Comments on
“Does Trade Liberalization with China Influence U.S. Elections?”
by Che, Lu, Pierce, Schott and Tao

Hiroshi MUKUNOKI
Gakushuin University

Frontiers in research on trade costs @ RIETI
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Q. Does trade liberalization matter in U.S. politics?

- A change in U.S. trade policy: granting permanent normal trade relation (PNTR, a.k.a MFN status) to China in October, 2000.
  - Until then, the U.S. could apply non-PNTR tariffs (i.e., “the Smoot-Hawley Tariffs”) to China.
- Diverse voters’ exposure to Chinese import competition.
  - Calculating the county-level NTR Gap by using the employment-share at the industry level.
Q. Does trade liberalization matter in U.S. politics?

Industry-level NTR Gap

1992

2000

2010

County 1
A: B=3:1

County 2
A:B=1:3

County-level NTR Gap

Votes cast for Democrats

Annual Renewal

Permanent
Q. Does trade liberalization matter in U.S. politics?

A. YES!

- U.S. counties more exposed to competition from China:
  - Higher voter turnout
  - Increases in the share of votes cast for Democrats
  - Increases in the probability that a Democrat represents a county (incl. Switching from a Republican)

- Democrats are actually more likely to support bills that limit import competition and provide economic assistance.
Q. Does trade liberalization matter in U.S. politics?

Topical research question!
- US presidential election
  - Donald Trump said he might pull the U.S. out of the WTO.
- The issue of granting market economy status to China

Good identification and strong results!

… It was really hard (for me) to come up with comments.
List of Comments

0. Quick Questions
1. Really Exposed?
2. Only China?
3. Administered Protection?
4. FTAs?
+ Minor Comments
Quick Questions

QQ1
Which U.S. industries have higher NTR gaps?

- Food and tobacco (60% Smoot-Hawley tariff*)? Iron and Steel? Textiles? Leather?


QQ2
Would tariffs have been automatically reverted to Smoot-Hawley tariff rates, if the U.S. did not renew NTR status prior to PNTR? (i.e., No government’s discretion?)
Comment 1: Really exposed?

- Paper’s supposition:
  Industries with large **NTR Gaps**
  = More exposed to Chinese import competition after **PNTR**

- Should take into account **industry-level imports from China** to consider the Chinese comparative advantage & the potential increase in imports from trade liberalization.
Comment 1: Really exposed? (cont’d)

- NTR gap adjusted by the industry share in the U.S. imports from China

\[
\text{Adjusted } NTR \; Gap_c = \sum_j \left( \alpha_j \times \frac{L_{jcb}}{L_{cb}} \right) NTR \; Gap_j
\]

- Imports from China in industry \( j \)
- Total imports from China
- World imports from China in industry \( j \)
- Total world imports from China
Comment 2: Only China?

- The U.S also granted PNTR to other countries between 2000 to 2010.
  - Albania (2000)
  - Kyrgyzstan (2000)
  - Armenia (2005)
  - Ukraine (2006)
  - Vietnam (late 2006)

- Identifying the same political effect of granting PNTR to other countries
  - Checking if the results are specific to China
Comment 3: Administered protection?

- U.S. AD/CVD measures increased in Post-PNTR period.

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<thead>
<tr>
<th></th>
<th>1992-1999</th>
<th>2000-2010</th>
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<tbody>
<tr>
<td>US ADs and CVDs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Total)</td>
<td>57</td>
<td>138</td>
</tr>
<tr>
<td>[6.3/year]</td>
<td>[12.5/year]</td>
<td></td>
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<tr>
<td>US ADs and CVDs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(China)</td>
<td>14</td>
<td>75</td>
</tr>
<tr>
<td>[24.6%]</td>
<td>[54.3%]</td>
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✓ Increases in these protections might be the outcomes of the political effects of granting PNTR to China.

✓ Administered protection = Deviations from NTR rates
  = The “effective” NTR Gap is small
  - The political effects of PNTR on industries that are frequently protected by AD/CVD might be smaller.
  - Can be another time-varying policy attributes
Comment 4: Post-PNTR FTAs?

- The number of U.S. FTAs (in force) increased in Post-PNTR period.

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<th>1992-1999</th>
<th>2000-2010</th>
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<tr>
<td>NAFTA (1994)</td>
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<td>9</td>
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- If the industries subject to trade liberalization in those FTAs = the industries that have higher NTR gaps,
  - (Possible) political effects of increased competition with FTA partners might be treated as if they were the effects of PNTR.

- Another time-varying policy attributes (though it will be very cumbersome to identify the industry-level liberalization of FTAs).
A related (working) paper: **Lake and Millimet (2016)** *

- Investigated the effect of rising trade exposure on U.S. employment growth by using county-level employment data in 1990-2010.

- Falling U.S. tariff protection is substantially more important that rising Chinese import penetration.

* Lake, J. and D.L. Millimet (2016) “Good Jobs, Bad Jobs: What’s Trade Got To Do With It?”, mimeo

- P. 14:
  
  \[ r \in (0, 100) \rightarrow r \in (0, 100) \]
Summary of Comments

1. Using U.S. import data from China to take into account Chinese comparative advantage
2. Considering the political effect of granting PNTR to other countries in the same sample period
3. AD/CVD as a possible escape of PNTR
4. A possible estimation bias due to the post-PNTR FTA liberalization