Comments

Osmel Manzano: This paper represents an important contribution to the literature on the effects of trade liberalization in Latin America. Antidumping measures are generally seen as providing governments with the tools they need to respond to imports that are deemed to have unfairly harmed domestic producers. According to the most straightforward (or even naïve) interpretation, these measures serve to correct for imperfections in international markets stemming from noncompetitive behavior on the part of foreign firms and governments. Some analysts consider antidumping measures, together with other forms of contingent protection, to be critical for the success of the trade liberalization process taking place around the world. Dam argues that the inclusion of these exceptions was crucial for the success of the early GATT rounds, because such instruments offered assurances to local producers that the liberalization process would be accompanied by measures of protection against unfair competition.[1]

Latin America and the Caribbean have a long history with the liberalization process. As Sanguinetti and Bianchi argue, however, little research has been done on the use of antidumping measures in the region. Their main findings are important. The evidence presented here shows that the initiation of antidumping measures is affected by negative macroeconomic conditions. In particular, real exchange rate appreciations and GDP contractions increase the likelihood that an antidumping measure will be initiated. The authors also find that the likelihood that an antidumping measure will be initiated is not correlated with variables related to political-economy arguments about the use of such measures—specifically, with industry concentration. Finally, the authors find that the likelihood of an initiation rises if the level of protection previously received by a sector (measured by the lagged value of the tariff level) was high.

The next issue to be addressed involves the implications of these results for policymaking purposes. Specifically, are the design and use of antidumping measures in Latin America welfare improving? The authors suggest that any

1. Dam (1970).

negative welfare effects are likely to be small. Nevertheless, a more precise and in-depth analysis is required to explore this issue. In this regard, the question posed above should be framed differently: are antidumping measures necessary from a welfare perspective? In other words, are they welfare-improving policy interventions? I presented one justification for antidumping measures at the beginning of this comment—namely, that they serve to correct for imperfections in international markets stemming from noncompetitive behavior on the part of foreign firms. I know of no evidence that this is relevant for import markets in Latin American countries, and the paper does not provide such evidence, either.

Fischer and Prusa formalize an alternative argument in which trade exceptions serve as insurance to sectors that might be injured by liberalization.[2] Such exceptions could help reduce the risk of sectors that might be exposed to more shocks under trade liberalization than in a closed economy. For example, a policy intervention along the lines of contingent protection could be welfare improving in the presence of temporary exchange rate fluctuations combined with some irreversibility in the production process.[3] The case for protection against abrupt changes in domestic GDP could be harder to make under this argument, but it is still possible.[4]

This raises a second question, however. Given that the government wants to insure local producers against shocks that were not present (or were less pronounced) when the economy was closed, is contingent protection the best policy intervention? Fischer and Prusa show that this type of insurance can be provided by other means—specifically, a scheme of taxes and subsidies.[5] They argue that antidumping measures may indeed be associated with protectionist pressures rather than welfare-improving policies.

In this regard, Sanguinetti and Bianchi find that lagged tariffs have a positive impact on the likelihood of an antidumping case initiation. This finding supports the view of antidumping measures as protectionist policies. Moreover, in their test, the effect of local and foreign GDP fluctuations on case initiations becomes insignificant once the effect of tariffs is included. This further strengthens the argument that antidumping measures are used for protectionist purposes. The effect of the real exchange rate, however, continues to be present even

2. Fischer and Prusa (1999).

3. The latter may be related to fixed costs of entry and exit, as proposed in Hausmann and Rigobon (2003).

4. Examples include a negative productivity shock stemming from a natural disaster or an important contraction of the domestic economy as a result of a financial crisis.

5. Fischer and Prusa (1999).

after the tariff effect is included. Therefore, antidumping rules may be fulfilling a welfare-enhancing role regarding real exchange rate fluctuations.

This sets the stage for a more comprehensive evaluation of the welfare effects of antidumping measures. A key issue is whether the benefits derived from insuring local producers against real exchange rate shocks are greater than the costs generated by protecting sectors that do not require it, which results in an inefficient resource allocation. Sanguinetti and Bianchi suggest that these costs might be small in the Latin American case, since only a small fraction of trade flows is affected by these investigations. Two factors should be considered, however. First, their results on tariffs indicate that these initiations are taking place in sectors that were initially highly protected. The small volume could thus reflect the high level of protection. Second, in their argument for studying case initiations rather than definitive actions, the authors suggest that importers start changing their behavior even when initiations take place.[6] This also implies that a low volume of imports will be registered, which again could be an indication of excess protection rather than a weak effect on total trade.

Another argument given by the authors is that antidumping measures are the price to be paid for trade liberalization. This runs counter to the evidence presented in the paper against the hypothesis that antidumping measures are the result of lobbying activities.[7] Additional research is clearly necessary to clarify the relation between the availability of antidumping measures and trade liberalization in the context of developing countries, where the politics of protection are likely to be different from those in developed countries.[8]

In summary, this paper is an important contribution to the understanding of the evolution of antidumping initiations in Latin America. The next step is to move toward a more normative analysis that would uncover the welfare implications of the increased use of antidumping measures in the region.

