

Temporary Trade Barriers: How Long Do They Last?

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?

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

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 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

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)

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 γ 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

- 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?