

# Managing the Impacts of Trade Liberalization: Trade Remedies and Trade Adjustments

Enhancing the contribution of PTAs to  
inclusive and equitable trade:

Mongolia

19-21 April 2017

Ulaanbaatar



# Workshop outline

- Trade, growth and development
- Trade protection and liberalization: from efficiency to meeting social objectives
- PTAs and multilateral trading system and PTAs in Asia-Pacific
- Trade reforms and PTAs of Mongolia
- Towards PTA's contribution to inclusive and equitable trade
  - Mongolia experience so far
- Getting a PTA done:
  - Stakeholders
  - Negotiation
  - Implementation
- What if the expectations are not met?

**MANAGING THE IMPACTS OF TRADE LIBERALIZATION:  
TRADE REMEDIES AND TRADE ADJUSTMENTS**

**SESSION 11**

# Key Learning Objectives

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- I. Understand that despite all modeling, planning and coordination, there are always some averse effects from policy changes including from PTAs. Here we draw attention to two approaches that can help:
  - i. Make provisions for trade remedies (contingent protection) in the agreement texts,
  - ii. Introduce trade adjustments programme to handle costs of PTAs

# Outline

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1. Trade remedies
  
2. Trade adjustments:
  - i. Loss of tariff (trade tax) revenue
  - ii. Loss of employment



# 1. Trade Remedies (Administered Protection)

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- ▶ Permitted BUT NOT required by WTO
- ▶ Following instruments are covered:
  - ▶ Safeguards
  - ▶ Anti-dumping duties
  - ▶ Countervailing duties
- ▶ All those permit the use of tariffs (duties) above their **bound** levels in specific circumstances

# 1. WTO Framework on Trade Remedies



## Global Safeguards



## Anti-Dumping measures



## Countervailing Duties

### Legal Basis

- GATT Article XIX

- GATT Article VI
- Agreement on Implementation of Article VI (AD Agreement)

- WTO Agreement on Subsidies and Countervailing Measures

### Objectives and Features

- Create “breathing room” for domestic industry struggling with increasing imports
- MFN based import restrictions
- No allegations about unfair trade

- Protect domestic industry from imports sold “at less than the normal value of the products”
- Departure from MFN principle
- It’s about the “unfair” (pricing) practices of individual firms

- Protect domestic industry from effects of another country’s export subsidies actions
- Departure from MFN principle
- It’s about the “unfair” (subsidies) practices of governments

### Measures

- Supplementary tariffs beyond bound MFN rates

- Supplementary tariff beyond bound MFN rates targeted at particular foreign firms based on difference between the import price and the “normal” value

- Supplementary tariff beyond bound MFN rates based on the value of the subsidy provided by the government of the exporting country

### Criteria

- Imports must be rising (absolute)
- Imports are causing “serious” injury to the domestic industry

- Dumping, thus pricing below (1) production cost or (2) market price
- Imports are causing “material” injury to the domestic industry

- Specific subsidies (financial contribution) by foreign governments that are exported
- Imports are causing “material” injury to the domestic industry

# 1. Why are Trade Remedies Included in PTAs?

## Starting Point

- PTAs have no single practice for the regulatory treatment of trade remedies
- Provisions vary greatly across PTAs due to diverse political and economic demands (which in turn are influenced by factors like PTA size, integration, development status or legal basis)
- Some PTAs indicate compliance with WTO rules, others modify rules to different extents (see next slides)

1

### Political economy of protectionism

- Global tariff rates have reached very low levels
- Still, import-competing sectors have an incentive to secure protection

Best alternative to direct route (tariffs) are trade remedies



2

### Pressure-release valve for continued liberalization

- Trade remedies are used as instruments to manage the adjustment costs of liberalization and the associated political consequences
- Retaining trade remedies in PTAs helps to maintain the political support

3

### Countries are insufficiently open to trade

- Trade remedy rules in PTAs often make protection more difficult
- Elimination of trade barriers reduces ability of firms to dump (no longer protected home market where they can earn supernormal profits)



