

The Hong Kong Ministerial: What's at Stake for the Poor?

Timothy A. Wise and Kevin P. Gallagher

At the WTO's Cancun Ministerial in 2003, Eveline Herfkens, former World Bank executive director and current executive co-ordinator for the UN's Millennium Development Goals, had this to say, "A pro-poor Doha Round could increase global income by as much as US\$520 billion and lift an additional 144 million people out of poverty. This is why so many hundreds of us come together today."

What a difference two years makes. In 2003, World Bank projections promised US\$832 billion in estimated gains from global trade liberalisation, the majority – US\$539 billion – going to the developing world. These seemingly robust numbers were cited far and wide, by negotiators and NGOs alike.

Now, on the eve of the Hong Kong Ministerial, the so-called gains from trade seem to have evaporated. New projections, from the same World Bank sources, estimate potential welfare gains of US\$287 billion – just one-third their level two years ago. Developing country gains have dropped to US\$90 billion, which represents only a 31-percent share of global gains. When compared to the 60-percent share projected in 2003, this is hardly a good advertisement for this so-called 'development round' of global trade talks.

More dismaying, these figures are based on a scenario of full global trade liberalisation, with the admittedly unrealistic assumption that all tariffs and trade-distorting support are completely eliminated. The same report includes projections for a 'likely Doha scenario' of partial liberalisation, reforms that presently appear ambitious in light of the current deadlock in negotiations.

What can we expect from this more realistic scenario? Global gains of just US\$96 billion, with only US\$16 billion going to the entire developing world. That is less than a penny-a-day per capita for those living in developing countries.

Not surprisingly, the poverty impacts have vanished with the income. The Cancun promise of bringing 144 million people out of poverty has been devalued to 66 million in the full-liberalisation scenario. The researchers' 'likely Doha scenario' brings the number to a sobering 6.2 million people, a 0.3 percent reduction in the number of people living on less than US\$2 a day.

A great deal of attention is being placed on the agriculture part of the negotiations. Indeed, most of gains come from agriculture, but a bigger piece of a much smaller pie will not feed the hungry. Developing country gains from 'likely' agricultural reforms, amount to less than 0.1 percent of GDP, just US\$9 billion. Likely gains from Northern subsidy reduction are projected at barely US\$1 billion.

The model projections now show a disproportionate share of the benefits going to high-income countries. In the full-liberalisation scenario, rich countries, with their bigger economies, get more than twice the income gain in dollar terms, and more than ten times the gain per capita. In the 'likely Doha scenario', rich countries capture nearly twice the percentage gain in GDP, five times the dollar gain, and a remarkable 25 times the developing country gain per capita.

The World Bank modelled the impacts of agricultural trade liberalisation and reductions in non-agricultural tariffs, but not services which are widely considered too difficult to project with any reliability. Popular presentations of the World Bank's research leave out the most important findings: the numbers themselves.¹ And the numbers paint their own stark picture of the limited gains from trade (see table below).

In fact, the picture is far worse if one puts these numbers in their proper context:

- Trade liberalisation brings a one-time increase in GDP, not an increase in growth rates.
- The World Bank's model phases in these gains between the base year of 2001 and the end year of 2015. Spread the gains over ten years, and the numbers shrink to complete insignificance – barely one-hundredth of a percent of GDP. For someone making US\$100 per month, that would amount to a sixteen-cent raise in monthly salary after ten years.
- Half of the developing country benefits go to just eight countries: Brazil, Argentina, China, India, Thailand, Vietnam, Mexico, and Turkey.

Where Did All the Benefits Go?

What happened to the vast gains of just two years ago? One thing the World Bank researchers seem to have done well, or at least better than they had earlier, is to find ways to bring their abstract models a few steps closer to reality. Results should still be taken with a healthy dose of salt, mainly because they rest on a very shaky set of assumptions. For example, most of these computable general equilibrium models assume full or fixed employment, i.e., no gains or losses in overall employment within any country. Workers are assumed to find new jobs in expanding sectors. That keeps most of the models in equilibrium, but makes their findings particularly unstable.

Benefits of a 'likely' Doha Round Scenario			
	Beneficiary Region		
WELFARE GAIN	High-income	Developing	World
Total amounts, in US\$ billions	80	16	96
Per capita, in US\$ per person/per annum	79.04	3.13	15.67
Percentage of gross national product (GDP)	0.24%	0.16%	0.23%

Source: Anderson, K. and Martin, W. "Agricultural Trade Reform and the Doha Development Agenda," *World Economy*, September 2005, Table 10, p. 1319; authors' calculations.

