

Rethinking World Trade Negotiations

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At present, the negotiations for the Doha round are in jeopardy of being put on hold what plan what plan until at least 2009. A break in negotiations is not necessarily damaging to the talks as long as nations use the time to rethink trade liberalization. By reintroducing development to the Doha round, the possible subsequent reforms could be a way forward in making trade work for the poor.

Though Uruguay Round negotiations were completed in 1994 and culminated in the establishment of the World Trade Organization (WTO) in 1995, developing countries balked when the industrialized world proposed another round of global trade talks in 2001, citing the shortcomings of the previous round. Indeed, they accepted new negotiations only on condition that the negotiations advance development.

The initial fanfare sounded promising. At the 2003 Cancun WTO Ministerial meeting, Eveline Herfkens, former World Bank executive director and Dutch minister, asserted that “[a] pro-poor Doha Round could increase global income by as much as \$520bn and lift an additional 144 million people out of poverty.”¹

Table 1. Revised Estimates of Doha Benefits

| Region | World | Developing countries | Poverty (\$2/day) |
|--------|--------------------|----------------------|-------------------|
| Year | Benefits (US\$ bn) | Benefits (US\$ bn) | Million persons |
| 2003 | 832 | 539 | 144 |
| 2005 | 287 | 90 | 66 |

Source: See endnote III. (Note that years 2003 and 2005 indicate the date estimates were published, but concern projections to 2015 using base years of 1997 and 2001 respectively.)

Yet, later projections from WB sources estimated potential welfare gains at just \$287bn in the year 2015—just a third of the level two years before.² Projections of gains for developing countries have dropped to \$90bn—0.8% of GDP, while their share of global gains has fallen from 60% to just 31%.³ The primary reason for this enormous decrease in projected gains is due to changes in the data used for trade model simulations owing to the effects of trade liberalization completed in

the interim. In any case, it is of grave concern as the Doha negotiations have been billed as the “development round” of global trade talks.⁴

These estimates presume a scenario of “full” global trade liberalization. In other words, the models assume that all tariffs and subsidies are completely eliminated in the world economy -- certainly an unrealistic scenario for the current round. To more accurately reflect the state of the negotiations, the 2005 reports include projections for a “likely Doha scenario” of partial liberalization.⁵ Such “likely” Doha benefits predicted by the models are shown in Table 2, with global gains for 2015 at just \$96bn, of which only \$16bn would accrue to the developing world—representing a meager 0.16% of GDP. In per capita terms, that amounts to \$3.13, or less than a penny per day per capita for those living in developing countries. Thus, assuming -- for argument’s sake -- that the models’ assumptions are valid abstractions of economic reality, and such “gains” in fact materialize, the effect of developing countries’ cuts in tariffs would be close to negligible relative to, say, the importance of export revenues.

Table 2. Benefits of “likely” Doha Round scenario

| Region | High-income | Developing countries | World |
|---------------------|-------------|----------------------|---------|
| Total amount (\$bn) | 80 | 16 | 96 |
| Per capita | \$79.04 | \$3.13 | \$15.67 |
| % of GDP | 0.24% | 0.16% | 0.23% |

Source: See endnote 3. (Note that these benefits are projected to be realized over the modeled period until 2015, see endnote 2.)

Although agriculture has received most attention in recent negotiations, developing country gains from “likely” agricultural reforms amount to less than 0.1% of GDP—just \$9bn. Likely gains from northern subsidy reduction are projected at barely \$1bn.⁶ Only a few developing countries are among significant recipients, as half of all the benefits to developing countries are expected to go to Argentina, Brazil (which stands to receive 23% of the developing country gain), China, India, Mexico, Thailand, Turkey and Vietnam.⁷

Another area of negotiation in the Doha Round is services. Services trade has been growing faster than goods trade since the 1980s. Developed countries are pushing developing countries to open up their services markets—especially in the financial and telecommunications sectors—in exchange for market access in agriculture. Modeling services liberalization is in its infancy,⁸ but projections confirm the distribution of gains from goods market liberalization. Like the estimates in goods trade, services trade liberalization is expected to yield relatively small benefits, the majority of which would go to developed countries. Under a full liberalization scenario, the total benefit for the world would be \$53bn. Only 34% of those benefits would go to the developing world, amounting to a one-time increase of 0.31% of GDP, or roughly a penny per day per capita. A more likely scenario of partial liberalization—50% reduction in services trade barriers—would yield only \$6.9bn for the developing world, or 29% of the total benefits, which amount to much less. Importantly, and analogous to merchandise trade liberalization, most of the gains would accrue to large, middle income countries such as India, South Africa, and China.

