

Facilitating Adjustment to Trade in the WTO System

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Abstract

Because part of the gain from a country's adjustment to shifting comparative advantage and trade liberalization is captured by producers or consumers abroad, a purely national approach would result in under-adjustment from the global perspective. Moreover, under-adjustment is likely to affect developing countries disproportionately. We thus see a potential role for the WTO in facilitating adjustment. However, our examination of the current rules of the WTO system finds that, rather than facilitating adjustment, the rules tend to impart an anti-adjustment bias. We propose changes that would correct the current anti-adjustment bias. We also consider some practical problems associated with introducing explicitly pro-adjustment elements into the WTO system.

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1. Introduction

This paper examines the problem of adjustment at the global level and the potential role of the World Trade Organization (WTO) in promoting efficient adjustment. The accelerating pace of globalization has generated renewed interest in policies to facilitate domestic adjustment to changing conditions and to ensure a socially acceptable division of the resulting gains. Since 1962, the United States has offered special and more generous adjustment assistance in cases where domestic factor-market dislocations can be linked to trade, implying that these differ in some significant way from dislocations due to other causes. Yet other industrialized countries have continued to rely on generic adjustment policies and social safety nets, often more generous than those of the United States, rather than implementing special trade-related programs. But whether trade-targeted or generic, national programs to facilitate adjustment are widely acknowledged to play a key role in achieving and maintaining open global markets. It is therefore surprising that national adjustment policies have not been addressed in the General Agreement on Tariffs and Trade (GATT) or the WTO. Possibly as a result of this benign neglect, national adjustment policies have been relatively ineffective in promoting adjustment to changes in world market conditions, especially where the need is to phase out inefficient domestic production and shift resources to other sectors. In many cases, including current elements of the U.S. Trade Adjustment Assistance (TAA) program as well as WTO-sanctioned safeguards, “adjustment” policies can actually hinder the process by subsidizing non-adjustment.

The shared gains from an integrated global market arise from the possibility through unfettered trade of locating production of each good and service consumed worldwide in the places where its (social) opportunity cost is lowest. Thus, the goal of multilateral free trade can

be associated conceptually with a corresponding allocation of production across countries.¹ To the extent that a country fails to adjust to current conditions in the world market, there is a loss to the world community as a whole, at least some of which must fall on other nations in the form of lower export prices or higher import prices. Moreover, under-adjustment as viewed from a global standpoint is likely to be the rule rather than the exception. Even if individual nations succeed in implementing *nationally* optimal adjustment policies, these policies are likely to put little or no weight on their external effects, i.e., the gains experienced by other nations as domestic sectors with relatively high opportunity cost shrink and sectors with low opportunity cost expand. Reciprocal trade liberalization helps to internalize these externalities, but for a variety of reasons cannot compensate for them entirely. Collective action, as could be achieved through the WTO, may provide the incentives needed to push national adjustment closer to its global optimum.

The issue of systemic under-adjustment is especially important to newer entrants to the global trading system—developing and transition economies. Rapid expansion of exports in areas of comparative advantage is central to the economic prospects of these nations, but this expansion is feasible only to the extent that other countries, especially the most industrialized countries, are willing to provide room by shifting resources out of the same industries. Too often this is not the case. The example of apparel, an area of clear comparative advantage for many developing countries, illustrates the reluctance of the industrialized nations to make the required adjustment. Even though the Multi-Fiber Arrangement ended on January 1, 2005, would-be

¹ The pattern of production satisfying the requirement of lowest opportunity cost will not necessarily be unique, as several locations may have equally low opportunity cost of production. Moreover, because opportunity cost should include transportation to consumers, the efficient production pattern will depend on the distribution of world demand and thus on the world income distribution.

exporters to the markets of wealthy nations still face high tariffs on these products—many countries continue to choose import protection over adjustment.²

The importance of promoting adjustment along lines of comparative advantage by potential importing countries raises the interesting possibility of a new kind of special and differential treatment in the WTO system, i.e., a policy to speed adjustment in products that are of particular to developing and transition countries. Items on the list would include apparel, textiles, and other lower-end manufactured goods as well as agricultural products. Unlike most forms of favorable treatment now offered to low-income countries, measures to speed adjustment to comparative advantage would not introduce new inefficiencies. Moreover, this approach avoids phase-out problems like “graduation” or erosion of preference margin due to multilateral liberalization.

WTO provisions to promote adjustment should be formulated in terms of what is needed to achieve a globally optimal geographical pattern of production—keeping in mind that this is a moving target, as new exporters emerge, new technologies are developed, and tastes and demographics alter global demand patterns. Moreover, the approach should be one that can address the cross-country externalities that adjustment entails. Since the goal is to internalize the international externalities associated with adjustment at the national level, new WTO rules on adjustment measures should be formulated from the ground up, rather than being based, as the WTO has done in the past for antidumping and safeguards, on the “best practices” of industrialized countries believed to have competent national “adjustment assistance” programs on the books.

Section 2 of this paper briefly reviews the case for trade adjustment assistance at the national level and then considers additional reasons for policies to facilitate adjustment as

² In addition to tariffs, exporters are likely to face antidumping action and safeguards.

viewed from a global perspective, as well as the trade-related shocks that most commonly trigger the need to adjust. Section 3 describes the current WTO Agreements that implicitly generate an anti-adjustment environment and proposes reforms in these areas. Section 4 speculates on some potential avenues that national governments might pursue under the WTO in order to generate a more pro-adjustment environment. Section 5 concludes.

2. The Economics of Adjustment and Assistance

Adjustment to changing conditions, whether due to trade or purely domestic causes, entails a process in which the costs of adjustment are weighed against expected future benefits. In market economies, most adjustment is carried out by private individuals and firms in their roles as workers, managers, and investors. However, because these adjustment decisions are based on *private* perceptions of costs and benefit, there may be a role for government policy in creating an “adjustment environment” in which private profit- and utility-maximizing decisions lead to a *socially* optimal outcome. Ideally, such a policy would eliminate or offset all distortions that cause private and social costs and benefits to diverge. But the source of at least some of these distortions is likely to be other government policies, especially ones that affect the functioning of the national labor market. National tax, bankruptcy, and antitrust policies may also impede the adjustment process through their effects on firms’ decisions regarding entry, exit, and restructuring (e.g., mergers). For these situations, the best “adjustment policy” is of course to eliminate government-generated distortions. In some cases, however, this may be impossible for political or social reasons, and a second-best approach may improve efficiency.

