

Financial Times
April 15, 2006

No deal may be better than Doha deal on the table

By Kevin Gallagher

Sir, Your editorial assessment of why global trade negotiations are "in the doldrums" ("Doha in the doldrums", April 6) misses the fact that the projected gains of the deal on the table are minuscule and that they will be accompanied by significant costs. In such a light, it becomes clear why many developing country governments have lost their sense of urgency about the Doha round.

When projections of gains from trade are presented to policymakers, many of the underlying assumptions are left out of the discussion. A key assumption in the modelling exercises of the Doha benefits is that that governments' fiscal balances are fixed - in other words any losses in tariff revenue are automatically offset by lump sum taxes.

While there is evidence that shifting from trade to consumption taxes is 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.

Projections of the economic benefits of the deal on the table range from \$6.7bn to \$20.5bn for developing countries - or less than a penny a day per head. In contrast, Unctad, the United Nations Conference on Trade and Development, has published estimates of projected tariff revenue losses under the manufacturing negotiations.

Total tariff losses for developing countries could be \$63.4bn or three to 10 times the benefit. 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.

In a recent issue of *Foreign Affairs*, Jagdish Bhagwati commented that more attention needed to be paid to adjusting to tariff revenue losses in developing countries: "If poor countries that are dependent on tariff revenues for social spending risk losing those revenues by cutting tariffs, 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."

At present even the most ambitious "aid-for-trade" packages come nowhere near filling the gap in lost tariff revenue predicted by Unctad. World Trade Organisation 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 developing countries.

Putting development back in the round is the most important agenda item when negotiators meet this month. If this does not occur, no deal may be better than the one on the table.

Kevin P. Gallagher,
Department of International Relations,
Boston University,
Boston, MA 02215, US