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## **Safeguard Measures: Some Issues and Considerations**

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Agreements and Free Trade Agreements in the  
Asia-Pacific Region Concerning Safeguards,  
Including Transitional Safeguards  
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# SAFEGUARD MEASURES: SOME ISSUES AND CONSIDERATIONS

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# KEY ISSUES

Arguments behind safeguard measures

Issues in the implementation of safeguards

Implications and impacts of safeguard measures

# SAFEGUARDS AS INSURANCE

Safeguards act as a form of insurance against adverse economic shocks.

- If an unexpected change in the economy occurs (the volume of imports rises, economic crisis), imposing a safeguard can partially mitigate the effect of the change for domestic industry and economy

Large importing countries can influence world price significantly through its policy

- A safeguard measure enable countries to continue its liberalization commitments by temporarily raising tariffs
- Without safeguard, countries would violate their commitments
- The result might likely be a trade war (Bagwell and Steiger 1990)

In small importing countries, safeguard still can provide insurance against adverse shock

- May increase welfare when sector-specific shock takes place (Fisher and Prusa, 2003)

The analysis shows that contingency measures should be interpreted as second best policy

# SAFEGUARDS AS ESCAPE CLAUSE

Most widely cited argument is that safeguards can facilitate greater tariff liberalizations by governments during trade negotiations

- Participating countries have more freedom to make higher, and normally riskier, tariff concessions
- Since gains from permanent tariff reductions exceeded costs of imposing temporary protectionist measures, the net gain is still positive (Jackson, 1997)

It argues that the existence of temporary tariff surge may facilitate trade agreement

- When safeguards are added to the trade agreement, countries negotiate large tariff reductions as they know they can temporarily increase their tariffs in bad situation
- Significant relation between larger tariff reductions during the Uruguay Round and frequency of safeguards investigations after the WTO was established (Crowley 2007), especially for developing countries

But safeguards might also undermine the credibility of trade agreements

- Create expectation among business that may lead to inefficient allocation of production factors

# SAFEGUARDS IN IMPROVING WELFARE (1)

To protect industry (infant industry argument)

- Safeguards may have positive effect on innovation adoption for import competing industries, if applied non-discriminatory, but can have adverse effect in discriminatory application (Cromwell 2006), (Miyagiwa and Ohno 1999)
- Empirical evidences are not that encouraging. Early studies found that safeguards failed to promote positive adjustment to import competition (USITC 1982). Firms petitioning for safeguard protection have almost no reaction to critical decisions, suggesting that at investors do not believe that safeguards will increase the possibility of firms in taking efficiency measures (Hartigan et. al 1986)
- More recently, Konings and Vandenbussche (2007) found that trade remedies might increase productivity of technologically-lagging firms, but hurt the efficient ones. Liebman and Reynolds (2013) found that temporary tariffs stimulate investment in R&D, but not in capital investment.

# SAFEGUARDS IN IMPROVING WELFARE (2)

## Reduce adjustment costs of liberalization

- While liberalization encourage factor reallocation to more efficient production, there are high costs to quickly scaling back production: unemployment, a decrease in production, etc.
- a temporary tariff rise can slow an industry's decline and improve economic welfare by allowing longer time of adjustment

This type of policy also slows the reallocation of factors of production into other industrial sectors in which they would be more productive, while at the same time hurts consumers

- The issue is that there is no guarantee that the adjustment would take place when the safeguard has been terminated
- There is a risk that the industry even focuses to raise its political influence for longer protection than improving its performance
- The first-best policy is to take domestic measures, such as granting subsidies for firms or retraining programs for workers

# ISSUES IN THE APPLICATION OF SAFEGUARDS

## Criteria on when emergency safeguards should be implemented

- While SG Agreement specify the criteria, the interpretation depends on domestic authorities and industry
- It may require the investigating authorities go beyond evaluating trends in imports over a historical period (e.g. Appellate Body in Argentina-Footwear case)
- Would the measures help domestic industry? e.g. Australia's Productivity Commission recently denied provisional safeguards tariffs against imported processed tomatoes and fruit products, despite finding of serious injury, on the ground that the policy would not help the growers

## Duration of the safeguard measures to be implemented

How to determine the rate of tariff increase necessary to prevent or remedy serious injury?



# NOTE ON THE IMPACT OF SAFEGUARDS

## Discriminatory impacts of safeguard measures

- Depends on the type of measures, quota tends to be discriminatory
- Tend to favor established suppliers, regardless they are large or small, than the new ones (Bown 2004)

## Discriminatory safeguard are likely to be useless, as the reduction was offset by trade diversion

- In the case of US specific safeguard on China's tire, although it helped reduced the import, it didn't create gain for the industry (Chung, Lee, Osang 2012)

## Third country effect, especially for discriminatory measures, as exports may be diverted to other countries

- The empirical work is limited, but tend to be less significant (Bown and Crowley 2012)

## Retaliation and WTO disputes

**Thank You**