A different type of market failure arises when certain activities give rise to positive (or negative) externalities. In an industry with positive externalities, entry and/or output as

determined by market forces are likely to be lower than the social optimum. In terms of adjustment behavior, such an industry may shrink more rapidly than is desirable from the social perspective, or firms may enter too slowly, in both cases because economic decision-makers do not take into account the positive externality they confer on others through their actions.³ The classic infant industry argument is based on the latter type of situation.⁴ In practice, however, most national policies to promote adjustment deal with the former situation: firms and workers in a sector that is shrinking or at least under pressure to shrink.

Below, section 2.1 describes the typical economic and political arguments for a trade adjustment assistance program as motivated by domestic interests. In section 2.2 we consider the international externalities associated with failure to adjust. These externalities provide the justification for addressing the question of adjustment assistance within an international agreement like the WTO. Section 2.3 categorizes the typical trade-related shocks to an economy that underlie the need to adjust. Finally, section 2.4 distinguishes between adjustment at the industry level and the adjustment experience of individual firms and workers in trade-impacted industries.

2.1 The Domestic Case for Trade Adjustment Assistance

Trade is just one of many types of changes that call for domestic reallocation of resources, and in practice it may be difficult to determine whether factor-market dislocations are

³ The positive effect of a firm's expansion may be captured by consumers of the good or by other firms producing the same good. In either case, however, some type of subsidy can in principle raise national and global welfare.

⁴ The classic infant industry argument actually establishes the case for a targeted subsidy. An infant-industry tariff is thus a second-best policy.

due to trade or other causes, such as changing tastes or production technology.⁵ Why does the United States (but no other industrial nation) offer special help to workers and firms adversely affected by trade? In his study of the U.S. TAA program, Magee (2001) provides three distinct justifications for a special program to supplement other national adjustment policies already in existence.

The first of these is the efficiency justification discussed above, i.e., TAA may promote efficiency by helping to correct market failures. However, maintaining a separate TAA program can be justified on efficiency grounds only if there is evidence that factor-market dislocations resulting from trade are somehow distinctive in their economics characteristics. But most evidence suggests the opposite. For example, in his review of U.S. trade adjustment, Rosen (2004) concludes that workers adversely affected by trade are similar to other dislocated workers in their characteristics and adjustment experience.

Two additional justifications both arise from the unequal distribution of gains from expanded trade within a liberalizing country. Achieving and maintaining openness generates benefits for the average citizen but significant losses to those whose earnings are tied to a trade-impacted industry. TAA can thus be justified in terms of equity, as a socially required means to improve the distribution of overall gains, i.e., to provide some compensation to those who would otherwise lose through lower earnings.⁶ For the same reason, TAA may be seen as a political necessity. Critics often depict trade liberalization as a policy that benefits mainly foreign suppliers or giant multinationals at the cost of American workers, making little or no reference to

⁵ These forces may not operate independently. For example, increased pressure from imports may provide an incentive for domestic firms to invest in new technology.

⁶ However, purely domestic changes also create domestic winners and losers. A review by Blanchflower (2000) of labor market changes in the United States and other developed countries over several decades did not find empirical evidence that globalization was a major influence. Thus, a pure equity justification leaves unexplained the absence of a similar policy to help those adversely affected by other changes, especially changes in technology.

the large aggregate gains to American consumers.⁷ Even supporters of liberalization usually make their case in terms of new jobs to be created in expanding export industries. Thus, policies to assist those at home who are impacted negatively may boost the political feasibility of removing trade barriers and keeping them low.

Among economists, the conventional wisdom is that the U.S. trade-adjustment-assistance (TAA) program serves primarily a political purpose, i.e., to reduce protectionist sentiment at home. The original TAA program was introduced in legislation authorizing U.S. participation in the Kennedy Round, and new elements of the program have similarly been included in legislation enabling U.S. participation in subsequent international trade negotiations. The justification offered for limiting special programs to trade adjustment is usually budgetary—extending the same (more generous) benefits to all displaced workers would cost too much.⁸

2.2 Adjustment Assistance to Address International Externalities

Unlike domestic adjustment to other types of changes, adjustment to changes in global market conditions entails important external effects—there are significant gainers and losers not only within countries but also across countries.⁹ How—if at all—does the international

⁷ In some industries, such as apparel, these consumers are households; in other industries, such as steel, domestic “consumers” are using industries that experience lower production costs and are thus themselves more internationally competitive.

⁸ This may help to explain why only the United States has a special TAA program. Other industrial countries offer generous adjustment assistance and safety net to all displaced workers.

⁹ We have found only one theoretical paper that examines the international externalities associated with under-adjustment and the resulting role for adjustment assistance. While somewhat stylized, the model in Fung and Staiger (1996) provides an explicit illustration of the international externalities due to failure to adjust after trade liberalization negotiations. In their model of two symmetric countries in a self-enforcing liberal trade agreement, there is an individual-specific cost for resources to move from the shrinking import-competing industry to the expanding export sector. Because factors do not adjust, each country fails to take full advantage of its export potential, thus imposing a negative externality on its trading partner. The externality in this particular model of self-enforcing trade agreements arises because the non-adjusting country’s failure to increase its exports translates into lower import tariff revenue for the partner country. Higher revenue would allow for the partner to lower its

dimension affect the case for offering special trade adjustment assistance, e.g., through new WTO adjustment provisions? In thinking about the need for such a policy, it is useful to begin with a hypothetical situation where it would be superfluous. Consider the case in which the WTO is composed of large and symmetric countries, and negotiators with perfect foresight act to maximize each country's benefits from liberalization. In this case, reciprocal liberalization can internalize all future external benefits arising from optimal adjustment to changed conditions in the global market. Moreover, the resulting agreement will be self-enforcing; each country has the capacity to retaliate if the expected benefits are not achieved due to the failure of a trading partner to adjust. By relaxing the assumptions of this hypothetical case, we are able to see the "adjustment gaps" left by the real-world bargaining process. Each of these gaps gives rise to the potential for under-adjustment and thus to a possible role for the WTO.

