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Back to the Drawing Board: No Basis for Concluding the Doha Round of Negotiations

Negotiators continue to work desperately to achieve a breakthrough in the World Trade Organization's Doha Round. Their goal is to get an agreement by the end of 2008. Developing countries should pull the plug on this moribund round until rich countries can agree to a new framework that lives up to Doha's promise to be a "Development Round" that favours poorer countries.

As rich country leaders try to rally negotiators for yet another "make-or-break" deadline, in what has become the most imminent agreement in history, developing country negotiators should remember why the proposals on the table deserve to be sent back to the drawing board. Here, we review the economic projections, from the World Bank and other institutions, that show how limited the gains are for most developing countries and how high the hidden costs of an agreement could be. With projected gains of less than 0.2 per cent, poverty reduction of just 2.5 million people (less than 1 per cent), tariff losses of at least $63 billion, and projected declines in the relative value of exports, developing countries have little to gain from rushing to conclude Doha.

Small Gains, Hidden Costs

Given the proliferation of lofty rhetoric about Doha and poverty reduction, the public can be excused for thinking this agreement is all about poverty and development. As recently as 2003, at the Cancún, Mexico, WTO negotiations, former World Bank executive Eveline Herfkens stated, "A pro-poor Doha Round could increase global income by as much as $520 billion and lift an additional 144 million people out of poverty."[1]

Those compelling numbers are still echoed in editorials and statements by public officials even though they are now considered exaggerated and obsolete. Based on old data and the entirely unrealistic assumption of full global liberalization – the elimination of all tariffs, subsidies, and other trade distorting measures by all countries – the projections came from World Bank models. They got a very large number. Just two years later, though, the data and modeling had gotten much better, and with a more realistic projection for a "partial liberalization" scenario, gains for developing countries had shrunk to near-insignificance.

The World Bank's model of the gains from a "likely" Doha deal are exhibited in the first column of Table 1. Under this scenario (which is more ambitious than the proposals now on the table), global gains projected for 2015 are just $96 billion, with only $16 billion going to the developing world. Other economic projections of Doha have come up with different estimates, but all are of the same order of magnitude.[2]

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How small is $16 billion?

- The developing country benefits are just 0.16 per cent of GDP.
- In per capita terms, that amounts to $3.13, or less than a penny per day per capita for those in developing countries.
- For a poor worker or farmer earning $100/month, that represents a raise of just 16 cents in 2015.
- In this supposed "development round," rich countries were projected to see per capita income gains 25 times those in developing countries.
- Developing country gains from "likely" agricultural reforms amount to less than 0.1 per cent of GDP—just $9 billion.

Of the benefits projected for developing countries, only a few see most of the gains. According to the World Bank, half of all the benefits to developing countries are expected to flow to just eight countries: Argentina, Brazil (which stands to receive 23 per cent of the developing country benefit), China, India, Mexico, Thailand, Turkey, and Vietnam.[3]

Some researchers have argued that these numbers are underestimates, in part because they don't include liberalization in services trade. But previous Bank modeling suggests this would add very little for developing countries. The "likely scenario" in these models of partial liberalization—50 per cent reduction in services trade barriers–project gains of just $6.9 billion for the developing world, with rich countries getting 71 per cent of the total benefits.[4] Adding the liberalization of goods and services trade together, the projected benefits for developing countries amounts to $28.7 billion under a likely Doha scenario.[5]

The Poverty of the Negotiations

As the projected gains declined, so did the projections for poverty reduction. Under their "likely Doha" scenario, World Bank researchers projected that the current round of negotiations promised to lift not 144 million of the world's 622 million poorest people out of poverty, but just 2.5 million.[6]

That is a reduction of less than one-half of one per cent in the year 2015 in the number of people living on less than one dollar per day. In Sub-Saharan Africa, just half a million people out of the region's 340 million poor would move out of extreme poverty with a successful negotiation, barely one-tenth of one per cent. Moreover, as many have pointed out, moving from $1.00/day to $1.10/day might get you above the world's current standard for extreme poverty, but it certainly doesn't get you out of poverty.

