

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

Enhancing the contribution of PTAs to
inclusive and equitable trade:

Viet Nam

15-17 March 2017

FTU, Hanoi



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 Viet Nam
- Towards PTA's contribution to inclusive and equitable trade
 - Viet Nam 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 10

Key Learning Objectives

- I. Understand that despite all modeling, planning and coordination, there are always some adverse 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

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

1. Trade Remedies (Administered Protection)

- ▶ 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

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

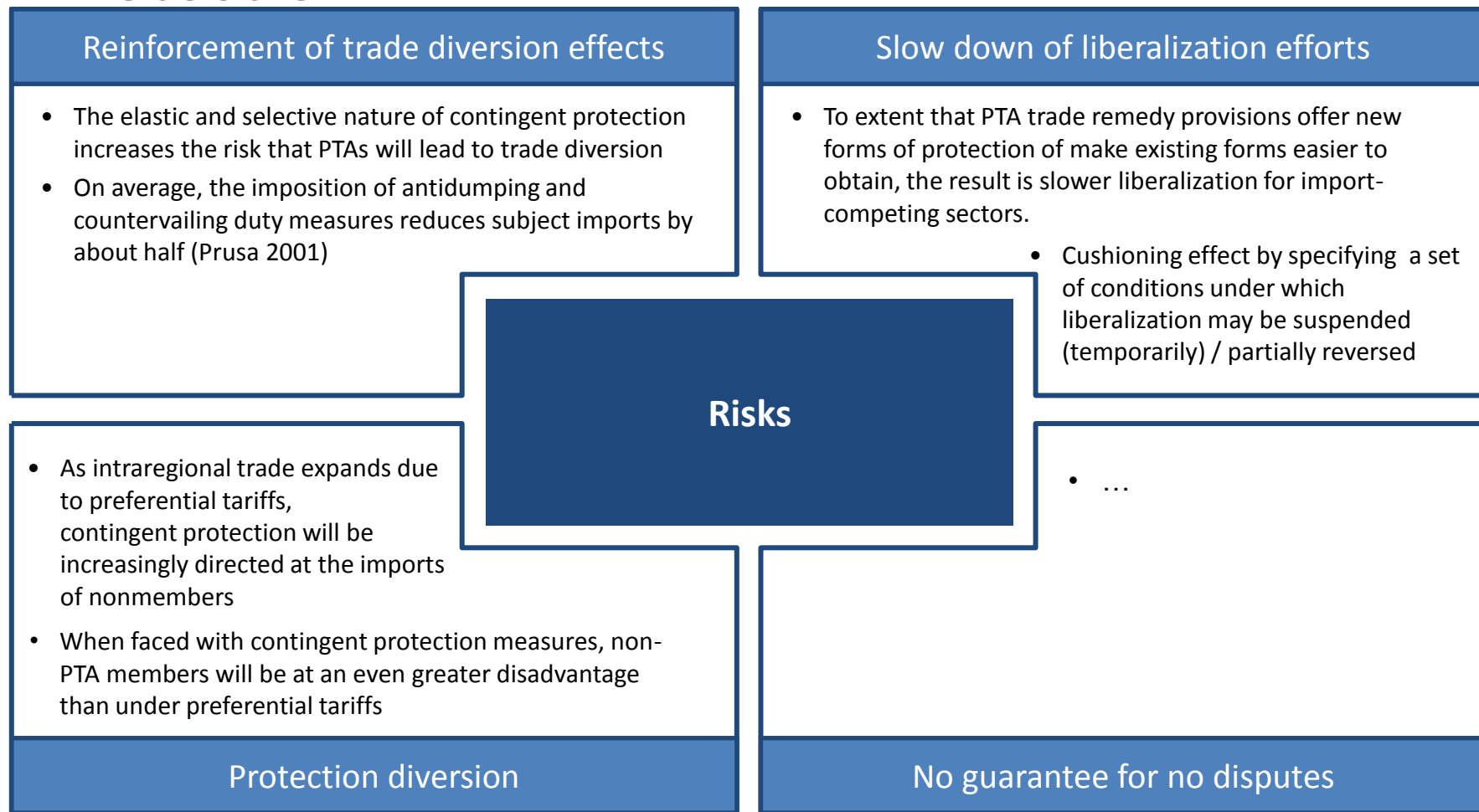
3 Allowed, specific provisions



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

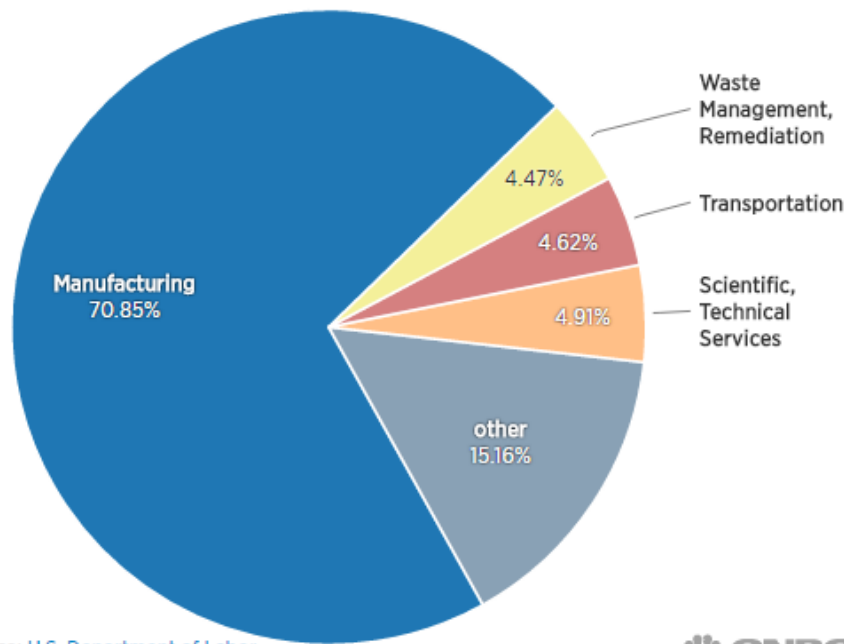
- Involve stakeholders early in a transparent process with clearly defined goals and scope
- Provide for & publish progressive liberalization schedules
- Use temporary safeguards

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)

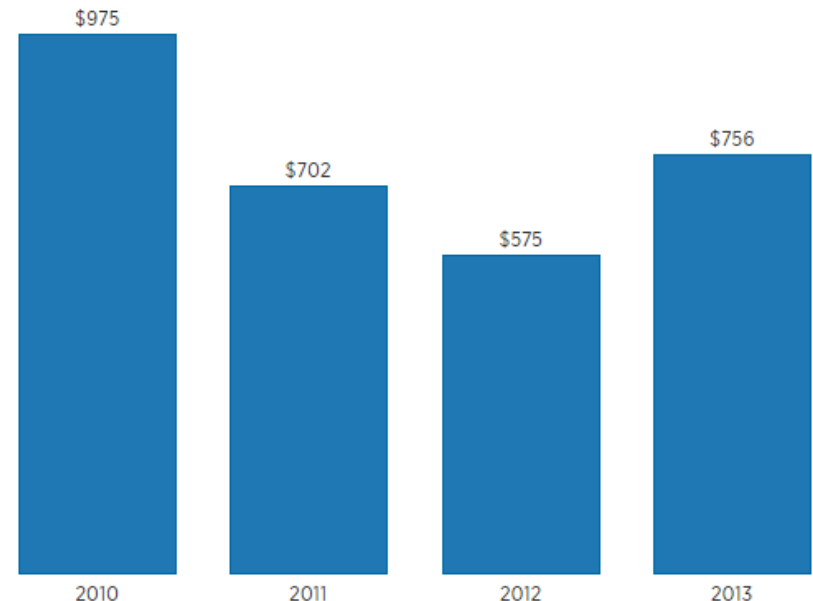


Source: [U.S. Department of Labor](#)

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

- ▶ 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!