The first gap arises because trade barriers in some sectors are less likely to be addressed through the reciprocal trade liberalization process. The reciprocal bargaining central to liberalization in the GATT/WTO system works best under conditions of symmetry—i.e., when trading partners are comparable in terms of economic size and level of development. Until the Uruguay Round, developing countries were excluded from the requirement of reciprocity. Although this exclusion was intended to constitute special and more favorable treatment, the actual effect was to deprive developing countries of a potentially effective tool for promoting liberalization in the particular goods (e.g., textiles, apparel, footwear, agricultural products) of greatest interest to them. But even when developing countries have participated in reciprocal

cooperative tariff. Coordinated use of a trade adjustment assistance subsidy to induce the factor to adjust can remove the countries from a prisoner's dilemma-like outcome. The interesting intuition from the model is that one country's trade adjustment assistance subsidy causes the trading partner to adopt a more liberal trade policy.

liberalization, most are too small in terms of current or even potential imports from partners to exercise retaliation rights if partners in reciprocal liberalization fail to adjust as required.¹⁰

The second gap also arises due to asymmetry among trading partners. A small developing country may see potential benefits from exporting more to the United States while importing more from Japan, but it is unlikely to find a way within the reciprocal bargaining process to translate these potential benefits into a liberalization agreement. From a political view and perhaps also from an economic view, this example requires a cross-country compensation mechanism that is not part of the WTO framework.

The third gap arises because negotiators lack perfect foresight. Between rounds of negotiations, significant unanticipated changes in global market conditions may arise. Since the Uruguay Round, such unanticipated changes have included a rapid increase in the global presence of a number of developing and transition economies, most notably China. At the conclusion of the Uruguay Round in 1994, developing-country exporters of textiles and apparel anticipated major benefits from the end of the Multi-Fiber Agreement. Instead, many are now forced to adjust to much lower prices in global markets by reducing their own costs or shifting toward other exports. Major importers, such as the United States and the European Union, have been faced with unexpectedly fast growth of imports. China's rapid globalization has also meant higher than anticipated world prices of many raw materials and industrial inputs. Unanticipated changes in technology or supply-side shocks like mineral discoveries can likewise alter conditions in global markets, and conditions facing a particular country may change due to preferential trading agreements negotiated by its trading partners with other suppliers.

The fourth gap arises because trade agreements must pass political muster at home and thus at best represent a compromise between domestic political objectives and economic

¹⁰ The proposal to make WTO retaliation rights transferable would help to address this problem.

benefits. Long phase-in periods mean in practice that adjustment costs are often shifted onto successor administrations. The result may be the choice of non-adjustment, via use of antidumping and safeguards, especially where adversely affected exporters lack the capacity to retaliate.

These four gaps suggest the potential gains from implementing WTO adjustment incentives beyond those arising through reciprocal liberalization. But to be effective within the WTO framework, these incentives must be self-enforcing.

2.3 Alternative Causes of Trade-Related Adjustment Pressure

In this section we briefly consider four basic reasons that may underlie trade-related need to adjust and their implications for the type of adjustment required. In practice, several of these reasons may operate simultaneously. Adjustment to changing market conditions may entail downsizing of a sector but also firm-level changes intended to enhance the sector's ability to compete with foreign suppliers. Typically adjustment is a mix—the sector shrinks in terms of employment and output, some firms exit, but others are transformed via investment in new technology or adoption of new managerial approaches. In section 2.4 we return to the distinction between industry-level and firm/worker-level adjustment.

2.3.1 Trade Liberalization

An agreement to liberalize trade in a particular product implies but does not specify a corresponding commitment to adjust—typically to move resources out of the sector. Both trade negotiators and the affected industry's firms and workers anticipate that the agreement to liberalize means less favorable prices for the industry and thus pressure to adjust, but they may

have differing and perhaps inconsistent expectations concerning the adjustment process. Reciprocal liberalization allows jobs or exports “created” in an industry where the trading partner is committed to liberalize to serve as a political counterweight to anticipated losses of output and employment in the import-competing sector. It may also have the economic benefit, relative to unilateral liberalization, of pulling resources into an expanding sector at the same time that they are being pushed out of a shrinking sector.

Since the commitment to adjust is rarely made explicit, it is not possible to be sure what type of adjustment was expected by negotiators or the affected industry’s firms and workers (e.g., downsizing versus transformation). However, socially desirable policies to promote adjustment should improve the functioning of factor markets and provide a safety net without increasing the incentive of factors to remain in the shrinking sector unless that sector is associated with a significant positive externality.

2.3.2 Shifting Comparative Advantage

As economies evolve through investment and changes in the size and composition of labor supply, comparative advantage based on relative factor abundance is likely to shift, putting downward pressure on some industries while encouraging others to expand.¹¹ Unlike changes in global market conditions due to liberalization agreements, changes due to shifting comparative advantage and the associated need to adjust are likely to be unexpected and thus more socially disruptive. Because loss of comparative advantage manifests itself as lower prices in global markets, it may give rise to claims of dumping by foreign competitors.

¹¹ Changes in the relative prices of inputs may cause firms at home and abroad to alter technology choices even in the absence of innovation, though changes in factor prices may themselves provide an incentive for development of new technologies. We discuss changes in technology options and technology choices in section 2.3.3.

Although the need to adjust is usually discussed in terms of a shrinking industry, adjustment to changing comparative advantage also implies that other domestic industries should be expanding. To the extent that domestic policies slow shrinkage in industries that have lost comparative advantage, they raise costs for expanding industries and thus slow the expansion of new comparative-advantage industries. Socially desirable policies to promote adjustment should thus improve the functioning of factor markets and provide a safety net without increasing the incentive of factors to remain in the sector that has lost comparative advantage.

2.3.3 New Technology

Comparative advantage is also likely to shift due to introduction or adoption of new technologies, including new ways of organizing the production process. In this case, the efficient form of adjustment is more difficult to determine in advance. Should the trade-impacted industry shrink or perhaps disappear, or can firms retain or even expand their global market share by adopting a new technology? Here the key question for policy is whether adoption is associated with positive externalities. In the absence of any positive externality, the policy prescription is the same as for other reasons for shifting comparative advantage: adjustment policies should improve the functioning of factor markets and provide a safety net without increasing the incentive of factors to remain in the sector that has lost comparative advantage.

But in many cases adoption of new technology does give rise to positive externalities. Employees of early adopters are likely to gain labor skills that can be transferred to competing firms in the industry. This situation is basic to the infant-industry case for policy intervention, but it also applies to established industries with new technologies. In a dynamic world economy

there are likely to be many industries that face foreign competitors whose advantage is due mainly to technological superiority, but is difficult to identify in advance the situations in which an industry will actually experience an important positive externality due to early adoption by some firms of new technology. The desirable adjustment policy may be one that provides firms with information about technological choices or that absorbs part of the private cost of generating this type of information (Rodrik 2004).

