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Policy Brief

Is Development Back in the Doha Round?

As ministers reassemble in Geneva amid continuing cries from the developing world that the Doha Development Round has lost its commitment to development, they are hearing another round of estimates about the so-called gains from trade. Each time ministers gather, economists offer new or refurbished projections of how much wealthier the world might be after liberalizing trade.

The upcoming ministerial is no different, and neither, fundamentally, are the projections, notwithstanding one recent claim that an ambitious Doha deal could deliver \$300-\$700 billion in global welfare gains, with the benefits "well-balanced" between developed and developing countries. These contrast with the World Bank's widely publicized 2005 estimates of global gains from a "likely Doha scenario" of less than \$100 billion, with just \$16 billion going to developing countries. Did economists find another \$150-\$350 billion in benefits for developing countries that the World Bank missed in 2005? Is development back in the Doha Round?

The answer, of course, is no. The purpose of this policy brief is to look behind the press releases to examine the recent economic projections, review previous estimates, and put these seemingly large numbers in their proper context. As before, the claims that developing countries will be the big winners from Doha rest on shaky assumptions, controversial economic modeling, misleading representations of the benefits, and disregard for the high costs of Doha-style liberalization for many developing countries. These costs are even higher in the turbulent wake of the triple crises in finance, climate, and food.

Big Numbers, Bigger Assumptions

A recent study by the Peterson Institute for International Economics reminds us why trade negotiators have grown so skeptical of pre-ministerial press releases from economists claiming large benefits for developing countries if those countries will only give more at the negotiating table. The Peterson study suggests that the potential gains from a Doha deal could be as high as \$300 to \$700 billion annually. Moreover, and contrary to previous modeling estimates of global trade, Peterson claims the benefits are "well balanced between developed and developing countries."[1]

Recent statements by the Obama administration and other

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developed country governments suggest that the developed world will not re-engage in global trade negotiations unless there is more market access for developed countries. The strength of the Peterson Institute study, titled "What's on the Table? The Doha Round as of August 2009," is that it attempts to model what some of those developed country demands could yield, at least under a generous set of assumptions. The study provocatively claims that the developing countries will be the major beneficiaries if they agree to further liberalize services and targeted manufacturing sectors. A closer look reveals that the benefits are still relatively small and they continue to be skewed toward developed countries.

How do Peterson researchers get such seemingly large numbers? The authors model four scenarios and sum them. One of those scenarios has been on the Doha table for a number of years—a modest swap of reductions in developed country tariffs and subsidies in agriculture for reduction in manufacturing tariffs in developing countries. The Peterson estimates derived for this "Agriculture and NAMA" scenario are similar to those found in other studies: the total gains are small and high-income countries receive twice the benefits that developing countries do. [2] According to the report, total global income would experience a one-time bump of $114 billion, or two-tenths of one percent of GDP (0.2% of GDP). High-income countries receive 66 percent of those gains, developing countries just 34 percent. The developing country share is higher than the earlier World Bank estimates in part because Peterson researchers assume developing countries see more than twice the impact of trade on GDP as high-income countries, an assumption that is supported by shaky evidence.[3]

As Bank economists did before them, Peterson turns this apparent bias against developing countries into a supposed advantage by noting that as a share of GDP the gains to developing countries are higher than the gains to rich countries. This allows such researchers to argue that in the long run this means that inequality between rich and poor countries will decrease. While this is true, developing countries have repeatedly pointed out that absolute gains so heavily favoring rich countries do not meet the basic Doha goal of development. They also note that even if gains as a share of GDP slightly favor developing countries, gains per person are embarrassingly skewed toward rich countries – ten times greater ($75 for the rich, $7.50 for the poor) in the Peterson study. (In the earlier World Bank projections, the per capita gains to rich countries were $79.04, compared to just $3.13 for developing countries.)

