should be highlighted in Zhang's reply. First, in 2000 when the first anti-dumping investigation from the EU was initiated, Firefly had got 600 workers and a 6000 square meters workshop and 1,000,000 pcs per month producing capacity. Furthermore, from the very beginning of the establishment of the company, the orientation of this Firefly Lighting was an extraversion and an opening to the foreign market. 90% of its products were supposed to be exported.⁸³ The export markets were Eastern Europe, North America, Middle East/Africa, Central/South America, Asia, Western Europe and Australia at that time. The amount of exporting to the EU market accounted for 1/4 while CFL-i accounting for almost half of its whole products. We can at least infer two points from this information offered by Mr. Zhang: one, after years' of exporting their products increasingly, Firefly Lighting has possessed a certain financial power, the EU market means a lot to its CFL-i products, its profit would decrease at least 1/4 if it lost EU market, which would be a big loss for Firefly Lighting. Second, after failing in getting MET in 2001 because of its failing in satisfying the Fifth Criteria for Chinese producers applying for MET especially the one related to the financial system; Firefly Lighting spent a lot of money on establishing a professional and international standardized financial system. Hiring several staffs from Anderson Accounting Partner Office to take care of its accounting and financial department was one of them. We have all reasons to believe that since it has made great progress in its financial system after the first failure in

⁸³ Webpage of Firefly Lighting Co. Ltd, Available on 13 November 2005 at <http://www.jxzi.gov.cn/ftp/qy/Q549/>

voice, it would be more confident to voice in the second or third time. As Mr. Zhang said when I interviewed him by phone after receiving his reply email, “We have spent our money on it. Believe me, we were confident and we were willing to prove this cost was worth.” Third, Mr. Zhang mentioned that they gained lots of support from local government⁸⁴ especially Xiamen Trade and Development Bureau and Xiamen Economic Development Bureau. When being asked how much did this support from government mean for Firefly Lighting, Mr. Zhang repeated two words: important, very important. One months ago when I was writing this thesis, in November 2005, Firefly Lighting received RMB 300,000 from Anti-dumping Supportive Funds set by Xiamen Government to lower down its burden for its active application in the EU’s anti-circumvention investigation. Fourth, when asked the motivation of setting up branch factory in Pakistan, Mr. Zhang said: “We are confident that we deserve MET, as we applied for from the very beginning. However, we are preparing for the worst result. And by the way, not only had we sufficient funds to establishing abroad branch, but we also had good public relationship in Pakistan. So it will be all good for us to do so.” Fifth, Mr. Zhang pointed out that their EU competitor OSRAM GmbH Germany was purposely aiming at Firefly Lighting several times these years including the complaint of circumvention to the EU commission. From Mr. Zhang’s implication, Firefly Lighting is kinds of taking OSRAM GmbH Germany an important trading enemy that they should fight against. OSRAM GmbH Germany’s role here is like an outside agitator who inspired Firefly Lighting’s will to fight. Sixth, another word mentioned by Mr. Zhang several times during the interview was national spirit or the spirit of national industry. Anti-dumping investigation from the EU was seen as an impediment of China’s national industry development. Nationalism does play a role at least in Firefly Lighting’s decisions to make process.

Besides, according to the introduction of Mr. Zhang, products of Firefly Lighting in 2000 can be divided into two kinds: energy-saving lamps and compact fluorescent lights. In the Commission’ investigation, the products under suspicions was the latter kind. So if the company did not reply to this investigation and gave up the EU market, it means one whole kind of its products would have to withdraw from the EU common market. Although there are various kinds of lamps, it did not produce any similar products which were out of the investigation nor did they have related industries they could rely on other than lamps and lights.

Finally, although just failed in anti-circumvention investigation in June 2005, when asked the next step of Firefly Lighting, Mr. Zhang said that they will definitely voice again when the time is right. He insisted that their products should not be imposed

⁸⁴ Xiamen, as one of the 14 eastern seaside cities who were open to the foreign environment and were implemented economic reform as a test, had relatively open minded economic environment. The local government learnt a lot from the test years and already known what would be good to its industry development. So Xiamen government strongly support the producers involved in its range to voice back especially the paradigmatic and leading enterprise. In order to encourage its local company to fight back in anti-dumping investigation, in 2002, Xiamen Government established a foundation named Anti-dumping Supportive Funds, providing as a subsidy for the lawsuit cost of the producers who was active in anti-dumping investigation. Moreover, 28th March 2003, the first Anti-dumping Consulting Center was established in Xiamen.