In some cases, a new technology may require a different managerial approach, which may mean firms currently operating in the industry are unlikely to succeed even though the country has a potential comparative advantage in this sector. Here market forces can provide the required adjustment via new entry or mergers and acquisitions, often including inward foreign direct investment (Hoekman and Javorcik, 2004). But in this case industry-level output and employment effects may mask the adjustment pressure faced by individual incumbent firms and workers. As new entrants or transformed firms expand, weaker ones will exit. Workers of one type may be laid off while those with other skills are hired. We discuss this possibility in more detail in section 2.4.

2.3.4 Erosion of Preference Margins

The proliferation of discriminatory trade agreements (DTAs) among WTO members gives rise to an additional type of adjustment problem. An exporter of, say, footwear, will normally benefit from liberalization of import restrictions on footwear in their export markets. But if the exporter currently enjoys preferred status in a market due to a DTA, multilateral liberalization erodes the margin of preference and thus requires the exporter to adjust. The type and extent of adjustment required depends on the effects of the DTA. The DTA itself may have

produced up to three types of effects: trade diversion, trade creation (which may be regarded as diversion of some *potential* trade that would occur if the importer applied the same rate to all import sources), and investment diversion.

In the case of trade diversion, multilateral liberalization will cause some or all import demand currently supplied by partners to shift toward lower-cost non-partner producers. However, the same is true of traded created by the DTA, i.e., increased partner imports due to the lower domestic price of those imports. In both cases, the required adjustment entails lower output and exports in the sectors that benefited from preferential access. A final adjustment involves the location of footloose firms. In the same way that the DTA may have caused diversion of foreign direct investment toward countries benefiting from preferred access (see Baldwin et al. 1996), erosion of the preference margin will produce pressure for relocation. Although it is widely acknowledged that recipients of preferential access may resist efforts to liberalize multilaterally, the potential for investment diversion implies that use of DTAs as a “stepping stone” toward multilateral liberalization may also result in larger overall costs of adjustment to full multilateral liberalization. This is because the DTA member countries have to adjust at least twice on the path to multilateral liberalization—first expanding and then contracting output and employment in the industries that benefit temporarily from the preference margin.

2.4 Industry Adjustment versus Firm and Worker Adjustment

As we have discussed in section 2.2, national policies to promote adjustment to changes due to trade may be justified as a means of achieving a more equal sharing of the benefits of adjustment, either on equity grounds or to marshal support for achieving and maintaining liberal

trade policies. The use of safeguard protection or other trade barriers is often portrayed as a way to reduce the cost of adjustment and especially to reduce the impact on current firms and workers by slowing down the required pace of adjustment. But slowing down the pace of *industry-level* adjustment is not the same as slowing down the pace of adjustment at the level of individual plants and workers. In some shrinking industries, the rate of new entry and new job creation is high. A striking example is the U.S. apparel industry (Levinsohn and Petropoulos 2001), where the rate of new entry into the shrinking industry is nearly as high as the rate of exit. In such cases, the decline in industry-level output and employment clearly understates the extent of factor-market dislocation. New jobs created are often in different geographic locations from the ones destroyed by plant closings, and the new jobs may also call for different skills.¹²

Even when trade policies such as safeguards and antidumping preserve industry-level production, they may do little to relieve the pressure on individual plants and workers. In fact, to the extent that these policies make new entry more profitable, the pressure on incumbent firms and workers may actually increase relative to free trade. Whether new entry occurs as an industry shrinks in terms of overall output and employment will be determined by the advantages of the incumbents in comparison to potential entrants, including foreign direct investors. When adjustment pressure is due mainly to competition from rivals benefiting from superior technology, incumbent firms and workers may be poorly suited to making the required transition even if shielded from import competition; domestic and foreign rivals may enter to take advantage of newly profitable opportunities. If implementing a new technology requires a different managerial approach, i.e., if it is unlikely that current firms can succeed even though the country has a potential comparative advantage in this sector, market forces can provide the

¹² In a theoretical model with heterogeneous firms, export-driven expansion at the industry level may also be accompanied by dislocation at the level of the individual firm (Melitz 2003). In Melitz's model, industry expansion drives up wages, thus forcing the least productive firms to exit.

required adjustment via new entry or mergers and acquisitions. But in this case industry-level output and employment give little indication of the adjustment pressure on incumbent firms and workers. As new entrants or transformed firms expand, weaker ones will exit and their workers will be laid off.

The use of trade restrictions to relieve adjustment pressure raises the return on investment in the industry, and protection may thus draw new capital and labor into the domestic industry even if, from the perspective of efficient global production, the industry should be shrinking. Because the new firms are likely to benefit from advantages in terms of production location and technology, they are able to survive even as incumbent plants are forced to close. But the success of new firms in the domestic market may be due entirely to trade restrictions; as trade restrictions are eliminated, the recent entrants may also be forced to adjust.

3. Adjustment Implications of Existing WTO Agreements

While there is currently no *WTO Agreement on Adjustment Assistance* with rules and procedures that member countries must follow as they implement pro-adjustment programs, several elements of current WTO rules are either implicitly or explicitly anti-adjustment in the important sense that they delay the adjustment of productive resources via exit from certain industries. In this section of the paper, we first detail the current WTO rules that affect the adjustment environment. We then propose reforms to correct the WTO's current anti-adjustment bias. In section 4, we shift our attention from ways to correct the current bias to possible measures to enhance the WTO's adjustment environment through explicitly pro-adjustment policies.

3.1 The WTO System’s Current Stance toward “Adjustment”

This section describes current WTO rule that implicitly affect “adjustment assistance” within countries in response to trade-related changes. In principle, such policies can be pro-adjustment, anti-adjustment, or adjustment neutral. We first discuss rules allowing use of trade remedies that implicitly discourage adjustment by countries that have liberalized their import markets. Table 1 gives a brief summary of the arguments in this section. We then turn to a consideration of WTO rules restricting use of subsidies and the explicitly anti-adjustment bias that may result.¹³

3.1.1 The WTO Agreement on Safeguards

Economists have long recognized a potential trade-liberalizing benefit in the GATT/WTO system of including trade remedy laws such as safeguards as part of a negotiated package. Inclusion of a safeguard clause allowing for the temporary suspension of certain elements of the liberal trade agreement under specified circumstances is typically justified by economists through what Hoekman and Kostecki (2001) call the “insurance” and “safety valve” motives.¹⁴ Governments may be hesitant to sign trade agreements that lead to substantial liberalization without the insurance that a safeguard provision would allow. Also, because governments may later feel pressure to renege on negotiated liberalization commitments, safeguards act as a safety valve that protects the integrity of the rest of the agreement. But while inclusion of the Agreement on Safeguards in the WTO and Article XIX of the GATT may have

¹³ This section largely draws on the analysis in Bown and McCulloch (2005) of the relationship between explicitly WTO-sanctioned trade laws and the adjustment environment in the United States.

