

# Doha Round's Development Impacts: Shrinking Gains and Real Costs

At the 2003 Cancun ministerial of the WTO, Eveline Herfkens, former World Bank executive director and current executive coordinator for the UN's Millennium Development Goals, had this to say, "A pro-poor Doha Round could increase global income by as much as US \$520 billion and lift an additional 144 million people out of poverty. This is why so many hundreds of us come together today."

What a difference two years makes. In 2003, as trade negotiators approached the Cancun WTO meetings, World Bank projections promised \$832 billion in estimated gains from global trade liberalization, the majority – \$539 billion – going to the developing world. These seemingly robust numbers were cited far and wide, by developing country negotiators and NGOs alike, in their clarion call for deep liberalization.

Now, on the eve of the WTO's Hong Kong ministerial, the so-called gains from trade seem to have evaporated. New projections, from the same World Bank sources, estimate potential welfare gains at just \$287 billion – just one-third their level two years ago. Developing country gains dropped to just \$90 billion, a "loss" in two years of over 80 per cent. More discouraging still, developing countries' share of global gains has fallen from about 60 per cent to just 31 per cent, hardly a good advertisement for this so-called "development round" of global trade talks.

More dismaying, these figures are for a scenario of full global trade liberalization, with

the admittedly unrealistic assumption that all tariffs and trade-distorting support are completely eliminated. The same report includes projections for a "likely Doha scenario" of partial liberalization, reforms that presently appear ambitious in light of the current deadlocks in negotiations. What can we expect from this more realistic scenario? Global gains of just \$96 billion, with only \$16 billion going to the entire developing world. *That is less than a penny-a-day per capita for those living in developing countries.*

Not surprisingly, the poverty impacts have vanished with the income. The Cancun promise of bringing 144 million people out of poverty has been devalued to 66 million in the full-liberalization scenario. The researchers' "likely Doha scenario" brings the number to a sobering 6.2 million people, a reduction of well under one percent – 0.3 per cent – in the number of people living on less than \$2 a day.

A great deal of attention is being placed on the agriculture part of the negotiations. Indeed, most of gains come from agriculture, but a bigger piece of a much smaller pie will not feed the hungry. Developing country gains from "likely" agricultural reforms, amount to less than 0.1 per cent of GDP, just \$9 billion. Likely gains from Northern subsidy reduction are projected at barely \$1 billion.

The model projections now show a disproportionate share of the benefits going to high-income countries. In the full-liberalization

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This policy brief has been prepared by Mr. Timothy A. Wise, Deputy Director of the Global Development and Environment Institute (GDAE), Tufts University and Dr. Kevin P. Gallagher, Professor at Boston University and Senior Researcher at GDAE.



scenario, rich countries, with their bigger economies, get more than twice the income gain in dollar terms, and more than ten times the gain per capita. In the “likely Doha scenario,” rich countries capture nearly twice the percentage gain in GDP, five times the dollar gain, and a remarkable 25 times the developing country gain per capita.

Popular presentations of the World Bank’s research leave out the most important findings: the numbers themselves. And the numbers paint their own stark picture of the limited gains from trade (see Table 1). Developing countries would see less than a penny-a-day per capita, with an income gain of just \$16 billion, or 0.16 per cent of GDP.

In fact, the picture is far worse if one puts these numbers in their proper context:

- Trade liberalization brings a one-time increase in GDP, not an increase in growth rates.
- The World Bank’s model phases in these gains between the base year of 2001 and the end year of 2015. The gains are for 2015, ten years from now. Spread the gains over ten years, and the numbers shrink to complete insignificance – barely one-hundredth of a percent of GDP. For someone making \$100 per month, that would amount to a fourteen-cent raise in monthly salary after ten years.
- Half of the developing country benefits go to just eight countries: Brazil, Argentina, China, India, Thailand, Vietnam, Mexico, and Turkey.

## Where did all the benefits go?

What happened to the vast gains of just two years ago? One thing the World Bank researchers seem to have done well, or at least better than they had earlier, is to find ways to bring their abstract models a few steps closer to reality. Results should still be taken with a healthy dose of salt, mainly because they rest on a very shaky set of assumptions. For example, most of these computable general equilibrium models assume full or fixed employment, i.e., no gains or losses in overall employment within any country. Workers are assumed to find new jobs in expanding sectors. That’s what keeps most of the models in equilibrium, but it makes their findings particularly unstable.

