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Cascading Trade Protection: Evidence from the US*

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Abstract

In a world with increasingly integrated global supply chains, trade policy targeting upstream products has unintended consequences on their downstream industries. In this paper, we examine whether protection granted to intermediate manufacturers leads to petition for protection by their downstream users. We first provide a simple model based on the quantitative framework of Ossa (2014) which identifies the key factors and their interactions that cause cascading protection to motivate our empirical analysis. Then, we test our model by identifying the input-output relationships among the time-varying temporary trade barriers of the US using its detailed input-output tables. As predicted by the theory, we find that measures on imported inputs increase the likelihood of their downstream users’ subsequent trade remedy petition over the 1988-2013 period. Moreover, our simulation exercise shows that cascading protection can cause additional welfare losses, and hence we propose that trade policy investigations should take vertical linkages into account.

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