Are There Large New Gains from Trade?

Kevin P. Gallagher and Timothy A. Wise

Each time trade ministers gather, economists seem to offer new projections of how much wealthier the world might be after liberalising trade. One recent study has created a stir by suggesting US$300–US$700 billion in potential global welfare gains from an ambitious Doha deal.

These figures contrast with the World Bank's widely publicised 2005 estimates of global gains from a 'likely Doha scenario' of less than US$100 billion, with just US$16 billion going to developing countries. So, have economists found another US$150-$350 billion in benefits for developing countries that the World Bank missed in 2005? Is development back in the Doha Round? The answer, of course, is no. We examine the recent economic projections, review previous estimates, and put these seemingly large numbers in their proper context.

Larger Gains, Larger Assumptions

Entitled *What's on the Table? The Doha Round as of August 2009*, the study by the Peterson Institute for International Economics reminds us why trade negotiators have grown so sceptical of pre-ministerial press releases from economists claiming large benefits for developing countries if those countries would only give more at the negotiating table. It suggests that the potential gains from a Doha deal could be as high as US$300 billion to US$700 billion annually. Moreover, and contrary to previous modelling estimates, the authors claim the benefits are "well balanced between developed and developing countries."[1]

Recent statements by the Obama administration and other developed country governments suggest that the developed world will not re-engage in global trade negotiations unless there is more market access for them. *What's on the Table* attempts to model what some of those developed country demands could yield, at least under a generous set of assumptions.

How do Peterson researchers get such large numbers? The authors model four scenarios and sum them. One of those scenarios has been on the Doha table for a number of years – a modest swap of reductions in developed country tariffs and subsidies in agriculture for a reduction in manufacturing tariffs in developing countries. The estimates derived by the Peterson Institute for this Agriculture and NAMA scenario are similar to those found in other studies: the total gains are small and developed countries receive twice the benefits (66 percent) that developing countries do (34 percent). According to the report, total global income would experience a one-time bump of US$114 billion, or 0.2 percent of GDP.

As the World Bank did before them, the Peterson researchers turn this apparent bias against developing countries into a supposed advantage by noting that, as a share of GDP, the gains to developing countries are higher than the gains to rich countries. This allows them to argue that, in the long run, inequality between rich and poor countries will decrease. While this is true, developing countries have repeatedly pointed out that absolute gains so heavily in favour of rich countries do not meet the basic Doha goal of development. They also note that even if gains as a share of GDP slightly favour developing countries, gains per person are embarrassingly skewed toward rich countries – US$75 for the rich, US$7.50 for the poor. (In the earlier World Bank projections, the per capita gains to rich countries were US$79.04, compared to just US$3.13 for developing countries.)

Agriculture and NAMA are, essentially, 'what's on the table' in a meaningful sense. The Peterson Institute gets larger estimates by assuming agreement on relatively ambitious proposals in additional areas, namely services, so-called sectorals and trade facilitation. The authors admit in their concluding paragraph that this "represents optimistic thinking on our part." Indeed it does.

In services, the Peterson study finds another US$100 billion in income gains. It assumes a 10-percent reduction in services barriers to get that number, despite an admission that "given current offers, a 10-percent reduction or even a 5-percent reduction in barriers seems optimistic." The authors also admit that the methodology for estimating services liberalisation is imprecise. In fact, most modellers of global trade recognise that modelling services is very much in its infancy and "have been problematic at best."

Indeed, the World Bank in its earlier work modelled services liberalisation and concluded that the results were too 'highly speculative' to publish with their Doha projections. The Bank got a much smaller estimate than Peterson – just US$24 billion in estimated gains, with only US$7 billion going to developing countries. Peterson, with an admitted 'dose of wishful thinking', gets US$100 billion in gains to add to agriculture and NAMA.

The wishful thinking continues with assumed sectoral liberalisation agreements in chemicals, IT and electronic goods, and environmental goods. These essentially involve especially deep tariff cuts in targeted manufacturing industries by developing countries. Such negotiations were supposed to be voluntary for developing countries, but recent US proposals have in effect conditioned US agreement on the participation of key developing countries in such deals. Developing countries have resisted in principle and though some are participating in preliminary discussions, breakthroughs in these three sectors seem very unlikely. Calling their scenario 'optimistic but plausible', Peterson researchers come up with a further US$104 billion in gains – the majority of which accrue to developed countries.

This brings the Peterson total over US$300 billion. This is still only 0.6 percent of global GDP, and the majority of the gains go to rich countries. Peterson finds an additional US$385 billion in gains from trade facilitation – making the administrative, transport and technical logistics of trade more efficient. This is undeniably an area of considerable interest to developing countries.