Table 1: Doha's Hidden Price Tag
Doha Benefits vs. NAMA Tariff Losses, Terms of Trade Losses
(billions of 2001 US dollars)

	WB "likely" Scenario*	NAMA Tariff Losses**	Terms of Trade (%)***
Developed Countries	79.9	-38.0	-0.12%
Developing Countries	16.1	-63.4	-0.74%
Selected developing regions			
Middle East and North Africa	-0.6	-7.0	-1.32%
Sub-Saharan Africa	0.4	-1.7	-0.83%
Latin Am. and the Carribean	7.9	-10.7	-1.12%
Selected countries			
Brazil	3.6	-3.1	-0.18%
India	2.2	-7.9	-1.62%
Mexico	-0.9	-0.4	-0.48%
Bangladesh	-0.1	-0.04	-0.58%

* Anderson and Martin (2005), *Agricultural Trade Reform and the Doha Development Agenda*. Table 12.14; scenario 7.

** De Cordoba and Vanzetti (2005). *Coping with Trade Reforms.* UNCTAD. Table 11.

*** Polaski, Sandra (2006). *Winners and Losers: Impact of the Doha Round on Developing Countries.* Carnegie Endowment, Table 3.4

[1] "A Doha Scorecard: Will Rich Countries Once Again Leave Developing Countries as Beggars at the Feast?" Speech by Eveline Herfkens,WTO Ministerial Cancun 2003.

[2] Bouet, A (2006). *What Can the Poor Expect from Trade Liberalization: Opening the "Black Box" of Trade Modeling.* International Food Policy Research Institute.

[3] 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* (Washington DC: World Bank, 2005), Chapter 17. Some have argued that these projections are low because they do not take into account the productivity increases they may come with liberalization but the World Bank states that this "remains a lively topic for current research on which consensus has yet to emerge." (see Poverty Impacts of a WTO Agreement: Synthesis and Overview, by Thomas W. Hertel and L. Alan Winters, Chapter 1 in (ibid), pp 7-8.)

[4] 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.

[5] See note 3.

Hidden Losses: Tariffs, Terms of Trade, and Policy Space

If the projected gains are smaller than advertised, the losses are mostly hidden in such modeling exercises. They are considerable.

Total tariff losses for developing countries under the "non-agricultural market access"—or manufactured goods—aspect of the negotiations could be $63.4 billion, or almost four times the level of benefits.[7] (See Table 1, column 2.) For many developing countries, slashing tariffs will not only restrict the ability of these countries to foster new industries so that they may integrate into the world economy, but it will also limit government funds to support such infant industries and to maintain social programs for the poor. A majority of developing countries rely on tariffs for more than one-quarter of their tax revenue. For smaller nations with little diversification in their economies, tariff revenues provide the core of government budgets. According to the Geneva-based South Centre, tariffs account for more than 40 per cent of all tax revenue in the Dominican Republic, Guinea, Madagascar, Sierra Leone, Swaziland, and Uganda.

In a recent issue of *Foreign Affairs*, Jagdish Bhagwati commented: "If poor countries that are dependent on tariff revenues for social spending risk losing those revenues by cutting tariffs, international agencies such as the World Bank should stand ready to make up the difference until their tax systems can be fixed to raise revenues in other, more appropriate, ways."[8] While there is indeed evidence that consumption taxes are superior forms of generating welfare, economists have shown that tariffs may be preferable in developing countries with large informal sectors that cannot be taxed efficiently.[9]

Deteriorating Terms of Trade

A likely deal will also contribute to declining terms of trade for developing countries, the ratio of export to import prices. This measure is considered a crucial estimate of the extent to which a developing country is moving up the value chain in the global economy, away from primary production and into manufacturing or knowledge-based economic activities. Since the First World War many developing countries saw their terms of trade deteriorate. Declining terms of trade can accentuate balance of payments problems and make the need to diversify into other export products ever more urgent.

Under a likely deal world prices for agricultural products increase and manufacturing prices decrease slightly or remain unchanged. According to the Carnegie Endowment for International Peace these price changes negatively affect the terms of trade for developing countries. (See Table 1, column 3.) The report explains that for many countries the rise in world prices for imported food and agricultural goods is countered with a decline in world prices for their light manufactured exports, such as apparel. This partly explains the welfare losses for Bangladesh, East Africa, and the rest of Sub-Saharan Africa.

To diversify, developing countries often look at the example of the U.S. and European economies, and more recently, the economies of South Korea and China. These countries diversified away from primary commodities and light manufacturing while slowly opening their economies. They moved into the world marketplace strategically, protecting their major exporting industries in order to nurture them to compete in world markets.