punished duty. As a private enterprise especially one that has the right to deal with foreign trade, Mr. Zhang said it was much less controlled by the state. Moreover, the accounting and auditing system of Firefly was transparent and open and in accordance with international standards. Due to its year and year of good record in accounting and auditing, in December 2004, Xiamen Administration of Industry and commerce even approved Firefly Lighting as the enterprise that exempt from yearly auditing in 2004. With all these records, Mr. Zhang believed that they should be given and might be given MET if they insist voicing in the future. Besides, he mentioned again, Chinese lamps industry needs some one to step out to fight against the unfair treatment from western countries.

Table 8 is needed to understand the effect factors during Firefly Lighting's decision making.

Short conclusion for the case of Firefly Lighting, the factors which enhance the possibility of voice are: high degree of dependence on the EU market, high degree of dependence on Pakistan branch factory, sufficient funds, support from local government, better financial system, private ownership, previous success experience in voicing, a corresponding company in the EU who is sort of a business enemy, nationalism. Factors which enhance the possibility of exit are: sufficient funds, good public relations with countries from the Third World. Moreover, although failed in previous voicing, the effort they put during the investigation has two results: the cost of money and the improvement they have achieved. Both of these two results have a positive effect on their choice of voice again.

6.3.2 Yangyang Electrical Appliance Co.

Yangyang Electrical Appliance Co. was founded in 1989. It developed quickly just as what Firefly Lighting did. Until 2000, it already has 2000 employees, with 128 engineers and technicians among them. As Firefly Lighting again, this company not only owned magnificent office building but also its own production workshop and high standard test instruments. Moreover, its brand Yanky had won several certificates⁸⁵. In addition, the location of Yangyang Electrical Appliance Co. is Zhejiang Province, which is another open and foreign trade orientation province and the local government supported its producers to defend in anti-dumping investigation. With all these similarities with Firefly Lighing, Yangyang Electrical definitely chose different options while facing anti-dumping investigation from the EU. It was one of the Chinese producers who chose exit from the very beginning. It did not reply the EU's questionnaire. Instead, it gave up CFL-i and developed the producing and exporting of other products.

⁸⁵ Certification of Conformity of Quality Management System Certification, Certificate of Approval of Non-prescribed Electrical Equipment, etc.

Table 8. Effect Factors during Decision Making of Firefly Lighting

Period of Time/ Factors choice Influencing choice	2000-2001 Voice (failed)/ Exit(succeeded)	2002-2003 Voice(succeeded) Exit(succeeded)	2004-2005 voice	In the Future voice
Quality Conscious of Customers	+voice high degree of dependence on EU market		+voice High degree of dependence on Pakistan branch factory	-----
Availability of Exit	+exit : sufficient funds, good public relations with the third country -exit : not-diversity of products			
Availability of Voice	+voice sufficient funds, support from local government			
Belief in Efficacy of Exit	-----			
Belief in Efficacy of Voice	+voice Private- ownership	+voice Better financial system after previous voice	+voice Success experience in previous voice	+voice Better situation especially financial system
Outside or Inside Agitator	-----	-----	+voice OSRAM GmbH Germany	
Fear of Retaliation	-----			
Loyalty	-----			
Other Reasons	+voice Nationalism	+voice Nationalism	+voice Nationalism It has been cost a lot for the previous voices.	

I interviewed Miss Peng Shuang, law consultant of Yangyang Electrical since 1998. As one major consultant to the management of Yangyang Electrical suggesting not to voice in 2000, Peng Shuang gave out some details showing out what she considered when she put forward her suggestion. First, Peng Shuang admitted that based on Yangyang's quick development in 1990s, it could afford millions of funds in law suit case. However, Peng Shuang said, what we were thinking about the most was 'is it worth it?' rather than other points. First, the range of products of Yangyang Electrical is much broader. Other than lamps including CFL-i which was involved in anti-dumping investigation of the Commission, it produced 21 series, 380 types and

1800 specifications of Circuit Breakers, AC Contactors, Time, Relays, Fuses, Push Buttons, Switches, Industrial Socket, Multi-meter, SVC Voltage regulators etc. Lamp only accounted for 1/10 of its total output while only 1/6 of them are exporting to the EU market. If we look this from another angle, even Yangyang Electrical Appliance Co. can not export CFL-i to the EU common market anymore; it would not influence the company's whole profit that much because this loss in CFL-i could be easily compensated by enhancing the exporting amount of other products. Second, Zhejiang is a typical province for manufacturing industry. There are hundreds of manufacture companies in Yueqing City. Half of them have been involved in the EU anti-dumping investigation and only 8 of them have ever applied for MET or individual treatment with zero successful record. Yangyang Electrical reviewed these similar previous cases and the failure records gave a negative implication to Yangyang Electrical.