Marco Bonomo: This paper is a welcome contribution to the understanding of trade policy mechanisms and dynamics in Latin America. Tariffs have been reduced in Latin America, while the use of antidumping actions has increased.

6. The real policy measures come with the approval of definite actions. Initiations can only lead to the establishment of provisional measures, which cannot be imposed within sixty days and which have a time limit of four months.

7. As argued, industry concentration has no effect on the use of antidumping initiations. Nevertheless, previous protection does have an impact on those initiations, which suggests that protected sectors used more antidumping initiations than unprotected sectors. The question is whether they lobbied for them before trade liberalization.

8. See, for example, the formalization proposed by Maggi and Rodríguez-Clare (1998), in which a government might prefer free trade over rents from private sector lobbies.

The possibility of using this form of contingent protection makes the tariff reduction more credible. Given this two-way relation between tariffs and antidumping actions, their joint dynamics and determinants should, in principle, be studied together. However, one could simplify the investigation by taking the point of view that tariffs are exogenous to antidumping actions. This approach should be fruitful if tariffs are much more important for the determination of antidumping actions in the short run than the other way around. This seems clearly to be the case since tariffs are more structural than antidumping actions, which justifies the authors' strategy of focusing only on the determinants of the latter.

I focus my comments on alternative conceptual approaches for interpreting their empirical results. The authors follow Knetter and Prusa in choosing a normative approach based on the conditions imposed by the institutional rules that govern antidumping actions.[1] According to this approach, the number of antidumping actions should be related to variables that make the institutional conditions for an antidumping action most likely to be satisfied. Even the institutional rules for an antidumping action, however, are not totally objective. In all three countries examined, the imposition of antidumping measures can be denied if they are not considered to be in the national interest, even when the formal conditions of injury, positive dumping, and causality determinations are satisfied. Furthermore, rules that seem objective very often leave room for discretion, given the possibility of manipulating accounting measures. Economic and political interests may thus play an important role in determining antidumping actions.

For expositional clarity, I assume that the imposition of antidumping measures is determined only by political-economy considerations, without any role for the formal conditions, although both considerations matter in practice. In other words, I assume that the accounting measures can always be manipulated to find the necessary evidence if there is a prevailing economic interest in the antidumping initiation. Under this political-economy approach, the central government makes the final decision on an antidumping initiation. The government will clearly be influenced by lobbies—and the success of lobbying requires significant economic benefits for the affected domestic industry and the ability to coordinate the firms in that industry. A formal model would be desirable, but economic intuition provides the basis for sketching some testable implications.

Movements in variables that increase the economic benefits of protection for a specific industry should be positively related to antidumping initiations in this same industry. Intuitively, the economic benefits of a contingent protection

1. Knetter and Prusa (2003).

for an industry are high when the competition with the foreign industry is tough. Movements in variables that make this competition harsher should raise the likelihood of an antidumping measure. Examples of these movements include exchange rate appreciations, reductions in domestic productivity growth in an industry vis–à-vis its foreign competitors, a drop in domestic demand, and the lowering of industry tariffs. Those variables should explain part of the time variation in antidumping initiations at the industry level.

This formulation for industry antidumping measures implies that some aggregate variables should help explain the variability of antidumping measures at the country level. For example, exchange rate appreciations should be positively related to a country's total antidumping initiations. Since reductions in domestic productivity growth and in domestic aggregate demand should increase the number of antidumping measures at the industry level, a lower GDP growth should be associated with a higher number of antidumping actions at the country level. On the other hand, a higher GDP growth rate for a foreign country, led by a cross-industry increase in productivity, should result in a higher number of antidumping actions against that country.

Variables that are related to the degree of competition and coordination across industries should also explain cross-industry variation in antidumping initiations. As a result, industries with lower tariffs and higher concentration should have more antidumping initiations.

The normative approach also predicts that antidumping filings should be negatively related to GDP growth, but its predictions are ambiguous with respect to real exchange rate variations. The political-economy approach shares the same implication for the effect of exchange rate appreciations, and it has a rich set of implications beyond that.

In general, the results obtained in the paper are consistent with the political-economy approach: real exchange rate appreciation, a lower domestic GDP growth, a higher foreign GDP growth, and lower tariffs increase the likelihood of antidumping initiatives. However, the authors do not find any relation between industry concentration and antidumping initiatives.

A number of implications should be tested in future research. Although the authors have an industry-level variable as their dependent variable (antidumping initiatives by industry and country), their main explanatory variables are macroeconomic. The exception is the use of tariffs and industry concentration in one of their regression tables. In fact, the introduction cites an alternative hypothesis—that antidumping is just another form of protection—as a justification for using those two variables in their empirical experiments. However, the analysis would be enriched by a full-fledged political-economy approach.

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