



# Partisanship and antidumping<sup>☆</sup>

Veysel Avsar

Department of Economics, Antalya International University, Antalya, Turkey



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## ABSTRACT

This paper empirically examines the influence of political partisanship on antidumping protection, which has become the most frequently used contingent trade remedy in the last 20 years. First, we show that the number of antidumping initiations from the labor intensive industries increases when there is a left-wing government in power. In addition, the evidence on the governments' decision to impose antidumping duty demonstrates that the increase in the leftist orientation of the governments is associated with an increase in the likelihood of an affirmative antidumping outcome from the petitions of labor intensive industries. Although antidumping is an administrative protection which includes a set of necessary procedures and rules to follow, our findings clearly point out the political bias in AD actions in the form of partisan preferences.

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## 1. Introduction

To date, the role of political ideology in the choice of economic policy instruments has received serious attention. Many of the existing studies suggest that in a democratic regime, political parties which compete for electoral votes try to adopt policies in favor of their electoral base. Hence, it is the constituents' interests which determine the ideological attitude of the governments. Generally, the political party that is in the left ideological spectrum represents workers, whereas the right-wing represents capital owners.<sup>1</sup>

Trade policy is one of the policy instruments, which enables a political party to differentiate itself from others to compete for votes. The redistributive consequence of the trade policy is the pivotal argument of the political economists who have emphasized the partisan-based trade policy. For instance, [Milner and Judkins \(2004\)](#) investigate the relationship between “class cleavage based partisanship” and “trade policy” of a political party and find that left-wing parties in advanced industrial countries adopt more protectionist policies compared to the right-wing parties. Focusing on US trade policy between 1877 and 1934, [David and Halloran \(1996\)](#) showed that Republicans raised the tariffs, while Democrats cut them. [Rogowski \(1989, pp. 98\)](#) predicts that in countries, such as United States, Canada, Australia and New

Zealand, which are capital rich, left-wing parties should be protectionist. By combining the political support function of [Hillman \(1989\)](#) with Stoper–Samuelson theorem, [Dutt and Mitra \(2005\)](#), henceforth (DM), show that left-wing governments are protectionist in capital abundant countries, whereas they are pro-trade in labor abundant countries when compared to their right-wing counterparts. Further, [Kreuer \(2008\)](#) highlights the impact of partisan preferences on the government's decision to form preferential trade agreements. His results indicate that independent of its factor endowments, a country is more likely to form preferential trade agreements when there is a right-wing government in power.

Whether the political ideology of the government affects the trade policy of the countries has been widely examined, but, surprisingly, nothing is known about the effect of partisan preferences on antidumping (AD), the most implemented non-tariff barrier over the years.<sup>2</sup> The current study therefore aims to fill this gap by investigating the effect of political ideology on AD filings and the governments' decision to impose AD duty using detailed data on AD activity and three-digit ISIC industries' trade and production.

Limited to developed countries until the late 1980s, the use of AD has increased worldwide over the past decade especially after the sharp tariff cuts countries experienced with World Trade Organization's inception in 1995. According to [Bown \(2008\)](#), more than 40 members of the World Trade Organization have become active users of AD. [Aggarwal \(2007, pp.151, 152\)](#) notes three possible perspectives for the rationale behind the proliferation of AD: the political perspective, the political economy perspective, and the economic perspective. The first

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E-mail address: [veysel.avsar@antalya.edu.tr](mailto:veysel.avsar@antalya.edu.tr).

<sup>1</sup> See [Hibbs \(1977\)](#), [Alesina \(1987\)](#), [Hibbs et al. \(1982\)](#), [Pinto and Pinto \(2008\)](#).

<sup>2</sup> There have been a total of around 4200 AD petitions filed since the inception of WTO compared to 291 countervailing and 234 safeguard initiations. (Source: WTO statistics).

two generally argue that AD is a GATT/WTO legal trade remedy used to provide protection to the domestic firms which are injured by the imports of their foreign competitors. On the other hand, the last one argues that AD is a policy which aims to prevent a situation where international price discrimination drives the domestic firms out of the market. In this study, we build on the “political economy perspective” to antidumping and seek evidence as to whether the political ideology of the governments has an effect on AD activity and our empirical results suggest such an effect.

The theoretical perspective of our study is motivated by the earlier work of [Dutt and Mitra \(2005\)](#). Simply put, Stolper–Samuelson theorem predicts that protection will increase the demand for the abundant factor in production and decrease for the scarce one. Therefore, in a capital intensive industry, it is the owners of labor who suffer, while capital owners gain from a shift towards protection. On the contrary, increased protection will benefit labor and hurt capital in labor intensive industries. [Dutt and Mitra \(2005\)](#) argue that since importable good is the labor intensive one in a capital-rich country, an increase in the leftist orientation of the government increases trade barriers in capital abundant countries, and an opposite scenario holds for the labor abundant countries. This hypothesis is strongly supported in [Dutt and Mitra \(2005\)](#) with different types of protection tools such as tariffs, import duties and quotas.<sup>3</sup>

Following the same line of argument with [Dutt and Mitra \(2005\)](#), if the left-wing government is in power, we would expect an increase in the likelihood of a successful AD case from the labor intensive industries given the fact that such a government will be more willing to increase the return to labor. Moreover, we hypothesize that labor intensive industries believe that the leftist government favors them and thus they are more likely to file an AD petition in the periods of left-wing governments. These two hypotheses are strongly supported in our empirical analysis when we employ the detailed AD data matched with the three-digit ISIC industries' trade and production data.

