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 this decision is not deterministic, with the amount of uncertainty varying by industry.

- Given that lobby gets an ITC measure in first round of game and it stay stays in place, there is another round five years later; at this point, τ^{AD} is given
- Lobby decides how much effort to put forth given τ^a, τ^{AD}, θ

The continued imposition of a TTB is not in general costless. We might assume then, that the

International Trade Commission (ITC) only grants renewals when it finds the benefits outweigh the costs.

- If lobbies have to exert effort to achieve higher-than-MFN tariffs, when will it be worthwhile for them to do so?
- It's about how hard the lobby lobbies, how much reaction they get

- 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

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

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

  - 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 $\tau^a < \tau^{AD} < \tau^{AD}$, 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)
  - 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)

- 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?