World Trade Report 2009

“Trade Policy Commitments and Contingency Measures”

Economic Research and Statistics Division

22 July 2009
What Are Contingency Measures?

- Policy instruments available to WTO members to deal with unanticipated adverse circumstances (economic and non-economic).

- The Report adopts a broad definition of contingency measures, focusing primarily on:
  - Safeguards
  - Anti-dumping
  - Countervailing duties
  - Renegotiating prior tariff commitments
  - Binding overhangs (gap between legal maximum and applied tariffs)
  - Export taxes
Why this Report?

Contingency measures are essential for credibility, stability and effectiveness in trade agreements – there is no such thing as perfect foresight so we need some flexibility.

Contingency measures can be a contentious element in trade negotiations – design matters.

Contingency measures are typically used more in times of economic difficulty – times when trade cooperation is under more strain than usual.
Main Elements of the Report

- Flexibility in trade agreements
  - The rationale of measures and their consequences

- Economics, Disciplines and Practice
  - Economic logic, law and practice
  - Striking the balance between flexibility and commitments

- Empirical evidence
  - Does the theory stand up in practice?
Flexibility in trade agreements: the rationale

Why governments seek flexibility in trade agreements

- Safety valve
- Insurance
- Adjustment policy tool
- Deterrent against trade-distorting policies
- To protect the rule-based system
- To reduce the political costs of signing trade agreements
- To manage the fact that contracts are “incomplete”
Flexibility in trade agreements: the effects

Trade contingency measures may involve both benefits and costs

Benefits:
- Key to the achievement of deeper commitments
- A contribution to the credibility and durability of an agreement

Costs:
- May be used to backslide on previous commitments
- Measures restricting trade will cause losses in income if not directed at existing distortions
Economics, Disciplines and Practices

Key features of WTO disciplines have an important bearing on the balance between flexibility and commitments:

- causality and injury tests
- whether compensation is required
- whether a measure is temporary

Economists have questioned:

- the lack of consideration of the overall welfare effects of contingency measures
- risk of escalation of contingency measures among many countries in times of crisis
Empirical Evidence

Testing three questions:

1. Does the existence of contingency policy options deepen commitments? – Limited evidence so far

2. Are contingency measures used to manage unanticipated difficulties or as measures of protection? – Contingency measures are responsive to economic downturns

3. Does the use of contingency measures have overall positive or negative effects? – There are costs, but disagreement as to magnitudes
Antidumping measures and business cycle: An illustration

![Graph showing the relationship between count of AD initiations/final measures and global GDP growth.](image)
Conclusions 1

- Trade agreements need contingency measures, but reliance on flexibility provisions may not be costless.
- Design is crucial to the minimization of protectionist capture of contingency measures.
- Economists worry about the neglect of a comprehensive analyses of the impact of contingency measures.
- The margin of flexibility provided under contingency measures is considerable – especially when contingency is broadly defined.
Conclusions 2

- In times of economic crisis governments face pressure to adopt measures that restrict trade and can foster protectionism.
- The rules-based system shields the world economy from unbridled protection, but flexibilities challenge governments to show restraint.
- Effective monitoring, together with comprehensive and timely notifications, can play a crucial role in supporting cooperation and restraint.