

World Bank Reconsiders Trade's Benefits to Poor

By Paul Blustein

Washington Post Staff Writer

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As thousands of trade diplomats meeting in Hong Kong this week struggle to break an impasse over a global trade agreement, some surprising new economic research threatens to throw a fresh damper on their efforts.

In a recently released book, the World Bank says that the potential benefits for the world's poor of a far-reaching trade deal "are significantly lower" than it had previously thought.

The bank has long served as a source of authority for claims -- by commentators, public officials and others -- that the ongoing trade negotiations, known as the Doha round, could lift multitudes of people out of poverty. The scaling back of the bank's projections is noteworthy, and comes at a sensitive time, as the Hong Kong meeting of the World Trade Organization remains stalled due to fierce disputes among the WTO's 149 member nations.

The bank estimated three years ago that freeing international trade of all barriers and subsidies would lift 320 million people above the \$2 a day poverty line by 2015. Now, however, bank economists project the figure at between 66 million and 95 million people. And even that assumes the WTO negotiators would completely abolish tariffs, quotas and other obstacles to commerce -- a fanciful scenario, calculated only to show what a maximum deal would produce.

Assuming a more plausible outcome in which the WTO members agree to some deep cuts in tariffs and subsidies while stopping short of pure free trade, the reduction in the number of people below the \$2-a-day line by 2015 would be only about 6.2 million to 12.1 million people, the bank now reckons. That is less than 1 percent of the people living below the line.

"This is a windfall for anti-globalists," said William R. Cline, a scholar at the Center for Global Development. "They can say even the World Bank doesn't think free trade would do much for reducing poverty."

Cline's study, published last year, projected that full trade liberalization would lead to significant increases in income for developing countries, with roughly 440 million people rising out of poverty. Although some critics have attacked his work, Cline is sticking by his estimates and said he is perplexed that the World Bank, given its influence, is now using assumptions that he regards as excessively conservative.

Whatever the merits of the arguments, free-trade skeptics are indeed seizing on the World Bank's new figures to question the value of the Doha round.

"On the eve of the WTO's Hong Kong ministerial, the so-called gains from trade seem to have evaporated," said Timothy A. Wise, deputy director of the Global Development and Environment Institute at Tufts University. "There are very good reasons why the [WTO] talks have lost momentum. For most countries, there is very little development left in them."

World Bank officials take issue with such conclusions, arguing that their new figures still support the case for negotiators to strike an ambitious deal because that will generate much greater gains for the poor than a modest compromise.

"While it's important not to oversell the impact, it's hard to think of any single measure that countries could take collectively that would have a more significant effect on poverty than a successful Doha round," said Richard S. Newfarmer, an economic adviser in the bank's trade department.

But L. Alan Winters, the bank's director of research, conceded: "Are some of these [new] numbers small? Clearly, smaller than one would wish."

Questions about the impact of free trade on poverty are especially important because the Doha round, named for the Qatari capital where it was launched in 2001, was supposed to give developing countries a greater share of the benefits from world trade.

Agriculture tends to dominate the poorest economies of Africa, Latin America and Asia. So much of the negotiations have revolved around proposals for lowering barriers to trade in farm products, and curtailing the subsidies that rich nations pay their farmers to grow cotton, corn and other crops. Such subsidies can lead to gluts and depressed world prices that put farmers in poor lands at a disadvantage.

Trouble is, not all developing countries have identical interests. For agricultural powerhouses such as Brazil and Argentina, sweeping reforms of global farm policies could prove a bonanza. But that isn't necessarily the case for poor countries that import a lot of food; cutting rich-country subsidies could raise the cost of feeding their populations.

Moreover, some developing countries already enjoy virtually unrestricted access to U.S. and European markets under special trading arrangements. One example is Mexico, which ships goods duty-free to the United States under NAFTA. The lower Washington drops its barriers to all WTO member countries, the more Mexico's competitors could gain sales in the U.S. market at Mexico's expense.

The new World Bank estimates consider those factors more than the old ones did, and they are also based on more recent information. The old projections, based on a 1997 model of the global economy, did not take account some important developments, notably China's entry into the WTO in 2001.

The bank is also using more conservative assumptions than it used previously about how additional trade enhances a country's economic growth. Furthermore, bank officials note, their projections are for the year 2015, and they assume that for a variety of reasons unrelated to trade, the number of people below the poverty line will have shrunk by then -- leaving fewer people who might be lifted over the line because of trade. Calculating the effects of a trade deal using the current number of impoverished people rather than the number forecast for 2015, the estimated poverty reduction is much larger.

"To some extent, these are just thought experiments," Winters said.

Even so, the contrast with the previous thought experiments is stark.

The bank now projects that eliminating government interference in trade flows would add about \$287 billion to the global economy by 2015 (or \$461 billion, using more generous growth assumptions), with a bit less than one-third of that going to developing countries. That translates into a 0.7 percent gain in economic output for rich countries, and a 1.5 percent boost for poor countries. Some countries -- Mexico, Bangladesh, Cameroon and Mozambique among them -- would come out losers, at least in early years, a

problem the bank contends could be addressed through aid aimed at helping them improve their export capacity.

The \$287 billion figure pales beside the \$832 billion global gain that the bank was projecting as recently as 2003. "What a difference two years makes," wrote Frank Ackerman, a Tufts colleague of Wise, in a recently published paper.