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Discussion by

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Quick description of the paper

• This paper analyzes the impact of China’s accession to the WTO in 2001, on U.S. consumers’ income and welfare, focusing on the reduction in uncertainty implied by the accession.

• Indeed, WTO accession implied that the U.S. granted permanent MFN status to China, after many years of temporary one.

• The paper finds evidence, through reduced-form and structural estimates, of substantial welfare effects, equivalent to those implied by an 8 percentage point tariff decrease.
Overall assessment of the paper

• This paper focuses on an important policy event that is receiving large attention in the literature – i.e., China’s WTO accession (see for example Autor, Dorn and Hanson 2013).

• Yet this paper adopts a different perspective, linked to the idea of policy uncertainty, and highlights significant benefits of China’s export boom to the U.S. and of elimination of policy uncertainty.

• More broadly the paper points out an important dimension of trade agreements that has been, for the most part, ignored in the literature.

• The paper develops a theoretical model and provides both reduced-form and structural estimates, complemented by robustness and falsification tests.
What is (trade) policy uncertainty?

• This paper analyzes the (trade) policy uncertainty deriving from the temporary nature of a policy decision as a consequence of political reasons (issue of human rights in China).

• In other words, it is policy itself that introduces uncertainty in the economic environment.

• However, there are situations in which policy uncertainty is aimed at reducing pre-existing economic uncertainty, for example in the case of safeguards (which can be used by a WTO member to restrict imports of a product temporarily if its domestic industry is threatened with injury caused by a surge in imports) or escape clauses in inflation-targeting regimes.

• The welfare implications of these two types of policy uncertainty are likely to be different.
What is (trade) policy uncertainty? (cont.)

• Related to the latter point, it would be interesting to empirically analyze the welfare effect of other sources of (trade) policy uncertainty built into the WTO agreement, such as safeguards.

• Is there any work on that? How does it compare to the results of this paper?
The impact of trade policy uncertainty

• In this paper, trade policy uncertainty is captured by the gap between MFN tariff rates and column 2 non-cooperative (non-MFN) tariff rates.

• For any product, column 2 non-cooperative (non-MFN) tariff rates are positively related to market power (Broda, Limao and Weinstein 2008).

• For any product, MFN tariff rates are positively related to market power and negatively related to the product of market power and export-shares concentration (Ludema and Mayda 2013).

• Therefore, the gap between MFN and column 2 non-cooperative (non-MFN) tariff rates is proportional to the product of market power and export-shares concentration.
The impact of trade policy uncertainty (cont.)

• In turn, export-shares concentration is likely to be correlated with domestic concentration, which was probably associated with different forms of protection in the pre-WTO accession period.

• Following its accession to the WTO, China became eligible to benefit from WTO provisions against these other forms of protection (for example, the phase-out of quotas in textiles).

• To what extent does the empirical analysis account for this source of bias?

• Besides controlling for (rare) changes in applied tariffs, the authors explicitly control for NTBs and carry out falsification exercises.
The impact of trade policy uncertainty (cont.)

• Europe falsification exercise:
  – The authors regress Chinese exports to the European Union on U.S. TPU and find no impact;
  – What about regressing Chinese exports to the European Union on EU TPU (the gap between European MFN and non-MFN tariff rates) and change in applied tariff rates? Given that the European Union granted permanent MFN status to China in the 80’s, the impact of EU TPU should be zero according to the theoretical predictions.
  – This seems to be a “cleaner” falsification exercise.

• Taiwan falsification exercise:
  – I like this falsification exercise better than the European one

• What about using an instrument for the TPU measure?
Conclusions

• This paper already carries out many of the robustness checks I could think of … very strong empirical evidence!