¹⁴ See also the discussions in Bagwell and Staiger (2002, chapter 6) and Bagwell and Staiger (2004a).

been desirable *ex ante*, and the adjustment implications of the basic text are ambiguous, in practice governments' use of safeguard protection has turned out to have severe anti-adjustment implications.

The basic text of the Agreement on Safeguards states that "A Member shall apply safeguard measures only to the extent necessary to prevent or remedy serious injury and to *facilitate adjustment*." (Article 5:1, emphasis added). Thus, while there is explicit recognition of the statute's role in facilitating adjustment, what is left unclear, and perhaps intentionally, is: adjustment toward what outcome? Toward a restoration of competitiveness relative to foreign firms? Or toward an exit of firms and labor from the industry? Achieving these alternative goals would require completely different adjustment strategies. Without a clear articulation of the goal of the adjustment and without appropriate policies in place (as well as improper policy impediments removed), a statute that appears designed to facilitate adjustment out of an industry may instead be anti-adjustment in its effect.

In principle, a national government could use a WTO-sanctioned safeguard policy to shield a domestic industry temporarily from import competition while it helps to facilitate the exit of firms and workers from the import-impacted industry and their transition to expanding sectors of the economy. In practice, however, the statute has rarely been used for this purpose. Instead, the law is typically used to implement tariffs, quotas, or tariff-rate quotas that simply shield domestic import-competing producers.¹⁵ The rationale for this protection is to give the domestic industry a chance to "adjust" to the changing conditions of market competition by making additional investments, retraining workers to use new technology, etc. Thus, use of safeguards does nothing to assist the adjustment via exit of firms or workers from a declining

¹⁵ See, for example, the discussion of the use of import restrictions across WTO members for the 1995-2000 period and the associated empirical analysis in Bown and McCulloch (2004).

industry, and as such the result is an anti-adjustment bias. Even for cases in which restructuring has the potential to restore the domestic industry's international competitiveness, there is little evidence to suggest that import protection is likely to improve incentives for adjustment.¹⁶

Nevertheless, when compared with the other trade remedies and forms of import protection described below, safeguards applied according to WTO guidelines do have desirable attributes that can limit the damage when domestic firms seeking protection have no realistic hope of adjusting successfully to the new competitive environment. The relevant provisions are contained in Article 7 and 8 of the WTO Agreement on Safeguards. First, safeguard protection is subject to a time limit of no more than eight years; the duration of the initial policy is limited to four years, with the possibility of one renewal. Furthermore, the degree of import protection must be reduced each year until the policy is ultimately removed. The rules also require the safeguard-imposing country to compensate affected foreign suppliers either (i) immediately, if there has been no demonstrable import surge immediately before the safeguard action, or (ii) after three years, if there has been an import surge. As a result, safeguard protection is usually imposed for no more than three years. Finally, Article 2:2 requires the safeguard to be applied to a product "being imported irrespective of its source," i.e., on a most-favored-nation (MFN) basis. This means that safeguard protection should not lead to inefficient trade diversion, i.e., substitution of imports from unrestricted export sources.

While there is nothing explicit in the WTO Agreement on Safeguards (or GATT Article XIX) about encouraging adjustment of resources *out of* a trade-impacted sector, some member

¹⁶The main result of protection from competing imports is to raise the profits of domestic firms in the industry and of potential entrants. Whether this aids an efficiency-enhancing transformation of the industry depends on how additional profits are used and how induced entry occurs. In the U.S. steel industry, vertically integrated producers apparently used their profits mainly to fund future antidumping litigation and thus perpetuate protection. However, higher domestic prices and profits also speeded the expansion of more efficient domestic minimills, thus heightening the need for integrated producers to adjust to changing *domestic* competitive conditions. On the much-discussed use of safeguards on behalf of U.S. motorcycle manufacturer Harley Davidson, see Irwin (2002).

countries have nonetheless included language in their implementing legislation that would allow for use of pro-adjustment policies in addition to, or even in lieu of, import protection. For example, while the U.S. Section 201 safeguard statute allows for the use of import restrictions along lines indicated in the WTO Agreement on Safeguards, and an item on the menu of potential types of import restrictions is usually the policy measure implemented, the U.S. law does also at least *mention* the use of other policy instruments that would be more pro-adjustment with respect to facilitating movement of resources out of the import-impacted industry.¹⁷ Moreover, Section 201 requires the petitioning industry to submit an “adjustment plan” detailing how the respite from foreign competition will promote adjustment. However, the “adjustment” envisioned by trade-impacted industries almost always entails efforts to restore competitiveness rather than to promote exit.

3.1.2 The WTO Agreement on Antidumping

While the WTO’s Agreement on Safeguards at least mentions the possibility of facilitating adjustment, the WTO provisions governing the use of antidumping, a more frequently used import-restricting policy instrument, make no reference at all to the possibility of domestic adjustment. This reflects the assumption that the injury suffered by the domestic industry through lost competitiveness is entirely due to “unfairly” traded import. Given this assumption, there is no need to adjust but only to bring the delivered cost of imports to a fair, i.e., sufficiently high, level. Most economists question the entire economic rationale for the antidumping law, and its abuse has been documented in a number of studies. However, the WTO agreement

¹⁷ In addition to the standard measures of protection of tariffs, tariff-rate-quotas and quotas, the US statute [§2253(a)(3)] offers alternative policy choices such as: “[O]ne or more appropriate adjustment measures, including the provision of trade adjustment assistance...” and “[A]ny other action [...] which the President considers appropriate and feasible...”

permits a national government to implement legislation to impose import restrictions (antidumping duty or price undertaking) after an investigation that determines less than “normal value” pricing by foreign firms and associated injury to the domestic import-competing industry. As is also the case for the safeguard statute, the resulting import restrictions reduce incentives for the firms and inputs to adjust to increased international competition and either to become more competitive or to shift into a domestic industry that is expanding.

