Doha's Hidden Price Tag

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Much of the discussion of the Doha Round's development impact has centered on the potential benefits of the round, but relatively less attention has been paid to the potential costs.

When projections of gains from trade are presented to policy-makers, many of the underlying assumptions are left out of the discussion. A key assumption in the modeling exercises of the Doha benefits is that that governments' fiscal balances are fixed –in other words any losses in tariff revenue are offset by lump sum taxes. While there is evidence that shifting from trade to consumption taxes are better for welfare, in the real world such taxation schemes cost enormous amounts of political capital and in some cases may not even be possible. Indeed, it has been shown that tariffs may be preferable in developing countries with large informal sectors that cannot be taxed efficiently.

The World Bank estimates that the benefits from a 'likely' outcome of the Doha negotiations will be approximately US$96 billion, with 70 percent of the gains going to developed countries. Developing country gains are projected to be approximately US$16 billion, and amount to less than a penny-a-day per capita, less than 0.2 percent of GDP (see table below).[1] These small gains go a long way in explaining why there is a lack of urgency on the part of developing countries to finish the round as it is currently constructed.

Using the same model as the World Bank, UNCTAD has published estimates of projected tariff revenue losses under the NAMA negotiations of the Doha Round for a 'Swiss formula' scenario, which resembles the likely Doha outcome with a coefficient of 10 for developing countries. These tariff revenue losses are shown with the World Bank benefit projections for the world and various regions and countries in the table below.

Many developing countries rely on tariffs for more than a 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 South Centre, in the Dominican Republic, Guinea, Madagascar, Sierra Leone, Swaziland and Uganda tariff revenues represent more than 40 percent of all government revenue.

As the table below shows, tariff revenue losses will be significant and even outweigh the benefits in some cases. Indeed, at US$63.4 billion, the total of such losses for developing countries under NAMA could be almost four times the benefit. Africa, the Middle East and Bangladesh – areas with large informal economies and where tariff revenues are key for government revenues – are predicted to be net losers in terms of benefits, as well as to suffer even larger losses in tariff revenues.

In this table only in Brazil are the benefits larger than the losses. However, while Brazil may gain US$3.6 billion, it will still lose US$3.1 billion in tariff revenue. This is also predicted to result in increased competition from imports for the country's heavy industry. Such competition will be coupled with significant urban job losses in those industries. Although there may be modest job creation in Brazil's soy country, few of the displaced workers are likely to move to the countryside. What's more, the Brazilian government will be hard-pressed to tax the leftover benefits that will flow to soy agribusiness to compensate industrial workers for their losses.

In a recent issue of *Foreign Affairs*, Jagdish Bhagwati commented that the more attention needed to be paid to adjusting to tariff revenue losses in developing countries: "If poor countries dependent on tariff revenues for social spending risk losing that income through tariff cuts, 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."[2] At present, however, even the most ambitious aid-for-trade packages come nowhere near filling the gap in lost tariff revenue predicted by UNCTAD.

WTO Members and international economic institutions agreed to make Doha a development round, yet the likely deal will yield small benefits and high adjustment costs for many developing countries. Putting development back in the round is the most important agenda item when negotiators meet in April. If this does not occur, no deal may be better than the one on the table.

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Doha Benefits vs NAMA Tariff Losses[3]

Country or Region	Likely Benefits (US$ 2001 billions)	NAMA Tariff Losses (US$ 2001 billions)
Developed	79.9	38.0
Developing	16.1	63.4
Selected Developing Regions		
Middle East and North Africa	-0.6	7.0
Sub-Saharan Africa	0.4	1.7
Latin America and the Caribbean	7.9	10.7
Selected Countries		
Brazil	3.6	3.1
India	2.2	7.9
Mexico	-0.9	0.4
Bangladesh	-0.1	0.04

ENDNOTES

[1] New research by the Carnegie Endowment for International Peace using similar modeling exercises puts the potential gains to developing countries at US$21.5 billion.

[2] See Jagdish Bhagwati, 'From Seattle to Hong Kong', *Foreign Affairs*, December 2005

[3] Source for 'Doha Benefits': Kym Anderson and William Martin et al. 2005. *Agriculture Trade Reform and the Doha Development Agenda*. Washington DC, the World Bank; source for 'NAMA Tariff Losses': Santiago Fernandez de Cordoba and David Vanzetti. 2005. *Now What? Searching for a Solution in WTO Industrial Tariff Negotiations. Coping with Trade Reforms*. UNCTAD