# 1. How are Bilateral Safeguards Applied in PTAs?

## Starting Point

- Provisions that exclude PTA partners from global safeguard actions have been subject of repeated WTO disputes

## Transition & Special Safeguards

- Transition safeguards* are designed to mitigate costs of adjustment; they can often be imposed only during the transition period
- Special safeguards* are provisions for products or sectors that are politically sensitive

## Classification and Examples

### 1 Safeguard measures disallowed



PTA specifies that neither party will take safeguard measures against goods originating in the other

### 2 Allowed, no specific provisions



Anti-Dumping remedies against PTA members are allowed, but the agreement contains no specific language

### 3 Allowed, specific provisions



Specific provisions may include

- Conditions for application of safeguard,
- Mutually acceptable solution,
- Duration and review of safeguard measures, or
- the establishment of a regional body or committee

# 1. How are Anti-dumping Duties / Measures Applied in PTAs?

## Starting Point

- PTAs have no single practice for the treatment of these regulatory matters
- Political and economic demands for provisions vary across PTAs (due to size, integration, development status or legal basis)
- Some PTAs indicate compliance with WTO rules, others modify these rules

## Transitional / Special Safeguards

- Same criteria as global safeguards
- Transitional safeguards provide a “safety net” in case of severe negative effects of regional liberalization
- Injury test would then require not only evidence of “serious” injury but also partner imports accounting for a large part of the increase in imports

## Classification and Examples

### 1 Anti-Dumping disallowed



Anti-Dumping remedies against PTA members are not allowed according to the provisions in the agreement

### 2 Allowed, no specific provisions



Anti-Dumping remedies against PTA members are allowed, but the agreement contains no specific language

### 3 Allowed, specific provisions



Specific provisions may include

- a) different de minimis dumping margins or volumes,
- b) a lesser duty-rule or mandate,
- c) different duration of antidumping duty, or
- d) the establishment of a regional body or committee

# 1. How are Countervailing Duties Applied in PTAs?

## Starting Point

- PTAs have no single practice for the treatment of these regulatory matters
- In contrast with provisions on anti-dumping, provisions concerning CVDs include very few substantive rules

## Subsidies and State Aid

- Subsidies: Export subsidies on agriculture prohibited
- State aid: incompatible if it distorts competition

## Classification and Examples

### 1 Countervailing Duties disallowed



Anti-Dumping remedies against PTA members are not allowed according to the provisions in the agreement

### 2 Allowed, no specific provisions



Anti-Dumping remedies against PTA members are allowed, but the agreement contains no specific language