Agriculture and NAMA are, essentially, "what's on the table" in a meaningful sense. The Peterson institute gets larger estimates by assuming agreement on relatively ambitious proposals in additional areas, namely services, so-called sectorals, and trade facilitation. Most involve additional concessions from developing countries. The authors admit in their concluding paragraph that this "represents optimistic thinking on our part." Indeed it does.

In services, Peterson finds another $100 billion in income gains. They assume a ten percent reduction in services barriers to get that number, despite an admission that "given current offers, a 10 percent reduction or even a 5 percent reduction in barriers seems optimistic." They also admit that the methodology for estimating services liberalization is imprecise. In fact, most economists recognize that modeling services is very much in its infancy, with one study stating that the methods "have been problematic at best."[4] Indeed, the World Bank in its earlier work modeled services liberalization and concluded that the results were too "highly speculative" to publish with their Doha projections.[5] The Bank got a much smaller estimate than Peterson – just $24 billion in estimated gains, with only $7 billion going to developing countries. Still, Peterson, with an admitted "dose of wishful thinking," gets $100 billion in gains to add to agriculture and NAMA.

The wishful thinking continues with assumed sectoral liberalization agreements in chemicals, IT and electronic goods, and environmental goods. These essentially involve especially deep tariff cuts in targeted manufacturing industries by developing countries. Such negotiations were supposed to be voluntary for developing countries, but recent U.S. proposals have in effect conditioned U.S. agreement on the participation of key developing countries in such deals. Developing countries have resisted in principle and though some are participating in preliminary discussions, breakthroughs in these three sectors seem very unlikely. Calling their scenario "optimistic but plausible," Peterson researchers come up with a further $104 billion in gains—the majority of which accrue to developed countries.

This brings the Peterson total over $300 billion. This is still only 0.6 percent of global GDP, and the majority of the gains go to rich countries. So where are the bulk of the gains that bring a more "balanced" distribution among developed and developing countries?

This is where the study becomes the most problematic. Peterson finds an additional $385 billion in gains from *trade facilitation*—making the administrative, transport and technical logistics of trade more efficient. This is undeniably an area where there is widespread interest from developing countries and many proposals are on the table. But estimating such gains is wildly speculative, and the study cautions that "these numbers should be taken with a tablespoon of salt as this method is less rigourous than methods used in other sections of this paper." They certainly are.

The estimates rely on a methodology developed by other researchers that assumes that all developing countries make substantial progress in improving port efficiency, customs, regulations, and services infrastructure (e.g. information technologies). But agreeing to make such improvements is not the same as making them, and it can't be achieved at the negotiating table in the same way tariffs can be slashed. Trade facilitation takes real investment. Developing countries would need years of significant and sustainable investment in infrastructure, technology, and human capital in order to realize the benefits in the Peterson estimates. And they would need far more resources than are currently included in "aid for trade" packages. Peterson is, in effect, assuming agreement *and* assuming the financing to make it all happen.

For the Peterson Institute, this all adds up to GDP gains "that are significant, between $300 billion and $700 billion annually, and well balanced between developed and developing countries." Our conclusions from a closer analysis of this study are:

- The gains from "what's on the table" (agriculture and NAMA) are of the same order of magnitude as previous studies, about $100 billion, with the vast majority going to rich countries.

- The new estimates for services, sectorals, and trade facilitation are highly speculative, use methodologies that are unproven, and assume far more ambitious outcomes than seem at all likely at this point.

- The claims of "balance" are unfounded, as developing countries receive less half of the gains from any of the individual scenarios and only 31% of the total income gains from the combined scenarios.

Small Gains, Real Costs

The more realistic and sobering estimates are still the World Bank 2005 projections of the gains from a "likely" Doha deal. The Bank estimated that the global gains in the year 2015 would be just $96 billion, with only $16 billion going to the developing world. In other words, the developing country benefits represent a one-time increase in income of just 0.16 percent 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.[6] Someone earning $100 per month would see a monthly raise of $.16. Not surprisingly, a very small number of people would be lifted out of poverty – just 6.2 million people brought above the $2/day poverty threshold, 0.3 percent of those living in poverty worldwide. Adding the Bank's services estimates – $24 billion overall with $7 billion for developing countries – does not improve the outlook very much.

