Preliminary Outline for Dispute Length Project

1 Motivation

Need to motivate question

- How long do deviations from trade agreement tariffs last? What are the determinants of these deviations?
- 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

2 Main Idea

Adapt SOP model to predict whether anti-dumping measures get renewed

- Note that this is not trade war: foreign is applying τ^{*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 ITC will rule. Why would there be uncertainty?
    - Directly about strength of evidence? (indirectly about retaliation / dispute)
    - Differential valuation about harm to industry—how central the industry is, how politically powerful
    - **Q**: What are all the factors that have weight in ITCs decision-making? Are they influenced by other political factors?

        * Does Congressional uncertainty transfer over to ITC uncertainty?

- 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

3 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

$$W\left(\tau^{AD}, \tau^{*a}, \gamma(e,\theta)\right) > W\left(\boldsymbol{\tau}^{\boldsymbol{a}}, \gamma(e,\theta)\right)$$

  - 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 γ is so low that $\tau^N < \tau^a$, then agreement will hold. If $\tau^a < \tau^N < \tau^{AD}$, 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
  - Could reduce form this, or not

4 Cross-industry Variation

- Lobby facing same uncertainty, behaving in same manner may get different outcome in the two draws (five years apart)
  - In first round, τ^{AD} is endogenous. It's exogenous in second round of play.
- 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?
- Even if AD economic conditions can't be measured / don't bind, doesn't mean that real economic conditions don't play into ITC's decision-making process
- Uncertainty could change, so behavior would change (this would be hard to pick up in the data that I have)

5 Model

What are the *essential* insights/predictions I want to capture?

1. uncertainty about ITC's preferences impacts lobby's incentives to exert effort
2. cross-industry variation in whether AD duties are renewed

Do I need two stages? What happens with only one stage?

1. Given τ^{AD}, lobby chooses e
2. θ realized
3. ITC decides between τ^{AD} and τ^{a} using

$$W\left(\gamma(e,\theta),\tau^{AD},\tau^{*a}\right) > W\left(\gamma(e,\theta),\tau^{a},\tau^{*a}\right)$$

This is simple because there's only one lobby, action in only one country

- Although there may be pressure from foreign
- Or in a three-country model: third country benefits from discrimination against foreign ($*$)

Next steps:

1. Check BS GE model
2. Check on how results from JMP would translate given no punishments
3. How do I make this vary across industry? π function, γ, θ, τ^{a}, τ^{AD}

6 Chad and Maurizio's project

- 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 date 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?