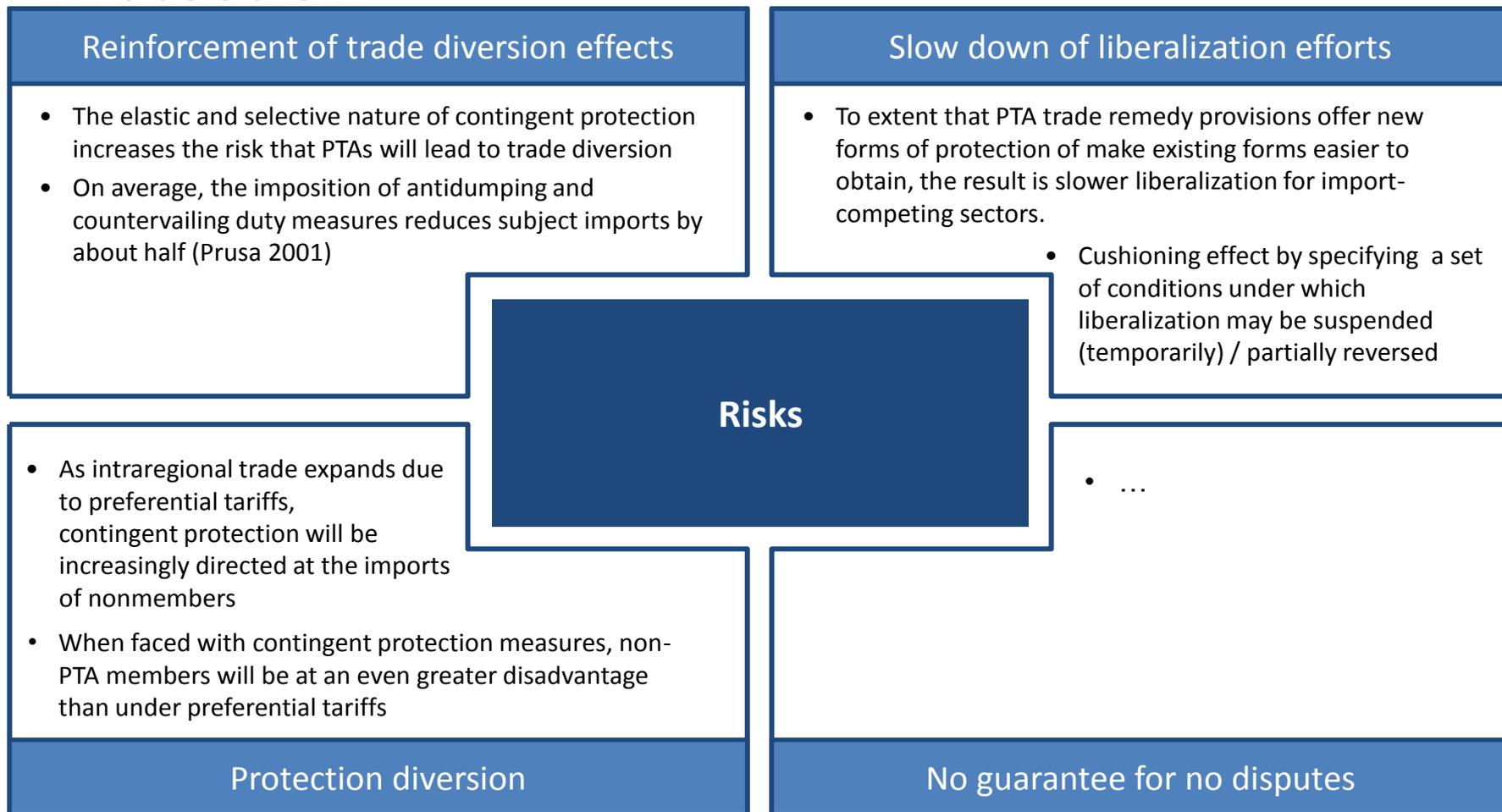
### 3 Allowed, specific provisions



Specific provisions may include

- a) Mutually acceptable solution, or
- b) the establishment of a regional body or committee

# 1. Risks Associated with Contingent Protection



## 2. Managing the Costs of a PTA



### Revenue Loss Costs

- Revenue loss an unavoidable effect of cutting tariffs
- Falling average MFN duties have already reduced the impact
- Mitigation may not be necessary but progressive implementation will discount revenue losses



### Trade Adjustment Costs

- Economic specialization ≠ “free lunch”
  - Employment and investment returns industries whose assistance is cut as part of the PTA (a tariff, a services barrier) may fall
  - Freeing these resources for other more valuable uses

### How to handle these costs?

1

*Alternative revenue sources should be considered in the context of overall PTA strategy*

- Moving from a production to consumption tax base
- Restructuring and re-balancing existing excise, stamp-duties

