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Did China tire safeguard save U.S. workers?

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ABSTRACT

Although temporary trade barriers are perceived as a feasible policy instrument for securing domestic jobs in the presence of increased globalization and economic downturns, no study has assessed whether such temporary barriers have actually saved domestic jobs. To overcome this deficiency, we evaluate the China-specific safeguard case on consumer tires petitioned by the United States. Contrary to claims made by the Obama administration, we find that total employment and average wages in the tire industry were unaffected by the safeguard. Further analysis reveals that this result is not surprising as we find that imports from China are completely diverted to other exporting countries partly due to the strong presence of multinational corporations in the world tire market.

"Over a thousand Americans are working today because we stopped a surge in Chinese tires, but we need to do more."– President Barack Obama, State of the Union Address, Jan 24th, 2012.

"The tariffs didn't have any material impact on our North American business."– Keith Price, a spokesman for Goodyear Tire & Rubber Co., Wall Street Journal, Jan 20th, 2012.

1. Introduction

While trade barriers have reached historically low levels, a growing number of countries are worried about job losses as a consequence of the trade liberalization. The concern is well epitomized in the recent U.S. trade policy agenda. The Obama administration has filed trade dispute cases with the World Trade Organization (WTO) at a pace twice as fast as that of the previous administration. Moreover, the Interagency Trade Enforcement Center (ITEC) was set up in February 2012 to monitor and investigate unfair trade practices.[1] During the 2012 presidential election, both candidates pledged to take even stronger actions to protect U.S. businesses and workers.[2]

The incentives to secure jobs by raising trade barriers are well explained in the literature. Political economy of trade policy theory explains that higher risk of unemployment makes individuals more protectionist, which induces them to

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[1] See Rapoza (2012) *Forbes*.

[2] Ever-increasing imports from China were discussed as one of the greatest future threats to the national security of the U.S. in the debates for the 2012 presidential election.

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demand more protection through voting or union lobbying activity. The politicians who seek re-election then protect industries with high unemployment rates (Wallerstein, 1987; Bradford, 2006; Matschke and Sherlund, 2006). In addition to political economy considerations, there are other economic models that justify protectionism. Costinot (2009) provides a model where the aggregate welfare can improve when highly unemployed industries are protected. Davidson et al. (2012) emphasize fairness or altruistic concern toward displaced workers as another incentive for protection. Bagwell and Staiger (2003) argue that trade policies are preferred to domestic redistributive policies because they *beggar thy neighbor*: While domestic policies come at the expense of domestic residents, trade policies cost foreigners.

Surprisingly, however, the literature so far has ignored to check whether such protective trade policies can actually save domestic jobs. In fact, studies have only focused on the other direction, i.e., how trade liberalization affects employment or wages. Gaston and Trefler (1994) and Trefler (2004), for example, find that import competition due to tariff declines have negative effects on wages in the U.S. and employment in Canada. In recent studies, Autor et al. (2013, 2014) estimate how much the import surge from China costs U.S. manufacturing employees, and find that the greater import competition causes higher unemployment, lower wages, less labor market participation, and greater chance of switching jobs and receiving government transfers. McLaren and Hakobyan (2012) also find a significant adverse effect of import exposure to Mexico on U.S. wage growth for blue-color workers after the implementation of the North American Free Trade Agreement (NAFTA).[3]

The evidences above seem to imply that re-imposing trade barriers would secure domestic jobs. However, most recent protection policies are enacted in the form of antidumping, countervailing duties, or safeguards, which are systematically different in their nature from the trade barriers such as Most-Favored-Nation (MFN) tariff rates and import quotas that have been lowered in recent decades. These policies, often collectively called temporary trade barriers (TTBs), are typically (i) contingent, (ii) temporary, and (iii) discriminatory in that duties are imposed for a limited time to a small set of products from particular countries.[4] Due to these characteristics, there are at least two channels that may divert trade flows and weaken the impact of a TTB on domestic markets. First, the temporary feature of TTBs leaves a room for targeted exporting firms to adjust their sales timing to either before or after the tariff intervention. Second, perhaps more importantly, the discriminatory feature can divert the import of subject products from the targeted country to other exporting countries. Thus, whether (and the degree to which) a TTB can secure domestic jobs remains an unanswered empirical question.

Despite the lack of empirical evidence on whether TTBs actually save domestic jobs, many WTO member countries have already been opting for TTBs, especially in domestic recession phases with high unemployment rates. Knetter and Prusa (2003) link antidumping filings with domestic real GDP growth to find their counter-cyclical relationship during 1980–1998 in the U.S., Canada, Australia, and the European Union. Irwin (2005) extends a similar analysis to the period covering 1947–2002 in the U.S. case, and finds that the unemployment rate is an important determinant of antidumping investigations. More recently, two companion studies by Bown and Crowley (2013, 2014) investigate thirteen emerging and five industrialized economies, respectively, and report evidence that a high unemployment rate is associated with more TTB incidents.

This paper aims to fill up the deficiency in the literature by evaluating a special safeguard case on Chinese tires (China Tire Safeguard or CTS, henceforth) that has received a great deal of public attention among recent TTB cases.[5] Under Section 421 China-specific safeguard, the U.S. imposed higher tariffs on certain Chinese passenger vehicle and light-truck tires for three years from the fourth quarter of 2009 to the third quarter of 2012. The safeguard duties were 35% ad valorem in the first year, 30% in the second, and 25% in the third on top of the MFN duty rates.[6] The case has triggered not only Chinese retaliation on U.S. poultry and automotive parts, but also a serious controversy on the actual effectiveness of the CTS for the U.S. tire industry.[7] Despite such controversy, the CTS has been cited as a paragon of successful trade policy for job security by the Obama administration.

The CTS provides a unique advantageous setting for answering the question of this paper. While the CTS is representative in that it bears all three TTB characteristics described above, one important distinction of the CTS is that the safeguard duties are exogenously determined. In antidumping cases, which are the most pervasive form of TTB, duties are endogenously determined to offset the dumping margin. Even after the duties are in place, they are recalculated over time to adjust the dumping behavior changes of exporting firms.[8] These endogenous tariff changes complicate the evaluation of a tariff imposition effect. Secondly, the change in the total import of subject Chinese tires before and after the safeguard initiation is considerably large in both levels and growth rates.[9] If TTBs have labor market outcomes, this dramatic change should allow us to observe it. Third, contrary to most trade disputes in which the producers filed a claim, the petition for the CTS was filed by the union representing employees known as United Steelworkers. This implies that the petition is indeed intended for employees' benefits and thus labor market effects.[10]

[3] Similar patterns are observed in developing countries, too. See Goldberg and Pavcnik (2005) for Columbia, Menezes-Filho and Muendler (2011) and Kovak (2013) for Brazil, Topalova (2010) for India.

[4] An exception to discriminatory feature is Global safeguard measure, since it is imposed to all countries.

[5] Prusa (2011, p. 55) describes the China Tire Safeguard as "one of the most widely publicized temporary trade barriers during 2005–2009, garnering significant press attention both in the USA and in China."

[6] MFN duty rates are 4% for radial (or radial-ply) tires and 3.4% for other type (bias-ply) of tires.

[7] See also Bussey (2012) in *Wall Street Journal*.

[8] This recalculation process is also called administrative review process. Many studies investigate the implication of the review process on exporting firm's pricing behavior. See, for example, Blonigen and Haynes (2002) and Blonigen and Park (2004).

[9] Detail statistics are provided in Section 3.

[10] Prusa (2011) argues that the last two features are the main reasons of receiving unusual public attention.