

Exchange Rates and Protectionism

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Exchange Rates and Protectionism

- Exchange-rate movements and misalignments tend to generate *industry-specific* trade policy responses
- This is because exchange rates have diverse effects on profitability and performance across industries

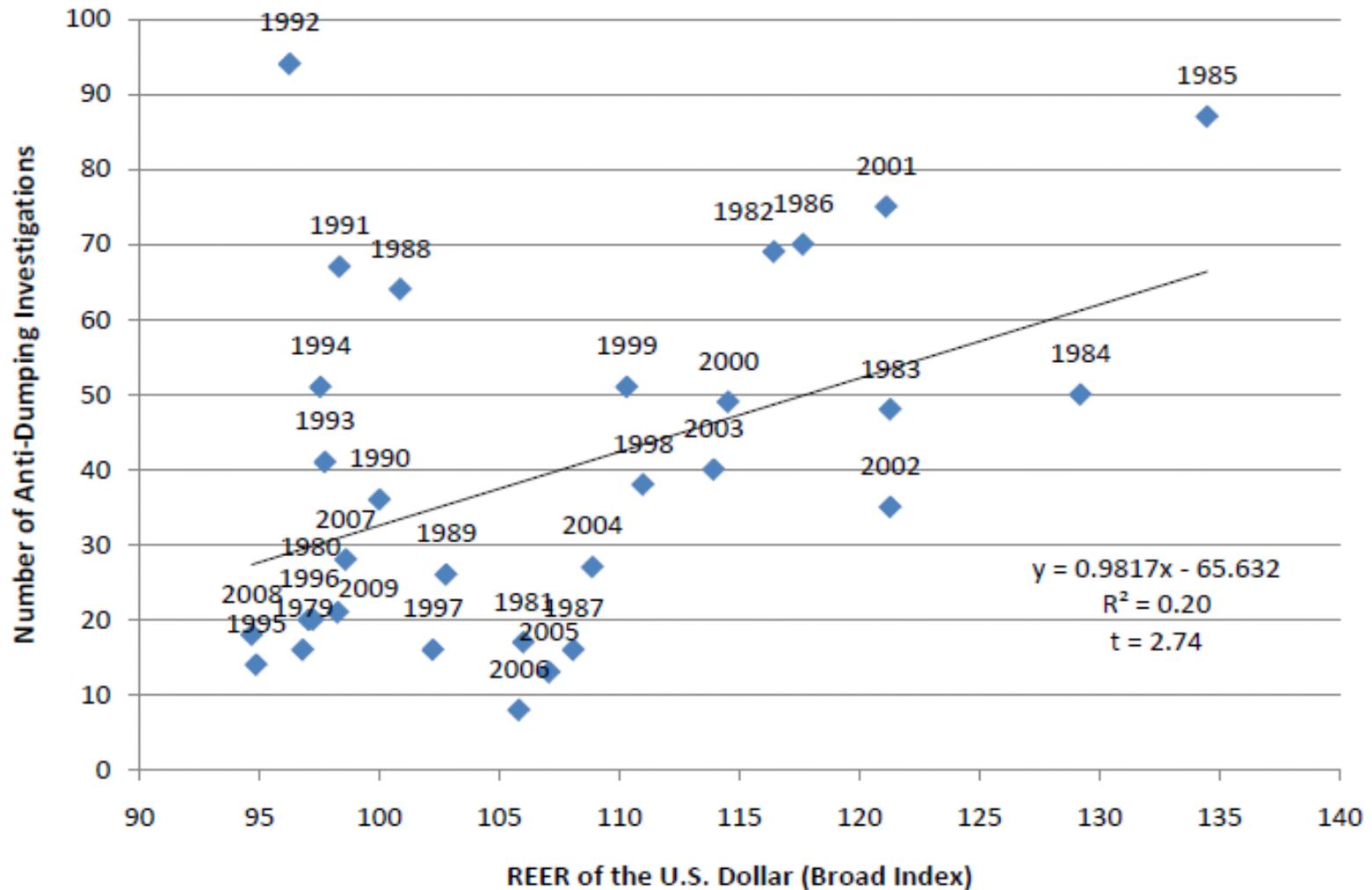
The Plan Ahead

1. Establish a basic connection between exchange rates and trade policy
2. Develop the theoretical relationship between exchange rates and protectionism at the industry level of analysis
3. Analyze the relationship empirically using two industry-level indicators of protection:
 - a. Industry-year data on anti-dumping investigations
 - b. Lobbying and congressional voting patterns on *The Currency Reform for Fair Trade Act* (passed the House on Sep 29, 2010)