The first concern about antidumping is that in practice it is less about foreign “unfair” behavior than about domestic industries seeking protection from import competition. To the extent this is true, antidumping measures are a substitute for safeguard protection, but with even greater potential to reduce welfare and efficiency. Antidumping protection has none of the positive attributes of even the second-best safeguard policies described in the previous section, i.e., time limits, required compensation, and MFN application. Thus, the recent adoption of antidumping laws by many WTO members and their increasing use by developing as well as developed countries has had a profound anti-adjustment impact.¹⁸

In contrast to the Agreement on Safeguards, which mandates that trade-restricting safeguard measures be subject to gradual liberalization and eliminated after four or eight years, the WTO antidumping provisions only mandate a “sunset review” after five years. Under the required sunset review provision, a domestic investigative authority is supposed to assess the continued likelihood of dumping and injury to the domestic industry should the antidumping measure in effect be removed. This sunset provision has an anti-adjustment bias. If the firms in the domestic industry were to adjust during the period of antidumping protection, either by leaving the industry or by making themselves more competitive relative to foreign firms, they

¹⁸ Miranda et. al (1998) and Zanardi (2004) present data and discuss the global proliferation of use of antidumping. Large users now include developing countries such as India, South Africa, Argentina and Brazil.

would be less likely to be injured in the future, and this would increase the likelihood of antidumping protection being removed at the stage of sunset review. Thus, the sunset provision actually rewards firms for failing to adjust.

3.1.3 The Proliferation of New “Safeguards” under the WTO

In the negotiations leading to the WTO’s 1995 inception, the GATT escape clause (Article XIX) was transformed into the WTO Agreement on Safeguards. However, additional safeguards agreements, each with its own terms, were either established at the same time or have been subsequently added. These include the safeguard provisions of the WTO Agreement on Agriculture and the General Agreement on Trade in Services (GATS), both parts of the 1995 WTO package, as well as China-specific transitional safeguards associated with the terms of China’s 2001 WTO accession.¹⁹

From an adjustment perspective, the primary concern with the proliferation of new “safeguards” mechanisms introduced into the rules of the WTO system is that, like the Agreement on Safeguards and the Antidumping Agreement, these lack explicit incentives encouraging adjustment out of a declining industry that may be using the provisions to hang on. All of these safeguard provisions allow for temporary import restrictions, thus generating incentives for the domestic import-competing industry to remain, rather than for its firms and factors of production to adjust by moving into expanding alternative industries.

In addition to this basic concern, which applies to any policy that provides protection and thus allows domestic industries to delay adjustment, an additional problem with the special safeguards is that each lacks at least one of the attractive features of Article XIX and the more

¹⁹ Transitional safeguards (Article 6) in the WTO Agreement on Apparel, Textiles and Clothing expired in January 2005.

recent Agreement on Safeguards. These features make safeguard protection a reasonable second best policy in situations where temporary protection is going to be granted, and then the only question what form it will take. But some of new safeguard regimes lack the transparency of the investigative process, there is frequently no serious injury test, and there is often no MFN requirement because some of these safeguards are country (China)-specific. These safeguard policies may include quantitative restrictions or minimum import prices instead of ad valorem tariffs. To the extent that these new safeguards make it easier for industries to attain import restrictions, they will also be anti-adjustment.

3.1.4 WTO Agreement on Subsidies and Countervailing Measures

The inception of the WTO led to the establishment of the Agreement on Subsidies and Countervailing Measures (SCM).²⁰ This agreement essentially serves two purposes – to place restrictions on the subsidies that countries can implement and to set permissible terms of direct redress (through countervailing measures or dispute settlement activity) available to a country adversely affected by another Member’s failure to follow the subsidy limitation rules. The major concern that the SCM agreement was intended to address is the use of *export*-contingent subsidization programs. Such programs could lead to excessive production and exports and thus to distortions/externalities in global markets.²¹ It is beyond the scope of this paper to describe in full the evolving rules regarding permissible and non-permissible subsidies. Here we will highlight an area of the SCM of particular concern because of its implications for the WTO

²⁰ To be clear, the SCM did not introduce rules on subsidies and countervailing measures into the GATT/WTO for the first time. It largely expanded on the GATT 1947 Article VI regarding rules for countervailing duties, as well as the Tokyo Round Subsidies Code that had been adopted by some member countries on a plurilateral basis.

²¹ Also the potential for nonviolation nullification and impairment claims even for impacted market access but no rules violations is a concern.

adjustment environment, i.e., where the rules and language of the SCM could inhibit countries from implementing efficient pro-adjustment policies.²²

The concern arises from the requirement under the SCM that subsidies not be *specific* to any particular firms or industries. This rule is intended to reduce the likelihood that governments would select domestic “winners” and then engage in excessive industrial subsidization policies to promote these industries. Article 2.1 of the SCM describes the nature of specificity as subsidies being targeted or limited to “an enterprise or industry or group of enterprises or industries...within the jurisdiction of the granting authority.” But a specific subsidy may sometimes be needed to produce an efficient adjustment outcome. If there is a distortion impeding adjustment out of a particular enterprise or industry, then targeting (i.e., “picking losers”) that specific enterprise or industry should be the focus of the policy (Bhagwati and Ramaswami, 1963; Johnson, 1965). This is clearly not the type of firm or industry specificity that the SCM was originally intended to address. However, the language of the agreement may make countries hesitant to use targeted subsidies to promote adjustment *out of* a particular declining industry, because of the risk that such subsidies might be viewed legally as “specific” and thus potentially actionable (either countervailable, or subject to a violation complaint under the DSU) under the WTO rules.

Part IV of the SCM does include a list of “non-actionable” subsidies that, while perhaps specific, serve the legitimate purpose of dealing with externalities and other market failures. Examples of non-actionable subsidies permitted under the Part IV exception list are assistance for research and development, for disadvantaged regions, and to promote adaptation of existing facilities to meet new environmental laws and standards. These are all clearly situations in

²² Bagwell and Staiger (2004b) raise another concern on subsidy rules under the SCM: the constraints these rules impose may prevent negotiators to reach the efficiency frontier through reciprocal trade liberalization.

which governments can use targeted subsidies as a way to internalize positive externalities. However, missing from this list in Part IV is an exception that would make “non-actionable” a subsidy specifically targeted at adjusting productive resources to new conditions through a move out of a well-defined enterprise, group of enterprises, or industry, and into some other productive sector.