China's computer maker, Lenovo, is an example. The company was created by the

Table 2: Doha's Limited Poverty Impact
Projected Drop in $1/day Poverty from "Likely Doha" Deal

	Baseline millions	Decrease millions	Decrease %
East Asia & Pacific	19	0.3	1.6%
Latin Am. & Caribbean	43	0.4	0.9%
South Asia	216	1.4	0.6%
Sub-Saharan Africa	340	0.5	0.1%
All Developing Countries	622	2.5	0.4%

Source: World Bank, *Agricultural Trade Reform and the Doha Development Agenda*, chapter 12, Table 12.19, p. 382, column 5, Doha scenario 7 for 2015.

[6] Anderson, Martin, and van der Mensbrugghe, "Market and Welfare Implications of Doha Reform Scenarios," in *Agricultural Trade Reform and the Doha Development Agenda*, Anderson and Martin, World Bank 2005. The principal improvements in the more recent modeling include: an updating of the base year from 1997 to 2001; China's liberalization as an accomplished fact rather than a prospective gain from the negotiations; incorporating existing trade preferences; and using applied rather than bound tariff rates. Many still question the usefulness of such models for policy analysis; for a critical review, see Ackerman, Frank and Kevin P. Gallagher, "Computable General Equilibrium Models and the Shrinking Gains from Global Trade Liberalization: A Critical Assessment," *International Journal of Political Economy*, Vol. 37, no. 1 (Spring 2008).

[7] "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 *Coping with Trade Reforms*, ed. Sam Laird and Santiago Fernandez De Cordoba (Hampshire: Pagrave MacMillian, 2006), Table 11.

[8] See Jagdish Bhagwati, "From Seattle to Hong Kong," *Foreign Affairs* (December 2005).

[9] Emram, M.S., and J. Stiglitz (2004), "On Selective Indirect Tax Reform in Developing Countries." *Journal of Public Economics*, 89, 599-623.

government and protected for years; it recently purchased IBM's PC division and is now a world leader in high-technology electronics. Acer Computer from Taiwan and Hyundai and Kia Motors from South Korea followed similar long-range development paths.

Further cuts in manufacturing tariffs and services regulation in developing countries, which are under consideration in the current Doha proposals, will make it more difficult for developing countries to replicate these efforts. This loss of so-called "policy space" is why many developing countries see current rich-country proposals as tantamount to saying: "do as we say, not as we do."[10]

A New Approach

The poverty of the current negotiations suggest that it indeed is the moment to take a "time-out" from trade negotiations. During the respite, developed countries should demonstrate their commitment to making the world trading system more fit for development.[11] The following are four steps toward that end.

1. **Implement prior WTO rulings** – The United States and Europe should agree to honor WTO rulings that have found their subsidies for cotton and sugar to be in violation of existing trade rules under the prior agreement. This would give a tangible boost to farmers in West Africa and Latin America and send a strong signal to developing countries that developed nations are willing to honor the rules of the WTO.
2. **Address commodities issues** – Rich countries should take seriously the proposal by many African nations to tame global businesses that demand unfair prices for resources used in farm production and reap billions in profits on the sale of final products. African nations have 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. If the Doha Round is to foster development, such proposals should be at the center of the discussion.[12]
3. **Recognize commitment to Special and Differentiated Treatment** – Negotiators should recognize the Doha 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. They should also allow poorer countries to exempt staples of their local economies such as corn, rice, and wheat from deregulation, as part of Doha's stated commitment to protect "Special Products" important for rural development, food security, and rural livelihoods.
4. **Make up tariff losses and adjustment costs** – International institutions such as the International Monetary Fund (IMF) and World Bank should step in and help developing nations cover the costs of adjustment such as tariff losses and job retraining until the proper policies can be established. The IMF's Trade Integration Mechanism is already in place for such purposes, but it leaves little room for incorporating costs of adjustment and the Fund is often criticized for tying further reforms to adjustment policies.[13]

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[10] For a discussion policy space for development in the context of the Doha Round see, Kumar, Nagesh and Kevin P. Gallagher (2007) *Relevance of 'Policy Space' for Development: Implications for Multilateral Trade Negotiations*, RIS Dicussion Paper #120.

[11] See for a development perspective on the Round, RIS (2007) *World Trade and Development Report 2007: Building a Development-Friendly World Trading System*, Oxford University Press for RIS.

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

[13] See for example Joseph Stiglitz, *Globalization and Its Discontents* (New York: Norton, 2002)

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