

# Temporary Trade Barriers: How Long Do They Last?

Kristy Buzard

Today's world trading system is largely governed by a system in which countries commit to tariff bindings and yet raise their tariffs above those bindings through a variety of temporary trade barriers (TTBs) on a not-infrequent basis (Bown 2011). A significant literature has explored the question of which industries receive protection through TTBs and under what conditions. This project asks a related but distinct question: given that a product receives protection, what determines the length of that protection?

This question can be addressed in the context of renewals of trade remedies under the WTO agreements. Normally, temporary measures such as anti-dumping and counter-vailing duties have a five-year sunset provision that is subject to renewal by the U.S. International Trade Commission. Conditional on a TTB being granted and applied for five years, one would like to know what determines whether a renewal order is granted so that it continues in force.

- If lobbies have to exert effort to achieve higher-than-MFN tariffs, when will it be worthwhile for them to do so?
- Whether it's a dispute or it's a measure (what does Chad call these?) like AD or escape clause that has not been disputed, it won't be granted for no reason

Main idea: adapt SOP model to predict whether anti-dumping measures get renewed

- Note that this is not trade war: foreign is applying  $\tau^{*a}$  in most / all cases
  - **Q:** Are all cases of renewal ones of no punishment, i.e. target country is applying MFN tariff?
- When is it worth it for lobby to exert effort to renew AD measure?
- Lobby must be able to trigger the AD measure in the first place
  - This means disputes/non-adherence to MFN tariffs must happen on the equilibrium path
  - Need uncertainty, asymmetric information, something

- In my model, it is symmetric political uncertainty about how legislators (modeled in reduced form as position of median legislator) will vote
- In this setup, need “dispute” to last for 5 periods (years)
  - Then can extend it.
  - Q: for five more years?
- Why would there be variation in one lobby’s incentives between  $t = 1$  (original application of AD) and  $t = 6$  when it comes up for renewal?
  - Uncertainty could be an answer, *and* it varies across industry
  - Q: Is this a plausible story?
- Also have to adapt model to cross-industry to get necessary variation
  - I’ve already done some of this leg work for the NSF proposals, thinking about PTA project

#### Median Legislator’s Condition

- I believe I have to change the legislature’s condition to be more like the cheater’s payoff for this context

$$W_{ML}(\tau^{AD}, \tau^{*a}, \gamma(e, \theta)) > W_{ML}(\tau^a, \gamma(e, \theta))$$

- Need to make sure this is not always the case.
  - \* Median legislator still has to balance (weighted) producers and consumers.
  - \* If  $\gamma = 1$ , would pick optimal tariff.
  - \* If  $\gamma$  is so low that  $\tau^N < \tau^a$ , then agreement will hold. If  $\tau^a < \tau^{AD} < \tau^{AD}$ , depends on which is closer in welfare terms
- Seems to work okay in Matlab example: just pushes up break probability, trade agreement tariff; reduces gamma and effort (“SOP\_example.m”)
- Need to check exec’s SOC
- There could also be uncertainty about the probability that foreign will dispute the AD measure; that could change from the original to the renewal

### Possible cross-industry variation

- Lobby facing same uncertainty, behaving in same manner may get different outcome in the two draws (five years apart)
- Industry / lobby gets richer / more insulated for five years
  - This could lead to differences in budget constraint if that were in model
  - May not need budget constraint if extra budget allows them to invest in technology
    - \* Come to question of whether protection and technological upgrading are complements or substitutes
    - \* Lobbies that have more to gain have more opportunity to *either* gather strength to become more competitive *or* become more politically powerful to seek more protection
    - \* Perhaps some cross-industry measure of restraints on political strategy that would push toward substituting to technological
  - This could lead to differences in ability to deal with technological gap with foreign competitors
    - \* **Q:** This is one of the arguments for escape clause, no?
- Uncertainty could change, so behavior would change (this would be hard to pick up in the data that I have)

- Chad and Maurizio Zanardi are working on a paper on AD 5-year reviews
  - After five years, they come up for review
    - \* Some AD measures get removed, some not, some go to dispute
    - \* This is, of course, conditional on getting to five years
  - They have the data, but are not exploiting cross-industry variation
    - \* Instead, aggregate variation, things like recessions, exchange rates
  - They don't have a theory for the cross-industry variation, because the economic determinants are meaningless after five years
    - \* No injury, import surges: they've been protected for five years. No variation in new economic data b/c they've been insulated
    - \* What's the economic test? There really isn't one. "Would there be injury if we removed the duty?"
    - \* Politics could be that theory (my theory from above)
      - Q: Does hiring of lawyers for AD procedure get caught up in LDA data?