When being asked what Yangyang's next step is, Peng Shuang replied directly: the same as before. Giving up CFL-i, producing and exporting a variety of products, paying attention to both foreign and domestic market --- Yangyang Electrical has been stand aside from EU CFL-i anti-dumping case for a long time. Since its profit increased year by year, the decision makers of the company decided to go on this route.

Short conclusion for the case of Yangyang Electrical, the factors which enhance the possibility of exit are: low degree of dependence on the EU market, low degree of dependence on CFL-i, diversity of products. Support from local government also could enhance the possibility of voice. However, it could not counteract the realization of short of funds and un-confidence of voice efficacy. Moreover, previous success in either exit or voice could increase the belief of efficacy and thus enhance the possibility of exit or voice next time.

Table 9. Effect Factors during Decision Making of Yangyang Electrical

Period of time/ Factors influencing choice	2000-2001 Exit(succeeded)	2002-2003 Exit(succeeded)	Future Exit(succeeded)
Quality Conscious of Customers	+exit: low degree of dependence on EU market -voice: low degree of dependence on CFL-i		+exit: low degree of dependence on EU market -voice: low degree of dependence on CFL-i
Availability of Exit	+exit -voice much diversity of products		+exit -voice much diversity of products
Availability of Voice	+voice: support from local government -voice: short of funds		+voice: support from local government -voice: short of funds
Belief in Efficacy of Exit	+exit -voice previous success exit experience		+exit -voice previous success exit experience
Belief in Efficacy of Voice	-voice Failure voice experience of similar producers	-voice Negative results from other voicing producers	-voice Negative results from other voicing producers
Outside or Inside Agitator	-----		-----
Fear of Retaliation	-----		-----
Loyalty	-----		-----
Other Reasons	-----		-----

Note: The period of time 2004-2005 is missed in this table. That is because Yangyang Electrical did not set up abroad factory so that it did not need to response to the EU's anti-circumvention investigation (as shows in Table 7).

6.3.3 Shandong Zhaoguang Group

Shandong Zhaoguang Group was a small collective company producing energy saving lamps. It was founded in 1986 in Dezhou, Shandong Province. Bulbs and lamps were the two main categories of products of Zhaoguang Group. In the first few years, their products were sold only in domestic market, especially Shandong market. It was not until 1995 that Zhaoguang Group decided to deal with export and finally got the right to export their products abroad. Zhaoguang Group is a typical example who kept silent from the very beginning of the investigation.

According to the response of an old staff Mr. Wang Zheng, who has worked for Zhaoguang Group from 1989 to 1999, the proportion of bulbs and lamps were 60% and 40%. In addition, until the end of 1999, around 20% of their products were for exportation. Moreover, from 1995 to 1999, the only exporting market for Zhaoguang Group was Southeast Asia. It was at the end of 1999 that Zhaoguang Group decided to try to export their products to EU market, which was only a first step attempt and was defeated by the notification of investigation soon in 2000. Wang Zheng recalled that at first they did not even know anything about the anti-dumping investigation until their importer in Germany mentioned this when the deadline for replying questionnaire was already past. "Even if we got the notification on time," said by Wang Zheng, we would still miss the deadline to reply questionnaire." There are around 18 people who could be counted into the managing level of the company. 5 of them only had primary school education background including the Manager General; 6 of them are middle school gradulators or un-gradulators; another 5 had secondary school education; only 2 of them had a college degree. "How do you expect those who only have primary school education to know anything about dumping and anti-dumping? Now when you call me, I can talk about anti-dumping. However, if you give me this call 5 years' before, these concepts will be just not in my dictionary. How do you expect someone who does not know what anti-dumping is to react to anti-dumping investigation?" said by Wang Zheng. Moreover, Wang Zheng added, based on the traditional Chinese view, lawsuit is something one should keep away from. Although it seems to be pedantry and ridiculous in a modern competition market, this traditional idea is rooted in many minds especially those with a low level of education.

