

Economic outlook: Falling expectations for H.K. trade talks

By Mark Drajem and Simon Kennedy Bloomberg News

MONDAY, DECEMBER 12, 2005

WASHINGTON President George W. Bush is talking up the benefits of a world trade agreement just as economists who made those projections are cutting them back.

Trade negotiators meet in Hong Kong this week to work on the outline of an agreement that Bush, citing World Bank research, said last month would lift as many as 300 million people out of poverty and raise incomes in developed nations. The British prime minister, Tony Blair, referred to similar estimates in his annual foreign policy speech in London last month.

Meanwhile, the World Bank - which two years ago forecast an \$800 billion-a-year boost to the global economy from the elimination of trade barriers - says much of that potential benefit has since been lost. The bank now expects \$96 billion from the current round of talks, with only a fraction of that flowing to the poorest nations.

Such declining expectations may make it difficult to get any agreement in Hong Kong.

"People are getting buffaloeed," said Timothy Wise of Tufts University in Medford, Massachusetts, the co-author of a paper last month on declining economic assessments of the trade talks.

"One of the reasons there is so little enthusiasm for an agreement now is that there is so little to be gained," added Wise, deputy director of the Tufts Global Development and Environment Institute.

The Hong Kong talks are part of a round of negotiations initiated in Doha, Qatar, in 2001, aimed at helping developing countries by cutting agricultural subsidies and tariffs in the United States, Japan and Europe.

Even the minimal benefits that the World Bank now expects may evaporate if the European Union succeeds in exempting some agricultural items from the most drastic tariff reductions, according to researchers at the bank, which is based in Washington.

"We're not going to see full liberalization, and it's not going to be easy to even get actual cuts in tariffs," said Will Martin, lead economist in the bank's trade group.

Economists say lower tariffs and agricultural subsidies in rich nations would help developing countries, which have the greatest reliance on farming, to compete. Agriculture accounts for 35 percent of Ghana's economy, for example, compared with 4 percent of France's.

Negotiators from the 149 members of the World Trade Organization will also work on proposals to cut industrial tariffs and establish rules allowing foreign investment in government contracts, banking, insurance and other service industries.

Negotiations have stalled as Brazil, Australia and the United States complain that the EU has fallen short in its offer to reduce agricultural tariffs. Without new concessions from Europe, the talks are unlikely to progress, the U.S. trade representative Rob Portman has said.

"Hong Kong won't push the trade agenda down the road much and will have little effect on growth," said Jens Nagel, head of foreign trade at BGA, a group that represents 135,000 German wholesalers and exporters.

Trade accounts for around 25 percent of the world economy, up from 20 percent a decade ago, calculates Stephen Roach, chief economist at Morgan Stanley in New York.

"Trade liberalization is a plus for global growth, no question about it," Roach said. Between 1987 and 2003, trade generated a third of the increase in global growth, up from 17 percent in the prior 12 years. Global merchandise exports have more than doubled, to \$9.15 trillion, in the decade since the completion of the last WTO agreement, the Uruguay Round, according to WTO data.

Economists say negotiations are not heading toward the result once imagined, for these reasons: First, the United States and the EU only propose trimming, not eliminating, their expenditures on farm subsidies; second, the poorest nations are not being forced to cut most of their tariffs; and third, countries have room to offer reductions in the caps on their duties and subsidies while leaving untouched the tariffs and subsidies actually in effect.

Last year, William Cline, an economist at the Institute for International Economics in Washington, said the poorest nations could gain \$100 billion a year if the United States, the EU and Japan ended protective farm policies. Global free trade would lift 500 million people out of poverty within 15 years, he predicted. Now, Cline says an agreement is likely to bring only a fraction of those gains.

Even so, Cline and other economists say a trade agreement, however limited, is still worth pursuing.

Mark Drajem reported from Washington and Simon Kennedy from Paris.