Continued on page 4

Still, this year's models, based on the recently updated GTAP Version 6 database, made several notable improvements. They updated the 'base year' from 1997 to 2001, while notably bringing China's liberalisation, and accession to the WTO, into the base as a reform already achieved. Not surprisingly, China's gains accounted for a significant proportion of developing country gains in the earlier modelling, though most results were reported as if all developing countries stood equally to gain from an ambitious WTO agreement. The new versions of the models also incorporated the European Union's expansion, the expiration of the Agreement on Textiles and Clothing, and more detailed data on applied versus bound tariffs, including the effect of trade preferences and regional trade agreements. The result is demonstrably closer to the realities of today's global economy.

Therein lies the problem for those seeking to generate numbers that will motivate developing country negotiators to come to Hong Kong ready to make concessions in order to capture the gains from trade. Those gains, quite simply, have largely vanished. In fact, they were mostly never there to begin with. True, this year's lower projections are partially the result of liberalisation that took place since 1997. In that sense, the world has simply already realised many of the gains from trade embodied in the pre-Cancun projections.

Calculating the Costs

The World Bank study identifies only the potential benefits. But what are the costs? What do developing country governments have to give up to get their coveted market access? Many of the proposals in agriculture, services, intellectual property, and non-agricultural market access will squeeze the ability of nations to deploy effective development strategies. Such a loss of policy space will not only be *legally* constraining, but will come at significant *economic* cost as well.

Key among those costs will be the administrative costs of complying with new rules, and the welfare losses of such rules. Other World Bank studies have shown that the costs of implementing just the WTO agreements on SPS, Customs and TRIPS are US\$130 million annually for the average developing country. Scaled to the entire developing world that's US\$4.4 billion in losses per year.

TRIPS also generates large welfare losses for developing countries by raising the price of patented goods. World Bank estimates of the amount of South-to-North profit transfers vary immensely, but conservative estimates suggest that the annual transfers are US\$41 billion annually. The actual welfare losses can be as much as six times the transfer costs.

While presentations of modelling results exhibit the 'net' benefits, they rarely highlight the losers from trade liberalisation. For the Doha Round, among the losers are governments. Current proposals would result in large tariff revenue losses for developing countries, where tariff revenues are an important source of funds for development, accounting for twenty percent of government revenue. According to UNCTAD, tariff revenue losses could be as high as US\$60 billion for the developing world.

These costs are rarely considered in the debates over trade liberalisation, but for developing countries they are significant. As we can see, they dwarf the potential gains of just US\$16 billion now projected by the World Bank. Those projections certainly make clear why so many negotiators are resisting the continued call for trade liberalisation: they have little or nothing to gain and possibly much to lose.

Timothy A. Wise is deputy director of the Global Development and Environment Institute (GDAE), Tufts University. Kevin P. Gallagher is a professor at Boston University and senior researcher at GDAE. For a detailed analysis of the new modelling projections, see Frank Ackerman, 'The Shrinking Gains from Trade: A Critical Assessment of the Doha Round Projections' GDAE Working Paper No. 05-01, October 2005. For a detailed analysis of the 'costs' of the Doha Round see Kevin P. Gallagher (editor). 2005. 'Putting Development First: The Importance of Policy Space at the WTO'. ZED Books.

ENDNOTES

¹ World Bank Trade Note 23, June 2005. *Agricultural Market Access: The Key to Doha Success*.

According to new research carried out by the Carnegie Endowment for International Peace, the total global real income gain under a plausible Doha Round liberalisation scenario would be US\$59 billion.

- Developed countries would share a US\$5.5 billion real income gain from agricultural liberalisation while developing countries as a whole would lose US\$63 million. The greatest global gains would come from liberalising trade in industrial products, with US\$23 billion going to developing countries and US\$30.2 billion to developed countries.
- Brazil would gain the most – US\$358 million in real income growth and a 0.6 percent increase of world market share – from a likely agricultural liberalisation scenario, while China stands to lose the most (US\$294 million).
- With the liberalisation of manufactured goods, China's real income is projected to grow by nearly US\$15 billion, India's by US\$3.1 billion and Vietnam's US\$2.4 billion. For most other developing countries, real income gains would vary between US\$2.3 billion (rest of ASEAN) and US\$266 million (Mexico). South Africa would gain US\$340 million, while East Africa's loss would amount to US\$30 million and that of the rest of Sub-Saharan Africa to US\$120 million.
- In terms of all trade, China would increase its share of the world export market by 0.35 percent, India by 0.09 percent, and the rest of ASEAN and Brazil by 0.4 percent.

The full findings of the global general equilibrium model will be available at www.carnegieendowment.org/trade in late January 2006.