When asked what is the local government attitude in this investigation, Wang Zheng pointed again that the local government's unawareness and delayed notification is part of the reason that Zhaoguang Group missed the deadline to reply the questionnaire. Then he added more. Collective enterprise, as we have said, is set up by a group of people in the same township or village and were initially owned equally by every member from this group and controlled by the leader of this group, which was usually, the township local government or village government. Compared to private companies, collective companies are much easier to get support from local government. However, at this point the opinion of the local government becomes pivotal. Shandong Province, although located in the east coast, was relatively an introversive and traditional province compared to the eastern costal provinces in the south part. Dezhou city is only a small city located in the inland of the province and its city government was focusing much more on its agriculture than manufacture industry. It is only these recent few years that the government of Shandong Province realized the big influence of anti-dumping and became supportive to its local company involved in anti-dumping cases. In 2000, these had not been aware of by the government. So apparently Zhaoguang Group obtained no support from local government in anti-dumping investigations.

Another detail mentioned by Wang Zheng comes from the leaders' personal influence. As we have discussed before the structures of collective enterprise are various. There will be a manager authorized by the local government to be in charge of the management to these enterprises and the manager supervised and made the decision under the approval of local official unit. As most of the small-scale collective enterprises, the structure of Zhaoguang Group was in a lower level. The manager was supposed to be responsible for the market, and meanwhile for the local government. Financial part was considered to be an essential part by the local government of Pengli Town. More than that, according to the traditional way of thinking, this was a part which should be private and secret from the public. Due to this reason, according to Mr. Wang, financial manager of Zhaoguang Group was the sister of one of the local government officers. Moreover, there was never a normal financial department or financial system. There were only 3 to 5 accountants there who were in charge of recording the capital income and outcome. To make it worse, due to the too much personal control of the company, the manager and several government leaders became cahoots. They started to collusively dig self-interests from the profit of the company. The financial manager, due to her special role in the company as well as in the family, was included as well. So it could be well understood that the financial report of Zhaoguang Group could never introduce the real flow of capital as it should be. A related fact is that during its 15 years existence, the financial reports were never audited. According to Wang Zheng, the right of decision-making was practically controlled by the collusive bunch of people whose motivation and purpose of making decision is not the development of the company but their own interest. In a word, financial system did be considered by the decision-maker of Zhaoguang Group, but in another way, which, has nothing to do with anti-dumping investigation.

Zhaoguang Group's ending was not unique. They thought they can live on domestic market as they were used to. However, after 2000, because many large lamp producers in China failed in the anti-dumping investigation, the competition in domestic market became more and more furious. This furious competition caused the decrease of sales-performance of Zhaoguang Group as a small-scale manufacturer. So at the end of 2000, Zhaoguang Group was almost bankrupted. One of the previous managers of Zhaoguang group took up the company as his own and changed the name to Ge'er Electrical Fittings Company, whose main business was the small fittings of Electrical Equipments including small fittings of Lamps.

Table 10. Effect Factors during Decision Making of Zhaoguang Group

Period of Time / Choice Factors Influencing the Choice	May, June 2000 Silence	From June to the end of 2000 silence
Quality Conscious of Customers	-----	+silence Low degree of dependence on EU market
Availability of Exit	-----	-----
Availability of Voice	-voice no-support from local government	
Belief in Efficacy of Exit	-----	-----
Belief in Efficacy of Voice	-----	-----
Outside or Inside Agitator	-----	-----
Fear of Retaliation	-----	-----
Loyalty	-----	-----
Other Reasons	+silence –voice unawareness of the EU’s notification	+silence –voice traditional idea of keeping away from lawsuit; Leaders’ lack of responsibility

Note: In this table the line of time will be only 2000, which is different with other tables. That is because as a matter of fact Zhaoguang Group was bankrupt at the end of 2000.

Short conclusion, for the case of Shandong Zhaoguang Group, the factor which directly caused the choice of silence was there unawareness of the EU’s investigation notification. In there later choice, the factors enhance the possibility of silence are: low degree of dependence on the EU market, traditional idea of keeping away from lawsuit and the leaders’ lack of responsibility. Moreover, no-support from local government, unawareness of the EU’s notification, traditional idea of keeping away from lawsuit and leaders’ lack of responsibility decreased their possibility of choosing voice.