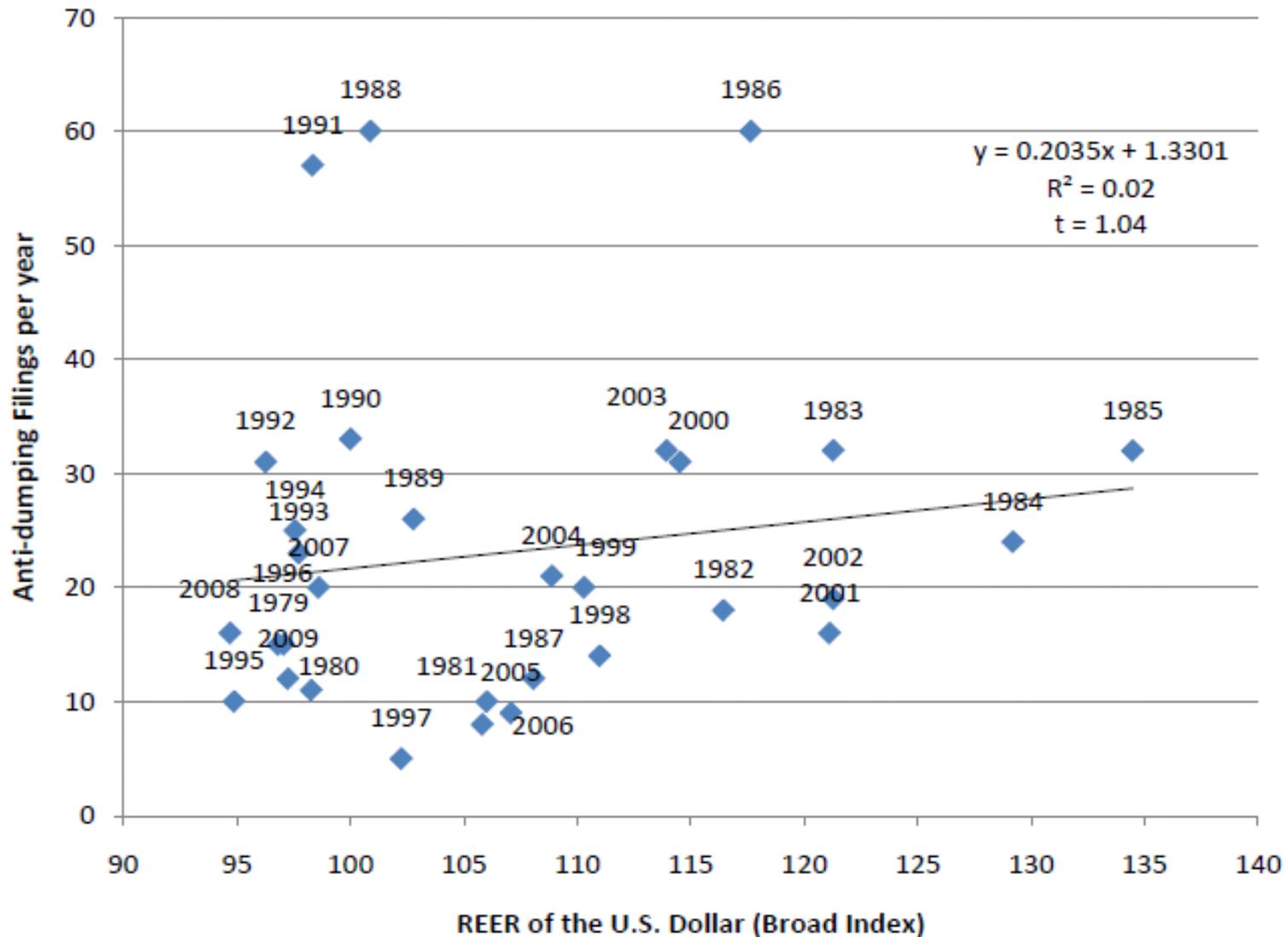
Antidumping and the REER

- Antidumping filings should increase when the dollar appreciates because appreciation makes U.S. goods less competitive with foreign goods
- The real effective exchange rate (REER) is the proper measure since it weights the dollar's value in terms of the currencies of major trading partners (which makes it “effective”) and adjusts for prices differences (which makes it “real”)