2

*Help firms and households minimize the impact*

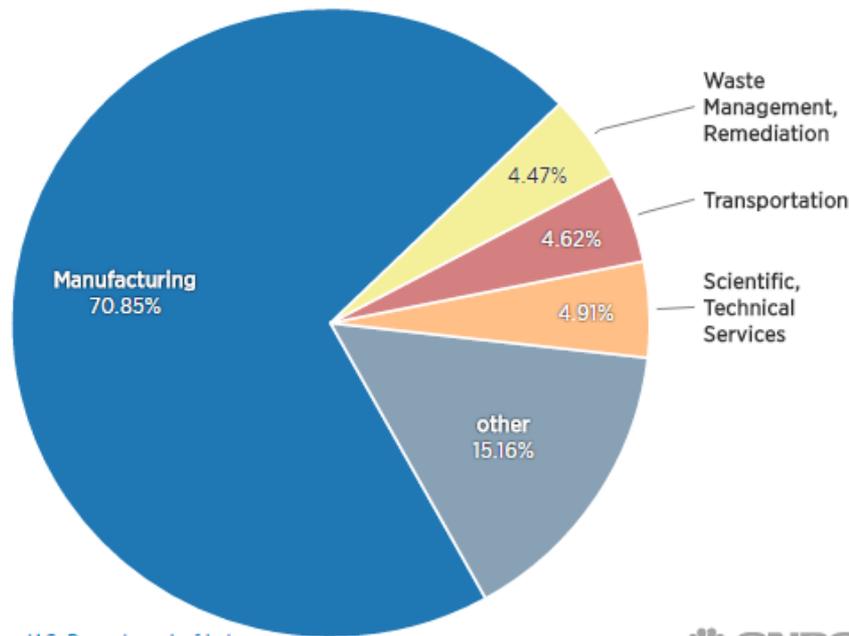
- Involve stakeholders early in a transparent process with clearly defined goals and scope
- Provide for & publish progressive liberalization schedules
- Use temporary safeguards

## 2. Introduce Trade Adjustment Assistance

### ▶ US example

#### Trade Displaced U.S. Workers by Sector

Estimated workers covered by certified petitions under Trade Adjustment Assistance (FY13)

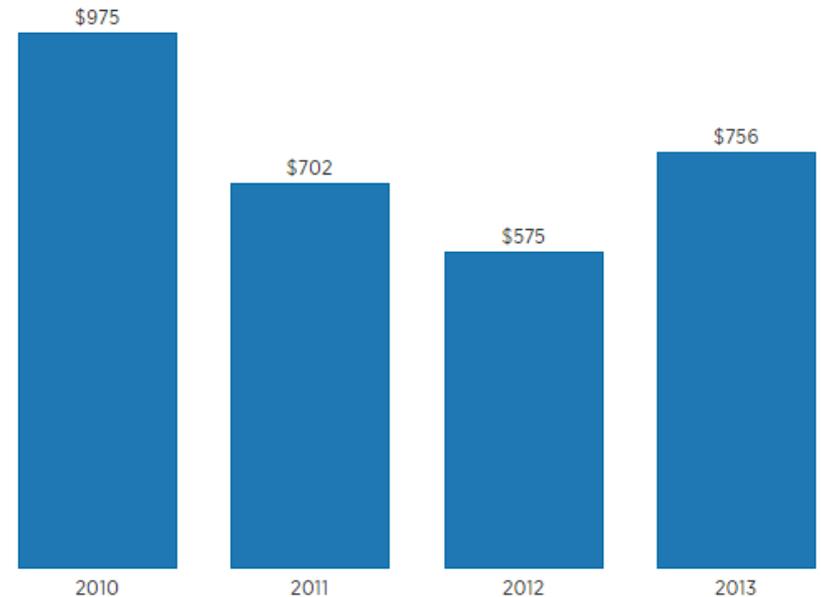


Source: [U.S. Department of Labor](#)

CNBC

#### Federal Spending on Trade Adjustment Assistance

Figures in millions.



Source: [U.S. Department of Labor](#)

CNBC

Also, TAA participants earned 30% less on average than they made in their previous positions. Displaced workers in a comparison group—one that didn't receive TAA training or benefits—also saw their wages fall once they became employed again, but by only 9.4%.

# Summary

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- ▶ Understand your economy and use evidence-based policymaking to assess possible costs ex ante
- ▶ But also talk to industry (and farmers etc) as this information is crucial to understand issues in implementation which will impact costs
- ▶ Build in adjustment assistance
- ▶ Use remedies as legally available (but prepare institutions in advance to use these properly)
- ▶ All agreements are open for modification so if need be renegotiate!