Of course, that other productive sector could very well be an expanding export-oriented sector, which might de facto make the subsidy targeted to the *exit* of workers or firms from one import-competing sector appear as if it were instead targeted to the *entry* of resources into a particular export sector. To the extent that SCM rules have inhibited the use of subsidies to promote the transfer of resources into a more economically viable (on a comparative advantage basis) export sector, this creates an implicit anti-adjustment bias. Of course, it is also possible, and perhaps more likely, that the adjustment process would move resources into sectors producing non-tradables, or into many different export-oriented sectors, so that specificity in subsidizing relocation of productive resources would not create an implicit subsidy for any specific destination industry.

3.2 Proposals to Reform WTO Agreements with Implicit Anti-Adjustment Bias

Before turning in section 4 to consideration of reforms that would introduce explicit pro-adjustment measures into the WTO, we first consider steps to correct the implicit anti-adjustment bias of current WTO provisions. The first and most important of these steps is to tighten WTO rules on the use of antidumping measures. Antidumping measures are of increasing concern, given the increase in adoption and use of antidumping laws worldwide--despite any evidence of an accompanying increase in economically injurious dumping behavior.

Second, the Agreement on Safeguards should be modified to highlight pro-adjustment elements and preferred policies for promoting movement of productive factors out of import-impacted and uncompetitive sectors. The Agreement should emphasize the potential use of alternative policy instruments, such as appropriately targeted subsidies, in lieu of import restrictions, and thus explicitly recognize that facilitating adjustment *out of* an import-impacted sector and into an expanding sector in which the country has a comparative advantage is often the best response to changing conditions in global markets.

Third, it is important to stop the proliferation of new “safeguard” options that are being proposed for various reasons, especially when these safeguards would be applied in ways that are inconsistent with the rationale and preferred structure of the basic safeguard system. To the extent that governments need to use temporary measures to limit import competition, this should occur only after a transparent investigation of increased imports as a reason for injury and through the MFN application of tariffs with a clear termination date and step-down process for liberalization, as specified under the current Agreement on Safeguards.

As a final reform to the existing WTO rules, it is important to consider relaxation of the subsidy limits specified under the SCM Agreement. A step in the right direction would be to allow explicitly “pro-adjustment” subsidies that would target a movement of factors or firms out of a specific industry to be non-actionable through formal inclusion of such subsidies on the list found in Part IV of the SCM.

4. Introducing Explicitly Pro-Adjustment Policies into the WTO

In this section we go beyond our proposals to improve the WTO adjustment environment by removing the implicit anti-adjustment biases in the WTO Agreements discussed in section 3,

and identify issues that would arise if the WTO were to consider allowing for explicitly pro-adjustment policies. This exercise is largely speculative because there is little evidence from national governments as to what approaches work effectively—there is not a set of “best practice” countries whose policies a *WTO Agreement on Adjustment Assistance* intended to actively promote adjustment could emulate.

In section 2.2, we argued that the current WTO system leads to under-adjustment as viewed from the global perspective even if each member follows nationally optimal adjustment policies. We then considered in section 2.3 alternative specific changes that may underlie the trade-related need to adjust and their implications for the type of adjustment required. In the following sections we describe a number of issues that pro-adjustment policies will need to confront in order to have a chance at success. These include specifying the goal of the policy, the timing and duration of the policy, and the funding of the policy. Here it is important to underscore once again that tariffs or other forms of import protection (antidumping, safeguards, quantitative restrictions, etc.) are not effective policies for promoting adjustment because they are not targeted to specific adjustment goals. Quite apart from the standard problem of generating by-product distortions via higher prices to domestic consumers, trade restrictions do nothing to increase the incentives for firms currently in the industry to think about any kind of adjustment, let alone the right kind.

4.1 Policy - What is the form of the policy?

To the extent that policy makers have full information about the existence and size of the externalities associated with adjustment, directed subsidies that encourage (or the removal of

taxes that discourage) efficient adjustment behavior would be the first-best policy.²³ In the following sections we describe a number of problems that would arise when such subsidies are implemented, even under the assumption that policy makers are fully informed.

4.2 Policy goal - What does the subsidy target?

The first and perhaps most important question to address when considering a pro-adjustment subsidy or similar policy is to specify the goal of the policy. Is the policy goal to promote adjustment of the industry to the new conditions by restoring its competitiveness? Or to promote adjustment by facilitating movement of factors out of the industry?

In only one of the four trade-related adjustment scenarios considered in section 2.3 might it be feasible for the domestic industry to adjust to the changing competitive environment and continuing producing at its current level, i.e., if the current problem is due to a new technology being used by trading partners but not at home. In this case, policy makers would not want to encourage exit from the affected industry, but might instead adopt a policy to promote adoption of the new technology. Here the subsidy would be used to offset the positive externality associated with early adoption.

In the other three trade-related adjustment scenarios, the basic problem is lack of adjustment out of an existing industry. If downsizing and associated exit of firms and workers is indeed the goal of the policy, the optimal policy would be promote exit, i.e., to target specific industries for decline. In practice, however, this approach may be difficult. First, policy makers would have to find a politically acceptable justification for targeting a specific industry, given

²³ As an alternative to targeting of specific industries, Rodrik (2004) proposes ways to subsidize the process by which entrepreneurs and firms search for relevant technological and market information. The assumption underlying this approach is that a significant positive externality arises in the process of gathering and analyzing information relevant to adjustment.

the almost certain negative consequences for affected firms, workers, and perhaps regions. Second, policy makers may lack the information needed to pick losers, just as they have difficulty in picking winners. In most cases, it may not be evident a priori whether domestic firms have the potential to become internationally competitive. A possible exception might be for government buy-outs of industries whose existence in the domestic economy is the result of past distortionary government policies, such as agricultural price supports. Although the industry would eventually disappear in the absence of the policy, a buy-out could speed the process as well as defusing political opposition.

To the extent that the goal is to facilitate exit, policies designed to encourage entry of the resources into alternative productive applications, even if that occurs at a lower factor price, may be useful. Changes in 2002 legislation to the U.S. TAA program added a provision under which older trade-impacted workers could qualify for temporary wage subsidies after accepting new employment with lower earnings.

4.3 Policy beneficiary – Who funds the subsidy?

An additional issue to consider in examining all proposals of adjustment assistance with international externalities is how the required subsidy would be financed. Here we consider two guiding principles for our discussion. In the first case we will be guided by economic incentives and base the choice of who should pay on willingness to pay, i.e., the subsidy would be paid by those who stand to benefit. In the second case we will consider political realities and the issue of who is able to pay, and thus some likely limitations on these proposals.