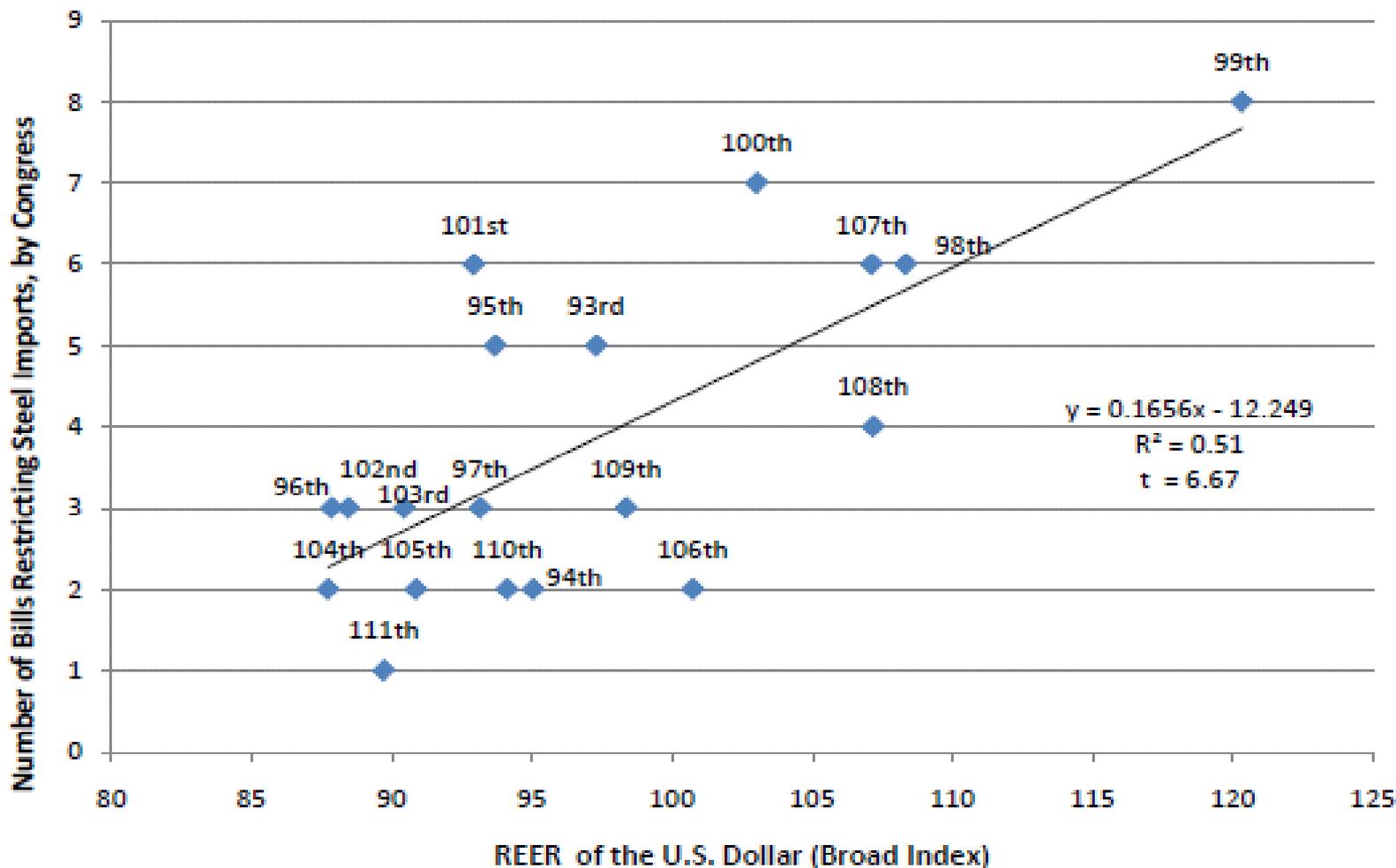
All Antidumping Cases and the REER



BUT, when you take out SIC 33, which account for 42% of the cases...



Same holds for *legislation*: bills to protect the steel industry correlate positively with the REER (below), but not all trade bills (not shown)



Industry-Specific Effects of ERs

- Three industry-specific characteristics shape industry positions on the level of the ER
 - the share of exports in industry revenue
 - the share of imports in domestic consumption
 - the share of imported inputs in total costs
- The degree of exchange rate “pass-through” determines the sensitivity of industries to the ER

Industry *Position* on the Level of the Exchange Rate

Industry Sensitivity to the Exchange Rate

	High	Low
Low	Importers , differentiated goods Users of differentiated imported inputs	Exporters , differentiated goods Import-competers , differentiated goods
High	Non-traded goods producers Importers , standardized goods Users of standardized imported inputs	Exporters , standardized goods Import-competers , standardized goods

Conditional effects of ERs on Antidumping

	1	2	3	4	5	6
	Industries with <i>low</i> pass through and <i>high</i> export shares	Industries with <i>high</i> pass through and <i>high</i> export shares	Industries with <i>low</i> pass through and <i>high</i> import shares	Industries with <i>high</i> pass through and <i>high</i> import shares	Industries with <i>low</i> pass through and <i>high</i> trade shares	Industries with <i>high</i> pass through and <i>high</i> trade shares
XEER	0.031 (0.012)**	-0.02 (0.010)*				
MEER			0.033 (0.007)***	-0.009 (0.006)		
TEER					0.037 (0.013)***	-0.015 (0.009)*
Constant	-1.713 -1.26	2.401 (0.982)**	-2.445 (1.044)**	1.197 (0.619)*	-2.565 (1.501)*	1.866 (0.805)**
Observations	124	124	155	124	155	124

