

# **Trade Liberalization, Macroeconomic Fluctuations, and Contingent Protection in Latin America**

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## Abstract

The main purpose of this paper is to analyze the main determinants of antidumping actions in Latin America. From a policy perspective, it would be interesting to know whether the application of trade remedy instruments was associated with episodes of a depressed level of economic activity or real exchange rate appreciations or both. These developments favor the finding of industry injury and dumping practices, making the case for antidumping more justifiable. An alternative hypothesis is that antidumping measures have been erected simply as replacements for formal tariff protection so that there should be a negative relationship between antidumping measures and tariff levels. Moreover, antidumping actions may be associated less with macroeconomic variables affecting injury and dumping and more with political economy-type variables such as industry concentration. The main purpose of this study is to investigate these hypotheses employing a very detailed database for the three main antidumping countries in Latin America: Argentina, Brazil, and Mexico. We find support for the hypothesis that in these countries contingent protection has been employed to protect domestic industries in times of macroeconomic hardship. In particular, real exchange rate appreciations and sluggish GDP growth is associated with increasing antidumping actions. The estimated quantitative impact seems quite significant: on average a real appreciation of 25 percent raises expected antidumping initiations by about 20 percent. Also a 4 percentage point decline in GDP raises expected antidumping activity by 27 percent. Besides these macrodeterminants, we also investigate whether antidumping actions were established to replace protection given by regular tariffs or whether they were affected by political economy variables such as industry concentration. We find some evidence consistent with the first proposition but not with the second.