On The Use Of Trade Remedies
By Developing Countries:
Thinking Outside The Box

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Outline

1. Implausible motivations
2. More plausible -and sensible- motivations
3. WTO AD rules are not for all
4. WTO safeguards rules are for none
5. Could new trade remedy rules be crafted to accommodate the sensible motivations?
6. What are we left with?
Implausible Motivations

- Retaliation hypothesis for AD activity is way of a stretch
  - Assumes bilateral and intra-industry trade
  - AD cases on steel are a good fit
  - But hypothesis is hard to generalize (firms would have to act irrationally to retaliate against a trade measure that is of no concern to them)
  - If hypothesis were true, China would be the leading AD user and Japan would have been so in the past
More Plausible/Sensible Motivations

• Safety valve for trade frictions (although in the long-run this should not be an end in itself)

• Policy consistency (where domestic subsidies have been discontinued)
  • What is good for the geese should be good for the gander
More Plausible/Sensible Motivations

- To patch up policy inconsistencies (asymmetries in trade liberalization leading to negative effective protection)
  - Mexican beef
  - Mexican aluminum
  - Mexican footwear
More Plausible/Sensible Motivations

- Capital specificities
  - “Stranded costs”

- Domestic prices are not allowed to be flexible upwards in cyclical upturns
  - Massive export taxation in event of rising domestic prices tracking rising world prices
WTO Criteria For AD Protection Are Easier To Meet For Certain Industries

- Not all industries can show “dumping” in exports
  - Price discrimination is likely in goods involving high transport costs
  - Sales at prices below AC are likely in cyclical industries with high fixed costs (think of steel, chemicals, plastics, fertilizers)
Grounds For Granting WTO Safeguards Protection Are Very Narrow

- “Unforeseen developments” requirement has proven practically impossible to satisfy
Could Better Trade Remedy Rules Be Crafted?

- A lot of the frictions are self-made; thus, certain aspects of the better rules need be only domestic
- Regulate hikes to bound tariffs based upon criteria that are both sensible and transparent
  - Remedy negative effective protection
  - Remedy absence of liberalization in non-tradables
  - Compensate “stranded costs”
Could Better Trade Remedy Rules Be Crafted?

• Actions on WTO front
• Country-specific WTO safeguards?
  • WTO rules already contemplate an exemption from MNF treatment (developing countries with import shares of 3% or less are exempted from WTO safeguards)
• More flexible WTO standards for safeguard protection
  • Eliminate “unforeseen developments” requirement?
What Are We Left With At Present?

• Allowing hikes to bound rates without instituting statutory criteria would simply generate an avalanche of demands for protection

• Compared to that, the redeeming feature of AD is that it serves as an arguably apolitical screening devise for such demands

• Should not forget that the effects of AD duties are somewhat mitigated by trade diversion
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