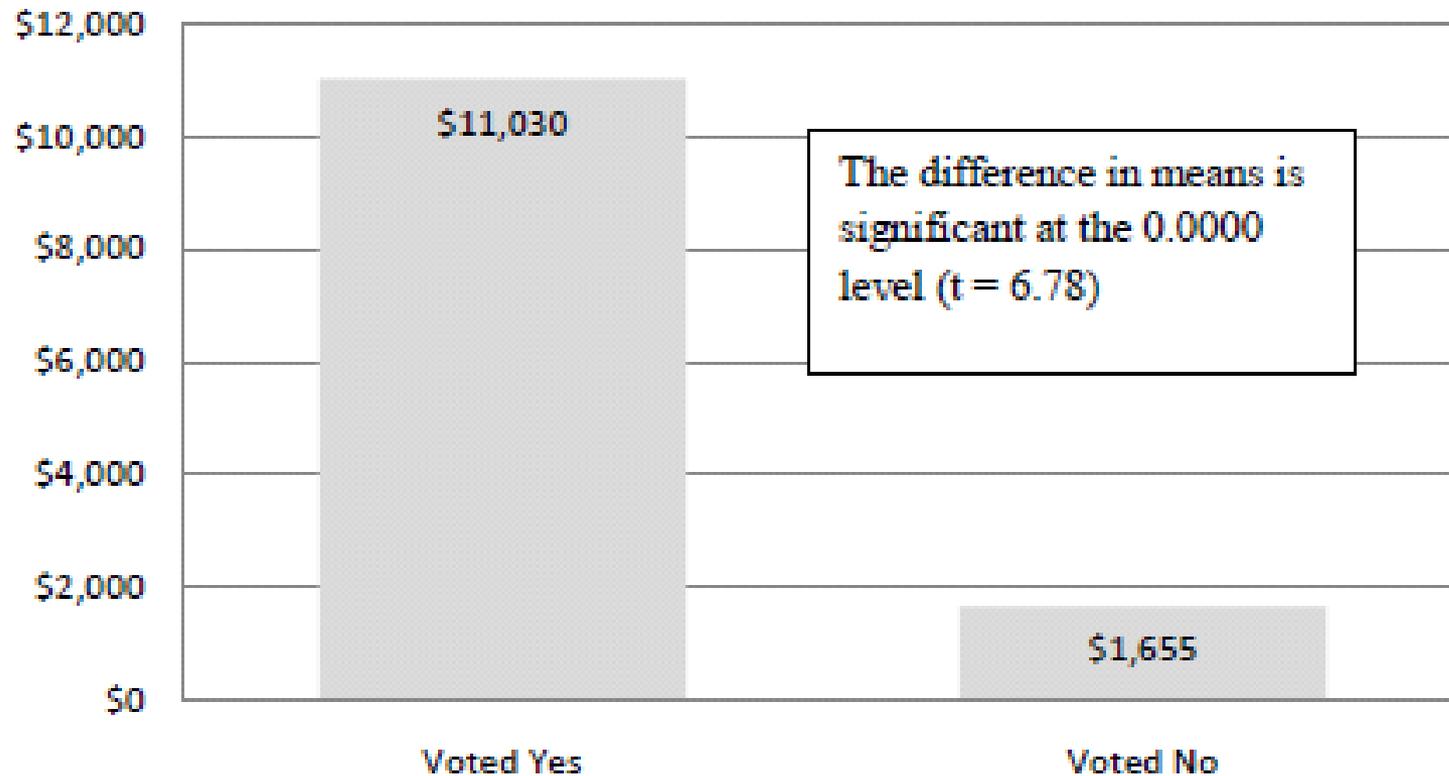
* significant at 10%; ** significant at 5%; *** significant at 1%

Lobbying on *The Currency Reform for Fair Trade Act*

<i>Support H.R. 2378</i>	<i>Oppose H.R. 2378</i>
<p>American Iron & Steel Institute United Steelworkers Aluminum Extruders Council Alliance for American Manufacturing AFL-CIO International Association of Machinists and Aerospace Workers</p>	<p>American Apparel & Footwear Association American Meat Institute American Soybean Association Coalition of Service Industries Financial Services Roundtable International Dairy Foods Association National Cattleman's Beef Association National Council of Farmer Cooperatives National Fisheries Institute National Retail Federation Pacific Coast Council of Customs Brokers & Freight Forwarders Securities Industry & Financial Markets Asso. Sporting Goods Manufacturers Association TechAmerica U.S. Chamber of Commerce USA Poultry & Egg Export Council</p>