In the economic incentives scenario, we ignore the reciprocity issues described in section 2.2 and assume that subsidies are the only form of compensation for those bearing costs of

adjustment. Consider the case of targeting the exit of resources from an industry. In this case foreign suppliers have the most to gain through increased market access for their exports, and are thus the logical ones to pay for it. On the other hand, when the targeted subsidy provides a technology upgrade designed to restore domestic competitiveness, it should be financed by domestic budget sources since that is where the largest gains will accrue.

It is important to recognize that with technology-upgrade subsidies, industry adjustment may very well take place at the expense of existing market participants. Old firms in the industry may go bankrupt and current labor may be displaced as new technologies or more capital-intensive techniques (possibly with different skill requirements) are adopted. The new or transformed plants may also be located in a different part of the country than the older ones. Thus, although the subsidy can enhance efficiency by promoting industry adjustment, it does not eliminate adjustment problems for displaced individuals.²⁴

Consider finally the case in which the adjustment out of the declining industry is taking place in a rich industrialized country, the major beneficiaries are exporters in developing countries who would gain through increased market access. From the perspective of political realities, it is hard to envision a direct compensatory scheme of transfers from poor countries to rich countries that would facilitate the adjustment. Furthermore, to the extent that there are multiple exporting countries that stand to gain from the adjustment, the free-rider problem emerges as each of them has an incentive to allow for the other countries to pay for it.

²⁴ However, a review by Trebilcock et al. (1990) of the adjustment experience in a number of industrialized countries during the 1970s and 1980s suggests that policy measures intended to restore the competitiveness of import-impacted sectors are rarely effective in preventing labor-market dislocations; any productivity gains are achieved mainly by “labor shedding.”

4.4 Policy details – When to implement it and for how long?

Another question for the case of a targeted subsidy is whether a country receiving adjustment assistance subsidies should get the money up front or as a reimbursement. There are a number of issues to consider. Presumably the exporting country that stands to gain from downsizing of the domestic import-competing industry would prefer a system of reimbursement, so that the funds would be given conditional on evidence that exit is actually occurring. But in some instances the adjustment must take place in a low-income country where the government may lack the budgetary resources to come up with the required funding. If so, what time-consistency problems would a pay-first policy introduce? What safeguards are needed to prevent abuse? To what extent is there a role for the World Bank or International Monetary Fund in such cases?

For the case of technology-upgrade policies designed to restore competitiveness, it would be useful to learn from the positive experience of the Agreement on Safeguards and allow for targeted subsidies to have a well-defined phase-out period (e.g., three years) and also a penalty (compensation) if a country extends the subsidy beyond the designated phase-out period.

4.5 Modifying WTO rules to Allow for Pro-Adjustment Policies

How should the WTO rules deal with a member country that fails to switch from an import-restricting trade policy to the appropriate subsidy to facilitate exit following a negotiated liberalization? While it is probably a political non-starter, an appealing approach would be to implement a “Reverse Byrd Amendment,” where some fraction of the tariff revenue is paid into

a special WTO adjustment account and used to compensate foreign industries not receiving the market access they received as result of the negotiation.

Also, as discussed in section 3.4, pro-adjustment subsidies may require relaxation of the rules in the SCM concerning which types of subsidies are actionable. This is needed to insure that countries using pro-adjustment subsidies will not be subject to countervailing duties or WTO dispute settlement activity. Under the current rules, such subsidies could give rise to complaints by third countries that experience an increase in exports that may be tangentially related to an adjustment policy designed to move productive resources out of an import-competing sector.

5. Conclusion

Our goal in this paper is to evaluate the “adjustment environment” in the WTO system and to propose changes that would reduce some current anti-adjustment biases and also introduce explicitly pro-adjustment elements. In our review of the case for trade adjustment assistance at the international level, we argue that part of the gains from a country’s adjustment to changing global market conditions will be captured by producers and consumers abroad, so that even if individual national policies were to balance national social costs and benefits, a purely national approach would result in under-adjustment from a global point of view. To some extent these international externalities can be internalized through the reciprocal bargaining process, but we identify important reasons why this internalization will be incomplete. Moreover, the remaining “adjustment gap” is likely to affect developing countries disproportionately. Thus, we see a potential role for the WTO in facilitating adjustment.

However, our examination of the current rules of the WTO system finds that, rather than facilitating adjustment, the rules tend to impart an anti-adjustment bias. We suggest several

modifications of current WTO rules to correct this bias. The most important proposed change is to place new restrictions on the use of antidumping measures to delay adjustment. We also suggest increasing explicit attention to adjustment in the application of safeguards as well as preventing the introduction of additional safeguard-like arrangements applied in ways that are inconsistent with the rationale and preferred structure of the basic safeguard system. Finally, we propose changes in the rules on non-actionable subsidies to allow the use of targeted adjustment-oriented subsidies.

Our discussion of introducing explicitly pro-adjustment policies into the WTO system is more speculative. We consider some practical problems associated with the use of targeted subsidies to promote adjustment, whether by speeding exit or by transforming the industry to restore its international competitiveness. First, policy makers must decide whether the goal of adjustment is to promote exit or restore competitiveness. Second, a decision must be made concerning who will fund the subsidy. Given the international externality associated with adjustment, in some cases it is appropriate that potential foreign exporters pay for adjustment. However, this approach becomes problematic when the potential exporters are in poor nations while industry in need of adjustment is located in wealthy countries. Finally, rules are needed to deal with a country that fails to adjust following a negotiated liberalization.

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Table 1. Adjustment Position of Important WTO Agreements

WTO Agreement	Adjustment Position	Key Anti-Adjustment Provisions
<i>Agreement on Safeguards</i>	Prima facie adjustment neutral, de facto anti-adjustment	Application of safeguard measures such as tariffs, quotas and quantitative restrictions on imports (Article 5)
<i>Agreement on Antidumping</i>	Anti-adjustment	Application of antidumping import restrictions such as provisional measures (Article 7), price undertakings (Article 8) or antidumping duties (Article 9)
<i>Agreement on Subsidies and Countervailing Measures</i>	Anti-adjustment	Specificity (Article 2) combined with export performance (Article 3)
Safeguards provisions found in the <i>Agreement on Agriculture</i> (Article 5), <i>GATS</i> (Article X), and <i>China's 2001 WTO Accession</i> [†]	Anti-adjustment	All provisions that suggest the policy to address increased import competition is a trade restriction

Note: [†]Section 16 of Part 1 (Transitional Product-Specific Safeguard Mechanism) in the 2001 Accession of the People's Republic of China, WTO document WT/L/432.