As we have pointed out before, developing countries are being asked to make significant concessions to get a Doha agreement that brings some of them a very small one-time gain. Remember "annual" means a boost in GDP one time, it does *not* mean an increase in growth rates going forward. Moreover, a few large developing countries get the vast majority of developing country gains and World Bank estimates show Sub-Saharan Africa and other poor areas being worse off after Doha.

There could indeed be gains from trade for developing countries, but the proposals that could achieve them have largely been rejected by rich countries. For example, the World Bank has estimated that so-called Mode 4 liberalization for temporary workers could yield benefits of $150 billion on an annual basis.[7]

Perhaps the biggest shortfall of all these studies is that they examine only the potential benefits of immediate trade liberalization, while downplaying the costs. In the wake of the financial crisis, many of the costs of rapid liberalization are more accentuated than ever. At a time when developing nations need revenue and exports to stimulate their economies, liberalization can slash tariff revenues and weaken the terms of trade.

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

Total tariff losses for developing countries under proposed NAMA liberalization were estimated to be as high as $63.4 billion (see table).[8] Both the World Bank and the Peterson models assume that tariff losses will be replaced by consumption taxes. Most economists will agree that consumption taxes are superior forms of generating welfare, yet tariffs may be the only option in developing countries with large informal sectors that cannot be taxed efficiently.[9] A new study by the International Labor Organization and the WTO shows that liberalization under the current negotiations would cause an initial sharp increase in informal work in developing countries, making taxation even more difficult.[10]

In an environment where developing countries need every dollar for fiscal stimulus, such lofty assumptions should not go unchecked. Many 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.

Declining terms of trade – the ratio of export to import prices – is another concern for developing countries. This is 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. 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.[11] 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 projected welfare losses for Bangladesh, East Africa, and the rest of Sub-Saharan Africa.

In the long run, declining terms of trade undermine developing country efforts to diversify and develop. In the wake of the current crisis, they also can accentuate balance of payments problems in developing countries and deepen the impacts of crises.

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. 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.

Doha and the Financial Crisis

Many developing countries have already spent scarce resources building human capital and technological capabilities in the manufacturing, services, and agricultural sectors of their economies. In the wake of the current economic crisis, massive devaluations in currencies, along with the loss of credit, can wipe out domestic firms and put the real economy into a tailspin. Without care, these losses can be irreversible, if import surges put domestic firms out of business or if those companies are replaced or taken over by foreign firms. Losing such firms not only throws people out of work, it represents a setback to long-term economic development.

Ensuring that years of development policy are not swallowed up by foreign capital during tough times should be a high priority in the developing world in the wake of the crisis. Some developing countries have built reserves and stabilization funds that can be used to ensure that the domestic economy does not become hollowed out. Many, however, ran dangerously high budget and current account deficits that make preservation and recovery very difficult.

Rushing to a WTO deal could strip many developing countries of these tools, and leave them with little in return. Many of the proposals being discussed in Geneva would end up giving private capital greater freedom from government regulation, which is precisely what is needed to weather the storm from the current crisis. Indeed, deregulating financial services could have been disastrous if nations like India and China had signed onto deeper cuts in GATS at an earlier stage in the Doha negotiations. Both of these nations have their banking systems intact, whereas the foreign banks that may have entered those markets are in shambles and could easily have brought their new markets down with them. Given that the world is reconsidering financial regulation at the G-20 and in domestic legislation across the globe, it seems irresponsible to deregulate finance under GATS.

Putting Development First

Lofty new projections aside, development has yet to find its way back to the WTO agenda. This is unfortunate. The organizing principle for revived global trade negotiations needs to be a recognition that the world economy consists of nations at widely differing levels of development. Developing countries need the policy space to retain, adapt and evolve the kinds of government measures that have been proven to work for development in the developed world, and in other developing countries.