6.3.4 Ningbo Super Trend Electron Co. Ltd

Ningbo Super Trend Electron Co. Ltd is a joint venture company; its choice in CFL-i case was more complicated than the previous three. It replied the questionnaire to the Commission on time successfully and applied for MET. When failed in getting MET, together with other failed applicators, its application was transferred into individual treatment. After the beginning of individual treatment investigation, Ningbo Super Trend withdrew the lawsuit. In late 2000, it successfully established its branch factory in Vietnam. In September 2004 when the EU initiated anti-circumvention investigation, it did not response to the EU’s questionnaire and was finally imposed 66.1% on its products produced in Vietnam.

In Ningbo Super Trend’s questionnaire, I was mainly focused on the withdrawing of

individual case. Due to the answer from Ningbo Super Trend, actually when they reply the notification from EU and applied for MET, they have already thought about setting up a branch factory abroad and began starting it. No longer after their failure in applying MET, they successfully established the factory in Vietnam. Because of this, they decided to withdraw from the lawsuit. When asked why did not appeal when facing anti-circumvention, they said that they decided to focus on Original Equipment Manufacturer for its foreign partners, which, comparing with struggling in anti-dumping or anti-circumvention investigation, was is low in cost and stable in profit. “This is according to our whole strategic transfer.” From the responses from Ningbo Super Trend, the availability of exit option and the availability of silence decreased its possibility to resort to voice.

Table 11. Effect Factors during Decision Making of Ningbo Super Trend

Period of Time/ Factors Choice Influencing the Choice	2000-2001 First Voice, Then Exit(succeeded)	2004-2005 silence	Future silence
Quality Conscious of Customers	-----	-----	-----
Availability of Exit	+exit ,–voice Sufficient funds; Successfully setting up abroad factory	-----	-----
Availability of Voice	+voice sufficient funds, support from local government	+voice sufficient funds, support from local government	
Belief in Efficacy of Exit	-----	-----	-----
Belief in Efficacy of Voice	-----	-----	-----
Outside or Inside Agitator	-----	-----	-----
Fear of Retaliation	-----	-----	-----
Loyalty	-----	-----	-----
Other Reasons	+silence ,–voice availability and confidence to OEM	+silence ,–voice availability and confidence to OEM	

Note: In this table, the period of time 2002-2003 is missed. That is because Ningbo Super Trend actually exit from the EU’s anti-dumping investigation so that it had nothing to do with the review lasted from 2002 to 2003(as shows in Table 7).

6.3.5. Shenyang Power & Electric Industrial Corp.

If we take a look at the list of the 12 companies who reply the EU's questionnaire, we will find that they are either private-owned enterprises or joint-ventures. Shenyang Power & Electric Industrial Corp. is a state-owned enterprise. When explaining why they did not reply the questionnaire, Shenyang Power & Electric only has one short answer: state-owned enterprise. This could be explained by Hirschman's introducing of the role played by previous experience. If, according to their previous experience, the consumers draw the conclusion that voice option is not that efficacy for them, their propensity to resort to the voice option is less.

In EU regulation, the third criterion for the producers applying for individual treatment is as following:

The majority of shares belong to genuinely private person. State officials appearing on the board or in key management positions should be in the clear minority. The presumption is that a State-controlled company cannot guarantee its independence from State interference, and the burden rests with the exporter to prove otherwise⁸⁶

It is the set of this criterion that obstructs most of the state-owned companies from voicing to EU. Previously in an anti-dumping case between China and EU, a large-scale joint venture producer in Shandong Province defended itself and applied for individual treatment. Although foreign capital accounted for 60%, and the general manager and financial manager of the company were both staff from the foreign part. It failed to get individual treatment only because one of its member in board was also vice director of local post bureau. It was judged by the Commission that the decision in process was influenced by the government. In fact, there are similar cases. State-owned enterprises and collective enterprises have quite little chance to get MET or individual treatment because of the critical request from the Commission. For example, when it comes to cost evaluate, even the source of the raw material or power provider will be considered by the EU. Considering power industry of China is still under the control of the state, it is still harder for many Chinese producers to successfully get MET or individual treatment especially the state-owned enterprises and collective enterprises. These previous experience⁸⁷ sometimes could lower the confidence of voice efficacy of the company.

