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Political connections and antidumping investigations: Evidence from China[☆]

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ABSTRACT

Do political connections affect antidumping (AD) investigations? To address this question, we use antidumping filings data combined with micro data on Chinese manufacturing firms for the period 1998–2007. The political connections of a firm are defined by whether it has state-owned capital or whether it is under the administration of central or provincial government. Estimating a probit model of AD filings at the firm level, we find that strong political connections significantly increase the likelihood of AD petitions and affirmative final dumping decisions. State-owned enterprises, firms affiliated with the central or provincial government, low productivity firms, and large firms tend to file AD investigations in China. The industry-level estimation results also confirm that the industries with a greater presence of state-owned enterprises are likely to apply for and receive trade protection from the Chinese government, controlling for import penetration, year, and industry fixed effects.

1. Introduction

In recent years, the world economy has faced a slowdown and increasing protectionism and import protection policies. According to the World Trade Organization (WTO), the number of antidumping (AD) initiations (measures) by reporting members was 230 (181) in 2015 and exceeded 173 (134) cases in 2010 and 217 (143) cases during the financial crisis in the years 2008 and 2009. The causes and consequences of trade protection including AD investigations have been studied extensively in the literature (see [Blonigen & Prusa, 2015](#) for a recent survey). However, there is still a lack of evidence on the political-economic determinants of trade protection (AD, in this paper), particularly in developing countries, for two reasons. First, the political-economic factors and variables are typically unobserved by economists. As noted by [Pierce \(2011\)](#), “firms applying for protection may take into account whether they have political connections—such as the support of a member of Congress, or participation in a politically sensitive industry—that would affect their chances of receiving protection.” Second, due to a lack of availability of micro-data, trade protection in developing countries is underexplored despite AD investigations and measures widely used by developing countries (see [Bown, 2011](#) for a detailed description of the evolution of AD and other temporary trade barriers).

The goal of this paper is to empirically examine the political-economic factors of AD investigations against foreign firms. Specifically, using comprehensive Chinese firm-level data, we examine whether political connections and favoritism affect China's AD investigations. In this paper, we determine whether a firm is politically connected or favored from three perspectives: whether a firm

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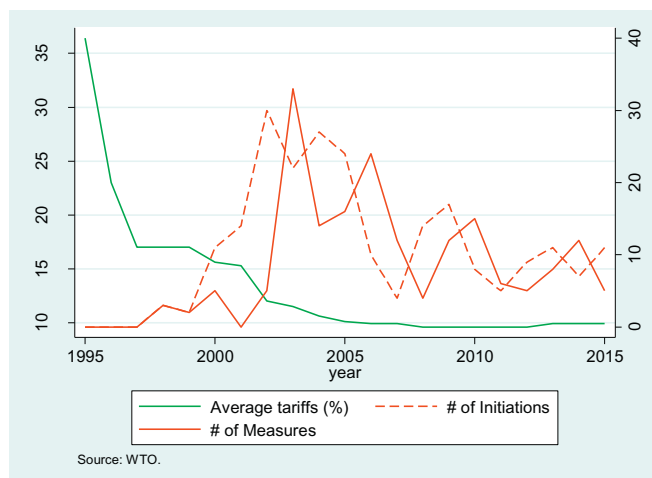


Fig. 1. China's tariffs and AD investigations.

is a state-owned enterprise, the capital share owned by the state, and whether a firm is under the administration of central or provincial government. These measures are representative and employed in the previous literature. For example, as in this paper, [Cai, Lu, and Zhu \(2016\)](#) use the affiliation of a state-owned enterprise (SOE) as a proxy for the degree of government protection it receives. [Li, Meng, Wang, and Zhu \(2008\)](#) treat the Chinese Communist Party membership of private entrepreneurs as political connections.¹

China is an excellent setting for the study of this topic. China experienced great trade liberalization in the late 1990s and 2000s and entered the WTO in 2001. As a condition to joining the WTO, China conducted substantial tariff reform in the late 1990s. At the same time, China has started using AD instruments intensively (see [Fig. 1](#)).² In 2002, the number of AD initiations by China accounted for 10% of total initiations in the world. In 2003, the share of China's AD measures (AD duties in force) to the total measures in the world increased to 15%. A possible explanation is that trade liberalization could promote the use of AD, which is similar to the case of India described in [Bown and Tovar \(2011\)](#) and theoretically studied by [Mukunoki \(2017\)](#). However, although 15 years have passed since its WTO accession, many countries such as the United States, the European Union, and Japan still do not recognize China as a market economy. Considering the non-market characteristics and the state capitalism of the Chinese economy,³ China provides a suitable testing environment in which to examine the relationship between political connections and trade protection.

In the empirical analysis, we use comprehensive AD investigation data merged with Chinese firm-level data for the period 1998 to 2007 and examine the political-economic factors of China's use of AD. Estimating the probabilities of AD petitions and AD case outcomes at the firm-level, we find that strong political connections significantly increased the probabilities of AD petitions and received affirmative decisions in most cases. Firms have a greater state capital share, and firms affiliated with the central or provincial government have a higher propensity to file AD petitions.

Our study is mostly related to the literature focusing on the political-economic factors of trade protection including AD investigations and duties. [Grossman and Helpman \(1994\)](#) propose a theoretical model and explanation of trade protection based on government-industry interaction. Using product-level data from India, [Bown and Tovar \(2011\)](#) test the [Grossman and Helpman \(1994\)](#) model and find that India unwound its commitment to reduce tariffs using AD and safeguard protection in the face of political-economic pressure. The authors use the counts of the number of groups listed in the World Guide to Trade Associations as a measure of interest group activities. In contrast, we use direct measures of political-economy variables, that is, SOEs and their affiliations with the government, and examine how such political connections could affect trade protection. This paper, to the best of our knowledge, is the first to show the relationship between political connections and AD protection at the firm-level.

This paper also relates to [Knetter and Prusa \(2003\)](#), [Bown and Crowley \(2013\)](#), and [Bao and Qiu \(2011\)](#). These authors argue that macroeconomic factors and retaliatory factors may also affect a country's AD investigations and duties. Furthermore, there is vast literature studying the impact of AD on international trade. In the context of China, [Park \(2009\)](#) and [Chandra \(2016\)](#) examine trade depressing and diversion effects of China-initiated AD. On the other hand, [Chandra and Long \(2013\)](#) and [Lu, Tao, and Zhang \(2013\)](#) investigate the responses of Chinese firms to foreign use of AD against China.

The remainder of the paper is organized as follows. [Section 2](#) describes the data on China's AD investigations and manufacturing firms. [Section 3](#) shows the relationship between political connections and AD investigations. [Section 4](#) concludes.

¹ For Indonesia, another large developing country, [Fu, Shimamoto, and Todo \(2015\)](#) use measures such as personal relations between firm managers and politicians, government ownership, and politicians on the board of directors.

² See [Bown \(2010\)](#) and [Chandra \(2011\)](#) for a comprehensive introduction of China's AD policies and safeguards.

³ See [Li, Liu, and Wang \(2015\)](#) for arguments on China's state capitalism.

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