The World Bank created extensions for their models in order to estimate the extent to which the Doha round will lift the world's poor over global poverty lines. Like projected welfare gains, the poverty projections are now smaller. The Cancún projection of 144 million people cited by Herfkens was revised downward to 66 million under the complete liberalization scenario. The “likely” Doha scenario would bring the number down to just 6.2 million people lifted above the \$2/day poverty line and 2.5 million people lifted above the \$1/day extreme poverty Line based on the old WB poverty estimates.

Moreover, it should be emphasized that as with the welfare gains previously discussed, such calculations depend crucially on the modelers' assumptions. Both welfare gains and poverty reduction in the models rest on the assumption that tariff reductions reduce prices, so that, *given income at full employment*, people can afford to buy more—welfare increases—and more people can buy just enough not to be counted as poor.

Even benefits as puny as a penny per day per capita for the South and 2.5 million people helped out of extreme poverty are built upon assumptions that: (a)

increased trade openness does not lead to unemployment due to displacement, (b) producers in developing countries are competitive, and (c) their governments are able to replace all lost tariff revenues with consumption taxes.⁹ The projected gains for developing countries are small, rest on dubious assumptions, and understate trade liberalization costs.

Key among these costs of liberalization are those associated with adjustment, including tariff revenue, productive capacity and job losses. The standard models—including the World Bank's—assume that nations' fiscal balances are fixed—in other words, any losses in tariff revenue are offset by lump-sum taxes. Most developing countries rely on tariffs for more than a quarter of their tax revenue. In the real world, however, such taxation schemes are difficult to pass and face stiff resistance.¹⁰ Total tariff losses for developing countries under non-agricultural market access (NAMA) could be \$63.4bn, or almost four times the level of benefits.¹¹

Although net benefits for many countries are projected to be positive, they would result from significant structural changes *away* from manufacturing and back to primary commodities. Primary commodities have recently experienced higher prices after two decades of low prices, but the long-term trends are not encouraging. According to the Food and Agriculture Organization, the prices of non-energy commodities declined by 30% during 1980-2005. The average prices of agricultural commodities sold by developing countries relative to the prices of manufactured goods purchased from developed countries fell by close to 70% during 1961-2001.¹²

When commodity prices go down again, there will not be much industry left to pick up the slack since almost all the projected employment increases are in agriculture or apparel industries, which are no longer competitive. Manufacturing industries such as machinery, non-ferrous metals, electronics and motor vehicles, will be hard hit. For Brazil and Argentina, this would translate into job losses in cities and jobs in the countryside. In Asia, there was supposed to be a movement of people out of higher technology manufacturing into apparel jobs, though over a million jobs were lost in 2005 after the expiry of the Agreement on Textiles and Clothing (ATC). Both adjustments

underscore the slide in wages and level of technological sophistication under a liberalization scenario.

To put development back into the Doha Round, the following five steps will be essential:

1. The US and Europe should agree to honor WTO rulings that have deemed their subsidies for cotton and sugar to be in violation of existing trade rules that forbid exporting products at prices lower than what it cost to make them. This would send a strong signal to developing countries that developed nations are willing to honor the WTO rules and help farmers in West Africa and Latin America.
2. Western nations should take commodities issues seriously, such as the proposal by many African nations for policy space for international commodity agreements or similar domestic policies. African nations made numerous proposals during the round to this end, specifically to make room for international supply management schemes to raise prices and to curb the oligopolistic behavior of large foreign commodity firms, but were ignored by the developed nations
3. Negotiators should recognize the long-standing WTO principle of “special and differentiated treatment” for poorer nations. Developed nations should roll back patent laws that impede poorer nations from manufacturing cheaper generic drugs, and allow poorer countries to exempt food staples such as corn, rice and wheat from deregulation.¹³
4. International financial institutions should fund adjustment. For measures agreed upon, international institutions such as the IMF and World Bank should step in to help developing nations cover the costs of adjustment such as tariff losses and job retraining. The IMF’s Trade Integration Mechanism (TIM) is already in place, but is not ambitious enough, and should not impose additional conditionality. The TIM also leaves little room for incorporating the costs of adjustment, and the Fund is often criticized for tying further reforms to their policies.¹⁴
5. There should be a moratorium on regional and bilateral trade deals. These deals exploit the asymmetric nature of bargaining power between developed and developing nations, divert trade away from nations with true comparative advantage, and curtail the ability of developing countries to deploy effective policies for development.

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1 “A Doha Scorecard: Will Rich Countries Once Again Leave Developing Countries as Beggars at the Feast?” Speech, Cancun, 2003.