⁸⁶ V.B.B., *Anti-dumping and Other Trade Protection Laws of the EC*, 4th ed, (New York : Kluwer Law International, 2004) pp.132-133

⁸⁷ including something heard experienced by other companies

Table 12. Effect Factors during Decision Making of Shenyang Power & Electric

Period of Time / Choice Factors Influencing the Choices	2000-2005 Silence
Quality Conscious of Customers	-----
Availability of Exit	-----
Availability of Voice	-----
Belief in Efficacy of Exit	-----
Belief in Efficacy of Voice	-voice, +silence negative previous experience for most of state-ownership enterprises
Outside or Inside Agitator	-----
Fear of Retaliation	-----
Loyalty	-----
Other Reasons	-----

Note: Shenyang Power & Electric keeps silence from the very beginning of the investigation and until now.

6.4 Findings and Comparison

If we combine all these 5 sub-conclusions together, we will have a broader picture of the factors influencing the choice of voice, exit and silence in CFL-i case:

Table 13. Factors Influencing Chinese Producers' Various Responses
(Continued in the next page)

	+ (positive)	- (negative)
voice	<ol style="list-style-type: none"> 1. <u>high degree of depending on EU market,</u> 2. high degree of depending on abroad factory (when anti-circumvention) 3. <u>sufficient funds,</u> 4. <u>support from local government,</u> 5. <u>better financial system,</u> 6. <u>private ownership,</u> 7. previous success experience in voicing, 8. a corresponding company in EU who plays a role of business enemy 9. nationalism, 10. the effort they made during the investigation including the cost 	<ol style="list-style-type: none"> 1. low degree of depending on the EU market* 2. afraid of opening financial system* 3. low degree of depending on CFL-I, 4. diversity of products, 5. success exit experience previously, 6. failure voice experience previously, 7. no-support from local government* 8. unawareness of the EU's notification, 9. traditional idea of keeping away from lawsuit, leader' lack of

	of money and the improvement they have achieved previously	responsibility, 10. successfully setting up abroad factory, 11. availability and confidence to OEM, 12. negative previous experience decrease belief of efficacy of voice 13. state-ownership*
exit	1. sufficient funds (set up abroad factory) 2. less funds (focus on other products)* 3. good public relationship with the third country, 4. low degree of depending on EU market, 5. low degree of depending on CFL-I, 6. <u>diversity of products,</u> 7. success exit experience previously, 8. successfully setting up abroad factory,	not-diversify of products
silence	1. low degree of depending on the EU market* 2. unawareness of the EU's notification, 3. traditional idea of keeping away from lawsuit, 4. leader' lack of responsibility, 5. availability and confidence to OEM, 6. negative previous experience decrease belief of efficacy of voice, 7. state-ownership*	

Explain of the table above:

1. In the corner of +voice, the five factors underlined are those which could be found in hypothesis 1. Since all of these factors have been found here, hypothesis 1 has been verified by Hirschman's model. However, as a development to hypothesis 1,

it should be mentioned that other than these five variables listed by Tao Jingzhou, there are 5 other variables which has a positive influence on the choice of voice.

2. In the corner of +exit, the factor double underlined is the one mentioned by Tao Jingzhou in hypothesis 3, which has been verified.
3. In the corner of +silence and –voice, the factors with asterisks are these mentioned in hypothesis 2. According to hypothesis, the asterisked factors in the corner of +silence should be the same with the ones in –voice. However, it does not corresponding in the table. Silence and voice is not in a seesaw relationship. Exit might be a reason here. Producers' choice is not a dichotomic model, giving up A does not necessarily means accepting B because there is another option. Furthermore, even if we count the corner of +exit in, the asterisked variables are still unbalance. So another reason might be the variables influencing each option are independently from each other. For example, the standardization of financial system do affect the possibility to choose voice, however, it could have nothing to do with their possibility to choose silence.

If we only consider the variables stated in the hypothesis and put these characteristics together to see what we can get from the hypotheses, we will get table 4. In table 4, the hypotheses is not always right when predicting the actions of Chinese producers especially for the one who has more than one action, in the same time or sequentially. Together with table 6-9, we could see that although these hypotheses have been mostly verified on the level of explaining Chinese producers' choices, there much to be done to these hypotheses when it comes to its function of predicting.