The rest of this paper is organized as follows. In [Section 2](#), we describe the econometric approach and the specifications carried out in our analysis. In [Section 3](#), we briefly discuss the construction of the data. [Section 4](#) presents the estimation results, and [Section 5](#) provides the concluding remarks.

## 2. Econometric methodology

### 2.1. Estimation of antidumping initiations

Antidumping is defined under the Article VI of the GATT. In order to receive protection in the form of an AD duty, domestic firms file an investigation and show evidence that exporting firms charge lower than the “fair price” they normally charge in their home market. In addition to this, they document that the domestic industry is “materially injured” by this price discrimination. Thereafter, national AD agencies evaluate the investigations and either they impose a duty to the particular product-country combination or they terminate the case without protection.

In order to examine the effect of partisanship on AD activity, we start with the following baseline model:

$$Y_{iht} = \phi_0 + \phi_1 Ideology_{it} + \phi_2 [Ideology_{it} * (K/L)_{iht}] + \phi_3 \left(\frac{K}{L}\right)_{iht} + \phi_4 Z_{ht} + \phi_5 T_{it} + \varepsilon_{iht} \quad (1)$$

where  $y$  denotes the total number of AD petitions filed by industry  $h$  in country  $i$ .  $(K/L)_{iht}$  is the capital–labor ratio of the three-digit ISIC industry,  $Ideology_{it}$  denotes the degree of the government's leftist bias which is quantified as 1 for the right-wing ideology, 2 for the centrist

ideology and 3 for the left-wing ideology.  $Z_{ht}$  and  $T_{it}$  are vectors of control variables.<sup>4</sup> A positive coefficient on the ideology variable and a negative coefficient in the interaction term would suggest that labor intensive industries believe that left-wing governments favor them and thus they are more likely to file an AD investigation given the higher expected belief they have for a successful outcome.

Since the dependent variable is count data with excess zeros, we employ Zero Inflated Poisson (ZIP) method suggested in [Lambert \(1992\)](#).<sup>5</sup> ZIP models the likelihood of an industry to file antidumping investigation in two stages. In the first one, domestic firms will never file an antidumping investigation. For instance, if an industry believes that the benefit of a successful case might not be sufficient enough to dominate the costs associated with filing an investigation because of their low share in total imports; it may never choose to claim dumping. In the second stage, the industry may or may not file an AD investigation based on the industry and country related factors.<sup>6, 7</sup>

We also control for various other factors following the AD literature. For instance, in line with the WTO rules stated above, we include the average output and import growth of the industry in the last three years. The likelihood of filing an AD petition should increase with the fall in production and with more competition from imports.<sup>8</sup> We believe that industries with higher output have more ability to file an AD petition due to the fact that it is easier for them to cover the fixed costs associated with filing and follow the necessary process of an AD investigation. Consequently, we control for the share of industry output in a country's total GDP to capture the lobbying and the financial power of that particular industry.

[Francois and Niels \(2006\)](#) and [Knetter and Prusa \(2003\)](#) show that it is more likely to find AD investigations in periods of exchange rate appreciation, current account deficits and economic recession. In this regard, we include the growth rate of GDP, exchange rate and current account balance. In addition, as noted in [Bown \(2008\)](#), 1995 inception of WTO resulted in a common set of rules which are binding for all members of WTO. Therefore, we included a dummy variable to control for the WTO membership. Finally, we also control for the democracy level in the countries given the fact that policy makers in democratic regime are more prone to pursue policies in favor of their electoral base.<sup>9</sup>

### 2.2. Estimation of antidumping outcomes

We now turn our focus to the AD duty imposition decisions of AD authorities. As noted earlier, having reviewed the filings, AD authorities impose extra duties on the particular good in order to bring the value of the good closer to its fair value if there is dumping and injury to the domestic market.

In order to quantify the effect of government's ideology on the affirmative AD outcome, we carry out the following estimation for the AD cases:

$$P(y_{ict} = 1) = \eta(\gamma_0 + \gamma_1 Ideology_{it} + \gamma_2 [Ideology_{it} * (K/L)_{iht}] + \gamma_3 (K/L)_{iht} + \gamma_4 Z_{iht} + \gamma_5 T_{it} + \varepsilon_{iht}) \quad (2)$$

where the binary dependent variable is 1 if government authorities decide affirmatively to a specific AD case from industry  $h$  and zero otherwise. Our hypothesis is that left-wing governments, which tend to increase the returns to labor, are more likely to decide affirmatively for AD cases of the industries that are more labor intensive. Therefore,

<sup>4</sup> We use the natural logs of capital-labor ratios as in [Dutt and Mitra \(2005\)](#). Besides, this variable is lagged one period in all specifications of our empirical analysis to avoid the potential endogeneity.

<sup>5</sup> The dependent variable is zero for the 80% of the total observations.

<sup>6</sup> For the same argument and the application of ZIP in antidumping literature, see [Reynolds \(2006\)](#).

<sup>7</sup> To identify the first stage we used our industry and country controls.

<sup>8</sup> [Bown \(2008\)](#).

<sup>9</sup> See [Dutt and Mitra \(2005\)](#) for the same argument.

<sup>3</sup> [Dutt and Mitra \(2005\)](#) use cross-country data for the pre-WTO period.

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