2 The models usually used for these and similar estimates project benefits over an “implementation period” here ending in 2015.

3 All projections here of Doha Round benefits are from the following: Kym Anderson and William Martin, eds, *Agriculture Trade Reform and the Doha Development Agenda* (Washington, DC: World Bank, 2005), Tables 10, 12.14; Kym Anderson, William Martin, and Dominique van der Mensbrugghe, “Global Impacts of the Doha Scenarios on Poverty”. In T. W. Hertel and L. A. Winters, eds, *Putting Development Back into the Doha Agenda: Poverty Impacts of a WTO Agreement* (World Bank, 2005), Chapter 17. For a critical review of these estimates, see Frank Ackerman, “The Shrinking Gains from Trade: A Critical Assessment of the Doha Projections” (Working Paper 05-06 Global Development and Environment Institute, Tufts University, Medford, 2005).

4 The changes in estimates from 2003 to 2005 are due to the fact that much trade liberalization has occurred since the last time estimates were generated. Specifically, the World Bank updated their “base year” from 1997 to 2001, bringing China’s accession to the WTO, European Union expansion and the expiration of the Multi-Fiber Agreement (MFA) and the Agreement on Textiles and Clothing (ATC) into the picture.

5 The “likely” scenarios, according to these models, involve agricultural tariff rate reductions in developed countries of 45%, 70% and 75% within three bands of existing tariffs, and reductions in developing countries of 35%, 40%, 50% and 60% within four bands of tariffs. For nonagricultural tariff bindings, the scenario calls for 50% cuts in developed countries and 33% in developing countries. The least developed countries are not required to make any reductions in tariffs.

6 Other research using similar modeling exercises puts the potential gains to developing countries at \$21.5bn. See Sandra Polaski, *Winners and Losers: Impact of the Doha Round on Developing Countries* (Washington, DC: Carnegie Endowment for International Peace, 2006), Figures 3.1-3.8.

7 Kym Anderson, William Martin, and Dominique van der Mensbrugghe, “Global Impacts of the Doha Scenarios on Poverty”. In T. W. Hertel and L. A. Winters, eds, *Putting Development Back into the Doha Agenda: Poverty Impacts of a WTO Agreement* (World Bank, 2005), Chap. 17.

8 The World Bank also put together models for services trade benefits but ended up deeming them too “highly speculative” to publish in their Doha Round publications. See Hertel, TW, and R Kenney (2005). “What’s at Stake? The Relative Importance of Import Barriers, Export Subsidies and Domestic Support.” In Kym Anderson and William Martin, eds, *Agriculture Trade Reform and the Doha Development Agenda* (Washington, DC: World Bank). Not only is trade in services difficult to quantify, but the benefits of removing trade barriers have to be extrapolated for modeling purposes, since “tariffs” in the sector do not exist. “Barriers” to cross-border exchange reside more in the form of domestic investment rules and restrictions on entry into markets in a

nation's services sector. For estimates of services benefits, see Joseph Francois, Hans van Meijl, and Frank van Tongeren, "Trade Liberalization and Developing Countries Under the Doha Round" (Tinbergen Institute Discussion Paper 2003-060/2 Rotterdam and Amsterdam: Tinbergen Institute, 2003), Table 4.4.

9 See Ackerman (2005), cited in footnote 3, and Taylor, L. and R. von Arnim (2006), "Modelling the Impact of Trade Liberalisation: A Critique of Computable General Equilibrium Models", Oxfam International Research Report, for comprehensive critiques of such modeling strategies, including: (a) the assumption of full employment, (b) the unusually high trade elasticities assumed in "standard" and World Bank trade model simulations, and (c) the assumption of fixed budget deficits.

10 For example, Mexico was not able to pass a tax increase during the entire six-year term of President Vicente Fox.

11 "Likely" benefits from Anderson (2005). Tariff losses from: Santiago Fernandez De Cordoba and David Vanzetti, "Now What? Searching for a Solution in WTO Industrial Tariff Negotiations," in Sam Laird and Santiago Fernandez De Cordoba, eds, *Coping with Trade Reforms*, (Palgrave MacMillan, 2006), Table 11.

12 Food and Agriculture Organization, *The State of Agricultural Commodities Markets 2004* (FAO, 2004), 75; World Bank, "Primary Commodity Prices" in *2006 World Development Indicators*, Table 6.5.

13 Gibbon, Peter. (2007), "Africa, Tropical Commodity Policy and the WTO Doha Round," *Development Policy Review*, 25(1): 43-70.

14 See, for example, Joseph Stiglitz, *Globalization and Its Discontents* (Norton, 2002).