Table 14. Comparison of the Responses Drawing from Hypotheses and Reality

Characteristics and options Chinese Producers	Characteristics of Variables in Hypotheses	Options Drawing from Hypotheses	Real Options Taken by Chinese Producers
Firefly Lighting	High degree of dependence on the EU Market; Sufficient funds; Support from local government; Good financial system; Private-owned enterprise; Not-diversify of products	Indeterminate	Voice and exit
Yang Yang Electrical	Low degree of depending on the EU market; Support from local government; Good financial system; Private-owned enterprises Diversity of products	Indeterminate	exit
Zhaoguang Group	Low degree of depending on the EU market; Short of funds; Low support from local government; Bad financial system; Collective enterprise; Not-diversity of products	Silence	silence
Ningbo Super Trend	Sufficient funds; Support from local government; Good financial system; Joint venture enterprise; Not-diversity of products	Voice	Voice ↓ Exit ↓ silence
Shenyang Power& Electric	State-owned enterprise	Silence	silence

Chapter 7: Conclusions

7.1 Research Findings

7.1.1 Case Study Level

Since the modification of the EU anti-dumping law in 1998 and 2000, the EU stopped taking China as a Non Market Economy country. However, the EU still does not take China as a Market Economy country either. In front of the EU's notification of investigation, different Chinese producers have different responses. This thesis focuses on the reasons behind Chinese enterprises' various responses in the anti-dumping investigations initiated by European Commission. By doing this, this study is expected to make some contribution to the dumping and anti-dumping discussions between China and EU.

Based on the aim of this research, the central question of this study is: Why different Chinese export producers choose different responses to the EU anti-dumping investigation? 8 sub-questions are given followed by the central question.

In order to give answers to this question, the author introduced some hypotheses by an experienced lawyer. By testing these hypotheses in a concrete case (CFL-i), this study verified the variables influencing the choice of Chinese producers mentioned by Tao Jingzhou in the hypotheses. Moreover, the case study found several other variables which might also affect the decision making of Chinese producers. All the factors are listed in table 8-12 could be taken as an answer to the central question and sub-questions. As a conclusion:

First, five characteristics (higher degree of dependence on the EU market, sufficient funds, support from local government, better financial system and private ownership) enhance the possibility of Chinese producers' applying for MET or individual treatment. Other than these five factors, the belief of nationalism and previous success experience in applying MET or individual treatment could also play parts in their decision making process.

Second, corresponding to the first conclusion, less dependence on the EU market, less funds available, less internationally standardized operation system especially financial system, less support and encouragement from local government and industrial association, state-owned enterprises other than private-owned enterprises or joint-venture enterprises, each of these characters decrease the possibility of applying for MET or individual treatment. Moreover, while each of these characteristics enhances the possibility of keeping silence and taking no action to the EU's investigation, they are far from the only factors effective. For example, unawareness of the EU's notification, the influence of traditional idea of keeping away from lawsuit and leaders' lack of responsibility, all these factors also influence enhance the

possibility of keeping silence in front of the EU's investigation.

Third, other things being equal, the more diversified in products; the more possible the producers give up the products being accused and turn to other products. When it comes to setting up abroad factory, good public relationship with the third country and plays an important role.

Forth, Chinese producers' choice of options is in a dynamic process. With the change of situation, a certain producer can choose different option in different period of time.

7.1.2 Theoretical and Political Level

Hirschman's Exit-Voice model with its following modification is implemented in this study. It is proved that this theory model can be implemented in EU-China anti-dumping cases to explain the various responses from Chinese producers. When it comes to political level, for Chinese side, Chinese government especially local government should be more supportive when their enterprises are facing anti-dumping investigation from the EU. For example, it is necessary for Chinese government to offer some lectures for the exporting producers on preparing for the EU's anti-dumping investigation. In addition, Chinese government could offer some help in the bilateral negotiation level. In the EU's part, according to what has been discussed in the case study, currently it is not the time for the EU to take China as a market economy treatment. However, its harsh criteria for applying for MET and individual treatment would get continuous severe critical from Chinese producers and government, which will negatively affect its trade relationship with China. Negotiation with China on anti-dumping duty or undertaking would be good for its long-run interests.

7.2 Recommendations for Further Research

The EU's anti-dumping investigation aiming at products from China will continue in the next following years. There are many paths for the further research on this topic to choose based on this study. First, although the hypotheses are generally verified in the aspects of offering some factors which do influence the choice of Chinese producers. There are other factors which work but are missed by these hypotheses. This study finds out some possible factors. However, the adding of these factors into these hypotheses needs to be tested into different cases, which could be a path of further research. Second, as mentioned at the end of the case study part, while Tao Jingzhou's hypotheses work in explaining Chinese producers' various choice, it is weak in predicting their choice. Modifying these hypotheses in order to predict Chinese producers' actions could be another interesting topic for the further research in this domain.

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