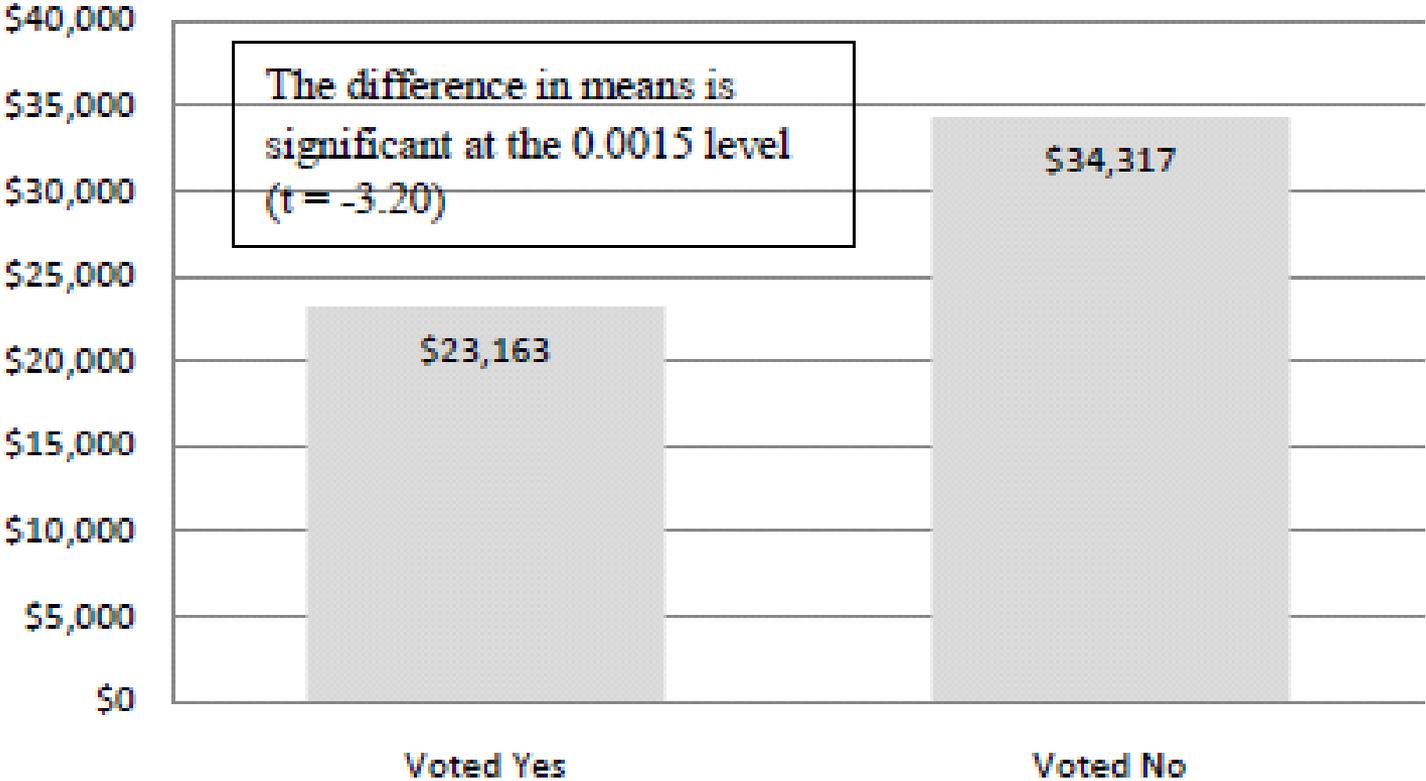
Campaign Contributions and House Voting on H.R. 2378