Any negotiation that claims to take development seriously must recognize these fundamental asymmetries and address them. To restart negotiations on a pro-development foundation, policy space should be guaranteed in five areas:

First, the US 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 that forbid exporting products at subsidized prices. 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 existing WTO rules.

Second, the WTO should take seriously the concerns by many African nations about taming the highly concentrated and volatile global commodities markets, dominated by agribusinesses that suck most of the value out of these value chains. Rich nations should also grant poorer countries extensive rights to exempt staples of their local economy such as corn, rice and wheat – so-called “special products” – from tariff cuts, and allow them to raise duties when imports surge – the “special safeguard mechanism” U.S. negotiators objected to in July 2008.

Third, for manufacturing, the longstanding

WTO principle of "special and differentiated treatment" should be re-enshrined for developing nations. Rich countries should roll back patent laws that impede poorer nations from manufacturing cheaper generic drugs and other manufactured products, and allow selective industrial policy so governments can diversify their economies. What worked for the United States, China and South Korea must not be prohibited by the WTO.

Fourth, the Peterson Institute study suggests that there may be real gains from trade facilitation. For developing countries such gains can only be captured through significant investment in infrastructure and human capital. Current "aid-for-trade" proposals are wholly inadequate and should include binding commitments providing significant funds for trade facilitation and adjustments for tariff losses.

Finally, there should be a moratorium on North-South preferential trade agreements. These deals exploit the asymmetric nature of bargaining power between developed and developing nations, divert trade away from nations with true comparative advantages, and curtail the ability of developing countries to deploy effective policies for development.

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Endnotes

[1] Adler, Matthew, Claire Brunel, Gary Clyde Hufbauer and Jeffrey J. Schott, "What's on the Table? The Doha Round as of August 2009," Peterson Institute for International Economics, Working Paper 09-6, Washington, August 2009: http://www.iie.com/publications/wp/wp09-6.pdf.

[2] A recent study by Kym Anderson, using the recently updated Version 7 of the GTAP model and an expanded set of assumptions about agricultural trade distortions, finds results comparable to the World Bank's earlier modeling of full liberalization. See Kym Anderson, Distortions to Agricultural Incentives: A Global Perspective, 1955-2007, (Washington DC: World Bank, 2009).

[3] The authors apply an elasticity for "trade openness to GDP" of .5 for developing countries, versus .2 for developed countries with little justification. If they used the same elasticity for developed and developing countries (as the World Bank does) the developing country benefits would be an even smaller share of the total. For a full discussion of the assumptions underlying such modeling, see Frank Ackerman and Kevin P. Gallagher, "The Shrinking Gains from Global Trade Liberalization in Computable General Equilibrium Models: A Critical Assessment," International Journal of Political Economy, vol. 37, no. 1, Spring 2008, pp. 50-77. http://www.ase.tufts.edu/gdae/policy_research/shrinking_gains.html.

[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] Hertel, T.W. and R Kenney (2005). "What's at Stake? The Relative Importance of Import Barriers, Export Subsidies and Domestic Support." Kym Anderson and William Martin, eds., Agriculture Trade Reform and the Doha Development Agenda (Washington DC: World Bank)

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[7] Walmsley, Terrie L., and L. Alan Winters, "Relaxing the Restrictions on the Temporary Movement of Natural Persons: A Simulation Analysis," Journal of Economic Integration, 2006. Results assume that temporary work from developing countries amounted to 3 percent of industrial country workforces.

[8] "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: Palgrave MacMillian, 2006), Table 11.

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

[10] ILO and WTO, Globalization and informal jobs in developing countries, Geneva, 2009.

[11] Polaski, Sandra, "Winners and Losers: The Impact of the Doha Round on Developing Countries," Carnegie Endowment for International Peace," Washington, 2006.

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SOUTH CENTRE

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