

BALANCE OF PAYMENTS

Getting Real On Trade

In the weeks ahead, *CongressDaily* will be filled with accounts of tactical negotiating changes in the runup to the World Trade Organization's meeting in Hong Kong in mid-December.

The editorial pages of the *New York Times* and *Wall Street Journal* will pontificate on the economic benefits of more open markets.

And the Bush administration, various trade-promoting business coalitions and economists who have imbibed the Kool-aid of free-trade orthodoxy will attempt to convince Congress that the future well-being of the United States and the world at large depends on successfully completing the Doha Round.

But the benefits being claimed from trade liberalization have been grossly exaggerated, according to a new study: "The Shrinking Gains from Trade: A Critical Assessment of Doha Round Projections," by Frank Ackerman, a senior researcher at the Global Development and Environment Institute of Tufts University. Using new World Bank computer models, some not yet published, Ackerman claims that the round is far from the economic panacea its boosters assert.

"Free trade is better than no trade," Ackerman noted. "And it used to be that the argument for free trade could be made on the basis of raw numbers. But not any more. You have to do a harder job of looking at the trade liberalization process piece by piece and what works and what doesn't."

In the days ahead, as Europe, the United States and the developing world bicker over how much to cut farm support or industrial tariffs, this new evidence of the truncated benefits from the Doha Round might help explain why many countries are increasingly leery of the negotiating concessions they are being asked to make for what might prove to be a pig in a poke.

In advance of the WTO's last, abortive gathering in Cancun, Mexico, in 2003, free-trade advocates hyped the meeting by trumpeting a World Bank estimate of \$832 billion in potential economic benefits if the Doha Round would lead to the removal of all trade barriers.

That headline-grabbing figure conveniently obscured the fact that complete liberalization was never the round's goal.

Moreover, the World Bank's estimate was based on mid-1990s data and did not adequately incorporate the pace of ongoing reductions in trade barriers, benefits that would accrue to the world economy whether the Doha Round succeeded or failed.

Now, two years later, the World Bank's own estimate of the benefit of a "likely" Doha outcome is a paltry \$96 billion, one-eighth of the previous figure, according to the World Bank's own forthcoming book, "Putting Development Back into the Doha Agenda: Poverty Impacts of a WTO Agreement." The payoff for the United States is a mere \$4.9 billion. And even these figures assume negotiating concessions that countries have yet to make.

If, as some economists contend, Doha Round trade liberalization stimulates added productivity gains because of increased foreign investment and use of new

technologies, the benefits do increase, but only to \$110 billion for the whole world.

These dramatically lower projections are attributable to a more realistic assessment of what is possible in the Doha Round, to the use of up-to-date data and to the fact that, thanks to the ending of textile and apparel quotas and China's joining the WTO, the world today has less protectionism left to lose, so there are smaller benefits available from each new incremental liberalization.

The payoff from a realistic outcome in the Doha Round works out to only \$79 per person in rich countries -- \$0.22 per day -- and \$3 per person in poor countries, less than a penny a day. Moreover, these limited benefits would be unevenly distributed, with 83 percent accruing to people in rich countries and only 17 percent to the poor.

As a result, the World Bank's likely Doha outcome would lift only 6.2 million people above the \$2 per day poverty line. And Mexico, Bangladesh, the Middle East and much of Africa are likely to be net losers under this scenario, according to Ackerman.

Don't get me wrong. To adapt Winston Churchill's adage on democracy, free trade is the worst type of economics, except for managed trade, protectionism and all the other forms of commerce that have been tried to date and failed.

And the greatest benefit from more open markets -- the intensified competition that spurs innovation -- might be impossible to measure. The world will be better off if the Doha Round succeeds. Lifting even 6 million people out of poverty is certainly worth the effort.

Nevertheless, if public policy is not to devolve into the realm of theology, where belief trumps evidence, then as Congress is asked to rubber stamp changes in U.S. farm policy and cuts in U.S. tariffs, it needs to be far less gullible and far more demanding in its assessment of the promised benefits of the Doha Round.

By Bruce Stokes