Comments on:

Henn and McDonald "Protectionist Responses to the Crisis: Damage Observed in Product-Level Trade"

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Summary

- There has been a great deal of interest in the subject of crisis protectionism recently.
- Most work has focused on identifying policies and on measuring their product coverage.
- This appears to be the first paper to estimate the trade effects of a comprehensive list of such policies.
- The econometric methodology makes remarkably good use of available data.

Results

- Estimates show that affected trade flows fell by about 5 percent in response to border measures and 7 percent in response to behind-the-border measures after one year.
- This accounts for a small overall effect on trade, but that's because the policies were imposed on a small share of trade.
- Estimates suggest that crisis protectionism has decreased global trade by $30-35 billion, or 0.2 percent, annually.
- Removing crisis protectionism could increase aggregate global trade by about 1/7 of the amount that could be expected from a Doha Round conclusion.

Method

- Subjects: bilateral trade flows between an importer and exporter in a given product.
- Treatment: crisis protectionism (from GTA) initiated in a particular month
- Outcome: change in value of trade flows in the first 12 months of treatment
- Question: how does the outcome differ, on average, between the treatment group and control group (i.e. trade flows not treated in the same month).

Issue 1: Heterogeneous Treatment

- Type of treatment is observable (e.g., tariffs, competitive devaluations, bailouts)
- Dosage is not.
- How much of the difference in treatment effect between border measures and behind-the-border measures is due to type and dosage?

Issue 2: Non-random Assignment

- Their approach: add (time varying) fixed effects.
  - Cost is that some policies become collinear with FEs.
  - Their preferred specification has product and country-pair fixed effects. (competitive devaluations collinear?)
- My concern: crisis protectionism might be applied to products with declining domestic demand.
  - If demand for a given product is unusually weak in a particular country, this importer-product combination may exhibit:
    - Declining imports
    - Crisis protection
  - But the correlation would be spurious.

- This is addressed with importer-product fixed effects
- It becomes impossible to measure the effect of MFN policies (such as, behind the border measures).

Table 2. Baseline results

	Estimation of product-level trade impact 1/					
Time-varying fixed effects	Product	Product & Importer	Product & Countrypair	Importer-Product	Imp.-Prod. & Exporter	Imp.-Prod. & Exp.-Prod.
Regression #	1	2	3	4	5	6
Import Restrictions	-0.048 ***	-0.050 ***	-0.051 ***	-0.076 ***	-0.084 ***	-0.083 ***
	(-5.09)	(-4.46)	(-4.77)	(-3.08)	(-2.94)	(-2.69)
Behind-the-border measures 2/	-0.165 ***	-0.092 ***	-0.073 ***	0.010	-0.005	-0.004
	(-10.86)	(-5.37)	(-4.53)	(0.16)	(-0.05)	(-0.03)

Their preferred specification based on F-tests

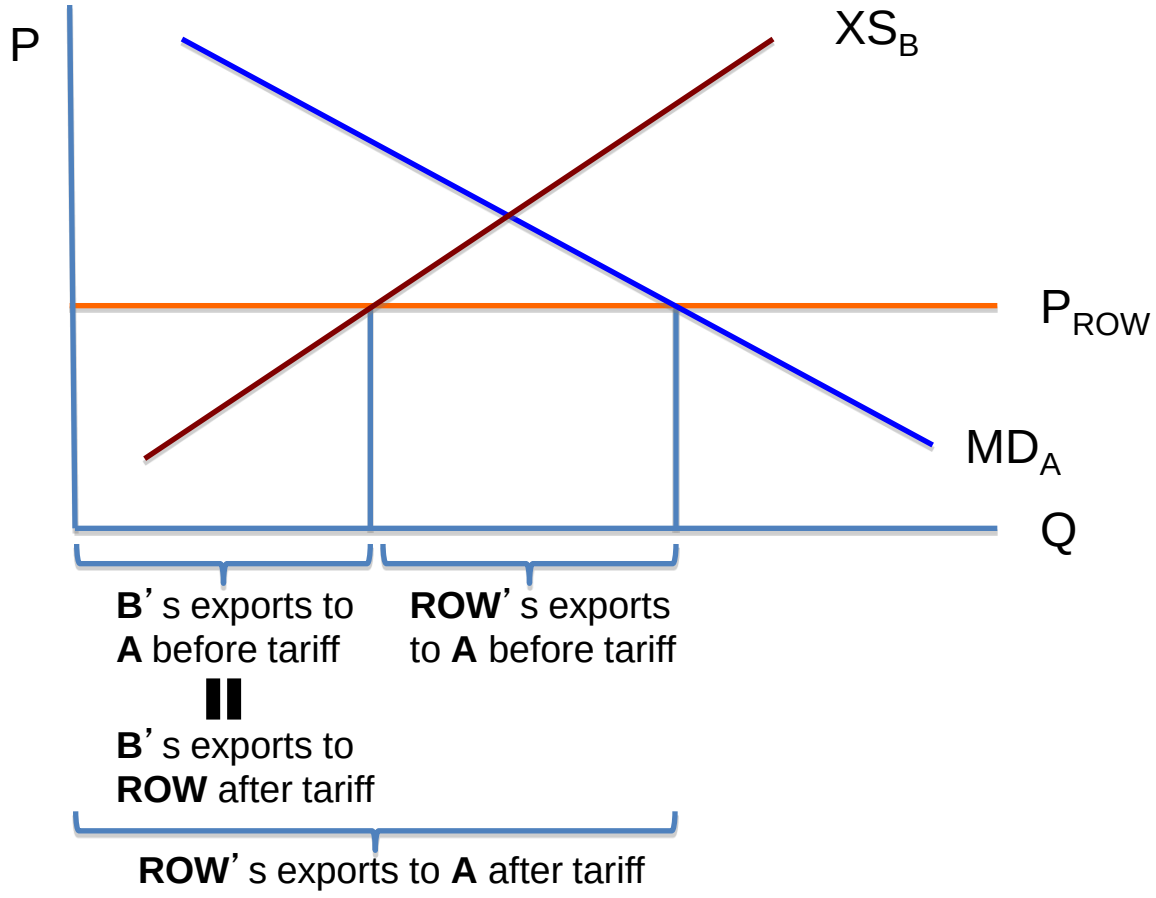
My preferred specification based on endogeneity concerns

- Possible solution: IV or Propensity Score Matching.

Issue 3: Treatment Spillover

- Suppose country **A** imposes a new tariff on a product imported from country **B** but not on the same product imported from **ROW**.
  - **ROW** increases its exports to country **A** (Trade Diversion) (Prusa, 2001)
  - Country **B** increases its exports to **ROW** (Trade Deflection) (Bown & Crowley, 2007)
- How much of the difference between treated and control group trade flow changes is due to the decrease in trade between **A** and **B** as opposed to the increase in trade between the other pairs?
- Can we even be sure that aggregate trade has decreased due to the tariff?

An Extreme Example



Possible Fixes

(use with extreme caution)

- To obtain an unbiased estimate of the decline in trade between **A** and **B**, consider dropping trade flows involving **A** and **B** from the control group.
- Again, consider matching a estimator.
- To quantify the total effect on trade, try estimating trade diversion and deflection directly and adding up all three effects.