Temporary Trade Barriers: When Will They End?

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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 happens. This project asks a related but distinct question: given that a product receives protection, what determines the duration of the protection it receives?

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 are imposed with 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.

In many countries, the crucial actors in the imposition of TTBs are advocates for the industry that would be protected and an administrative body that has been granted authority to make decisions about whether a given TTB is WTO-legal. In the United States, this body is the International Trade Commission (ITC). For ease of exposition and because I would ultimately like to test this theory using U.S. data, I will refer to the actors in this model as lobbies and the ITC.

In this model, there are two phases of interaction between any given industry seeking protection and the ITC. In both cases, all the actors take most-favored-nation (MFN) tariffs as given.

In the first phase, when no TTB is in place, an industry exerts effort to convince the ITC to enact a TTB for its product. The ITC then must decide whether the maintain the MFN tariff or impose the TTB barrier. Importantly, we assume that the decisions of the ITC are not deterministic, with the amount of uncertainty varying by industry.

Given that the industry receives temporary protection in the first phase of interaction, there will be another phase of interaction when the trade barrier expires, here modeled as five years later to match the typical five years sunset provision under the WTO. At this point, the interaction is essentially the same with the industry first exerting effort and then the ITC deciding whether

to extend the TTB or to revert to the MFN tariff. The essential strategic difference is that at this point the level of the TTB is taken as exogenously set at the level determined in the first round of interaction.

An industry's decision about how much, if any, effort to exert depends on a number of factors. Among them are the gap between the applied tariff it faces and the protection it would receive under a TTB, the cost of seeking the TTB, and, crucially, the probability that its request will be granted. That it, the industry's incentives to seek protection, and the intensity with which it does so, depend on how much uncertainty it faces in the ITC's decision-making process.

Thus we turn to the question of how the ITC decides whether to grant a TTB. The imposition of a TTB, or continuation of one already in place, is not in general costless. We might assume then, that the ITC only grants renewals when it finds the benefits outweigh the costs. If the ITC's rulings are uncertainty from the point of view of the lobby, it must be that the lobby cannot perfectly predict how the

- 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?

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?

Possible 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)
- 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

- 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
- Politics could be that theory (my theory from above)