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The estimates rely on a methodology developed by other researchers that assumes that developing countries make significant progress in improving port efficiency, customs, regulations and services infrastructure (e.g. information technologies). But agreeing to make such improvements is not the same as making them, and it cannot be achieved at the negotiating table in the same way tariffs can be slashed. Trade facilitation takes real investment. Developing countries would need years of significant and sustained investment in infrastructure, technology and human capital in order to realise the benefits estimated in the Peterson study. And they would need far more resources than are currently included in Aid for Trade packages. Peterson is, in effect, assuming agreement *and* assuming the financing to make it all happen. No wonder the authors caution that "these numbers should be taken with a tablespoon of salt as this method is less rigorous than methods used in other sections of this paper."

For the Peterson Institute, this all adds up to GDP gains between US$300 billion and US$700 billion annually, which are "well balanced between developed and developing countries." Our conclusions from a closer analysis of this study are that:

- The gains from 'what's on the table' (agriculture and NAMA) are of the same order of magnitude as previous studies, about US$100 billion, with the vast majority going to rich countries.
- The new estimates for services, sectorals and trade facilitation are highly speculative, use methodologies that are unproven, and assume far more ambitious outcomes than seem at all likely at this point.
- The claims of 'balance' are unfounded, as developing countries receive less half of the gains from any of the individual scenarios and only 31 percent of the total income gains from the combined scenarios.

Small Gains, Real Costs

The more realistic and sobering estimates are still the World Bank's 2005 projections of gains from a 'likely' Doha deal. The Bank estimated that the global gains in the year 2015 would be just US$96 billion, with only US$16 billion going to the developing world. In other words, the developing country benefits represent a one-time increase in income of just 0.16 percent of GDP. This is often misconstrued as an increase in the annual growth rate; it is a one-time increase in GDP. In per capita terms, it amounts to US$3.13, or less than a penny per day per capita for those in developing countries.

This would mean that just 6.2 million people would be brought above the US$2/day poverty threshold, 0.3 percent of those living in poverty worldwide. Adding the Bank's services estimates – US$24 billion overall with US$7 billion for developing countries – does not improve the outlook very much.

As we have pointed out before, the biggest shortcoming of these studies is that they examine only the potential benefits of immediate trade liberalisation, while downplaying the costs. The table below shows the World Bank's estimated gains for selected countries and regions along with estimates of tariff losses and projected impacts on terms of trade, i.e. the ratio of export to import prices.

Total tariff losses for developing countries under proposed NAMA liberalisation were estimated to be as high as US$63.4 billion. Most models ignore these losses, assuming that any loss of government revenue can be replaced by broad-based consumption taxes, certainly a questionable assumption. Many developing countries rely on tariffs for more than one-quarter of their tax revenue. A new study by the International Labour Organisation and the WTO shows that liberalisation under the current negotiations would cause a sharp initial increase in informal work in developing countries, making taxation even more difficult.

Most models also predict declines in terms of trade for developing countries. In the long run, declining terms of trade undermine developing country efforts to diversify and develop. In the wake of the current crisis, they also can accentuate balance of payments problems in developing countries and deepen the impacts of crises.

Doha's Hidden Price Tag:
Doha Benefits vs NAMA Tariff Losses, Terms of Trade Losses
(billions of 2001 US$)

	WB 'likely' scenario*	NAMA tariff losses**	Terms of trade (%)***
Developed countries	79.9	-38.0	-0.12%
Developing countries	16.1	-63.4	-0.74%
Selected developing regions			
Middle East and North Africa	-0.6	-7.0	-1.32%
Sub-Saharan Africa	0.4	-1.7	-0.83%
Latin Am. and the Caribbean	7.9	-10.7	-1.12%
Selected countries			
Brazil	3.6	-3.1	-0.18%
India	2.2	-7.9	-1.62%
Mexico	-0.9	-0.4	-0.48%
Bangladesh	-0.1	-0.04	-0.58%

* Anderson and Martin. 2005. *Agricultural Trade Reform and the Doha Development Agenda*. Table 12.14: seminar 7
** De Cordoba and Vanzetti. 2005. *Coping with Trade Reforms*. UNCTAD. Table 11
*** Polaski, Sandra. 2006. *Winners and Losers: Impact of the Doha Round on Developing Countries*. Carnegie Endowment. Table 3.4

Lofty new projections aside, development has yet to find its way back to the WTO agenda. This is unfortunate. The organising principle for revived global trade negotiations needs to be a recognition that the world economy consists of nations at widely differing levels of development. Developing countries need the policy space to retain, adapt and evolve the kinds of government measures that have been proven to work for development in the west and in other developing countries.

Kevin P. Gallagher is a professor of international relations at Boston University and a Senior Researcher at the Global Development and Environment Institute at Tufts University. Timothy A. Wise is the Director of Policy Research at the Global Development and Environment Institute, Tufts University.

ENDNOTE

[1] Adler, M.; Brunel, C.; Hufbauer, G. and Schott, J. 2009. *What's on the Table? The Doha Round as of August 2009*. Peterson Institute for International Economics. Washington D.C.