Contributions from Supporters



Contributions and House Voting

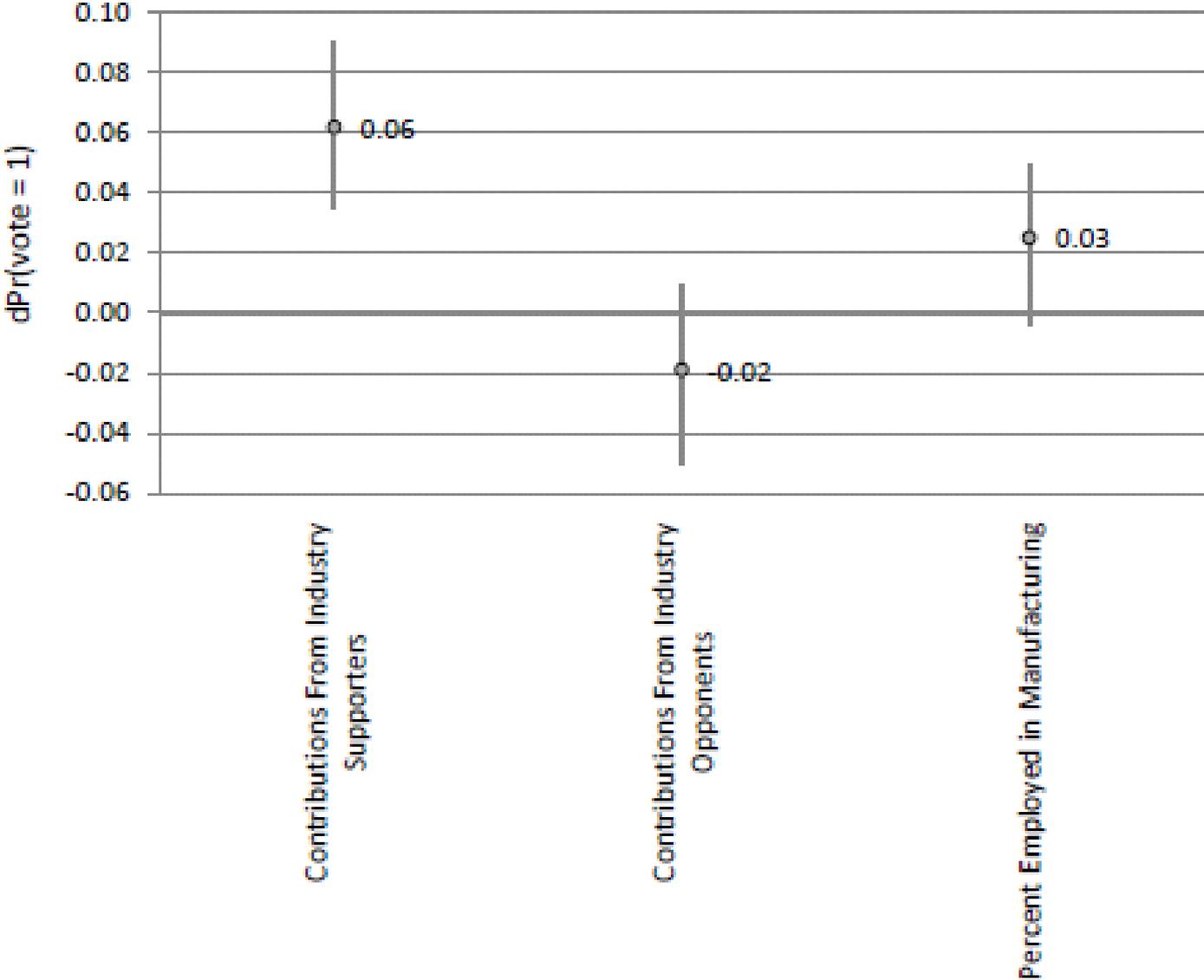
Contributions from Opponents



Probits of House Voting on H.R.2378

Contributions from Industry Supporters	0.096 (0.018)***	0.047 (0.014)***	0.041 (0.013)***
Contributions from Industry Opponents	-0.006 (0.003)**	-0.004 (0.003)	-0.003 (0.003)
DW-Nominate (Member Ideology)		-1.014 (0.198)***	-1.109 (0.206)***
Percent Employed in Manufacturing			2.643 (1.572)*
Percent Employed in FIRE			3.766 (4.783)
Percent Employed in Agriculture			-0.688 (4.376)
Constant	0.549 (0.115)***	0.943 (0.144)***	0.372 (0.522)
Observations	429	429	429
Pseudo R2	0.174	0.248	0.256

Substantive Effect of Contributions



Conclusions

- ER movements and misalignments induce industry-specific trade policy responses because the affect of ERs is highly varied across industries
- The steel industry has been the most active user of administered protectionism and stands out among industries for its lobbying in support of H.R. 2378
- If a bill like H.R. 2378 were to become law, there would not be a generalized increase in protectionism against China. Rather, there would be a rise in administered protection in certain industries, especially steel