Still, this year’s models, based on the recently updated GTAP Version 6 database, made several notable improvements. They updated their “base year” from 1997 to 2001, while notably bringing China’s liberalization, and accession to the WTO, into the base as a reform already achieved. Not surprisingly, China’s gains accounted for a significant proportion of developing country gains in the earlier modeling, though most results were reported as if all developing countries stood equally to gain from an ambitious WTO agreement. The new versions of the models also incorporated the European Union’s expansion, the expiration of the Multi-Fiber Agreement, and more detailed data on applied versus bound tariffs, including the effect of trade preferences and regional trade agreements. The result is demonstrably closer to the realities of today’s global economy.

Therein lies the problem for those seeking to generate numbers that will motivate developing country negotiators to come to Hong Kong ready

**Table 1. Benefits of “likely” Doha Round scenario**

	<i>Beneficiary region</i>		
	high-income	developing	world
<b>Welfare Gain</b>			
Total amounts, billions of dollars	80	16	96
Per capita, dollars per person	\$79.04	\$3.13	\$15.67
Percentage of GDP	0.24%	0.14%	0.23%

Source: Anderson, K. and W. Martin, “Agricultural Trade Reform and the Doha Development Agenda,” *World Economy*, September 2005, Table 10, p. 1319; authors’ calculations.

to make concessions in order to capture the gains from trade. Those gains, quite simply, have largely vanished. In fact, they were mostly never there to begin with. True, this year's lower projections are partially the result of liberalization that took place since 1997. In that sense, the world has simply already realized many of the gains from trade embodied in the pre-Cancún projections.

### Calculating the Costs

The World Bank study identifies only the potential benefits. But what are the costs? What do developing country governments have to give up to get their coveted market access? Many of the proposals in agriculture, services, intellectual property, and non-agricultural market access will squeeze the ability of nations to deploy effective development strategies. Such a loss of policy space will not only be *legally* constraining, but will come at significant *economic* cost as well.

Key among those costs will be the administrative costs of complying with new rules, and the welfare losses of such rules. Other World Bank studies have shown that the administrative costs of implementing just three WTO agreements (SPS, Customs, and TRIPS) are \$130 million annually for the average developing country. Scaled to the entire developing world that's \$4.4 billion in losses per year.

TRIPS also generates large welfare losses for developing countries by raising the price of patented goods. The World Bank estimates of

the amount of South-to-North profit transfers vary immensely, but conservative estimates suggest that the annual transfers are \$ 41 billion annually. The actual welfare losses can be as much as six times the transfer costs.

While presentations of modeling results exhibit the “net” benefits, they rarely emphasize the losers from trade liberalization. For the Doha Round, among the losers are governments. Current Doha proposals will also result in large tariff revenue losses for developing countries. Tariff revenues are an important source of funds for development—accounting for twenty percent of government revenue in developing countries. According to UNCTAD, tariff revenue losses could be as high as \$60 billion for the developing world.

There are also benefits that could accrue to the developing world if the developed world would agree to negotiate. Other World Bank studies have shown that the potential benefits of the liberalization for low-skilled workers under the GATS could range between \$150 billion and \$300 billion on an annual basis.

These costs are rarely considered in the debates over trade liberalization, but for developing countries they are significant. As we can see, they dwarf the potential gains of just \$16 billion now projected by the World Bank. Those projections certainly make clear why so many negotiators are resisting the continued call for trade liberalization: they have little or nothing to gain and possibly much to lose.

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For a detailed analysis of the new modeling projections, see Frank Ackerman, “The Shrinking Gains from Trade: A Critical Assessment of the Doha Round Projections,” Tufts University, GDAE Working Paper No. 05-01, October 2005: <http://www.ase.tufts.edu/gdae/Pubs/wp/05-01ShrinkingGains.pdf>

For a detailed analysis of the “costs” of the Doha Round see Kevin P. Gallagher (editor) “Putting Development First: The Importance of Policy Space at the WTO.” ZED Books. [http://ase.tufts.edu/gdae/publications/other\\_books/PuttingDevelopmentFirst.htm](http://ase.tufts.edu/gdae/publications/other_books/PuttingDevelopmentFirst.htm)

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**RIS**  
Research and Information System  
for Developing Countries

Core IV-B, Fourth Floor  
India Habitat Centre  
Lodhi Road, New Delhi-110 003, India.  
Ph. 91-11-24682177-80  
Fax: 91-11-24682173-74-75  
Email: [dgoffice@ris.org.in](mailto:dgoffice@ris.org.in)  
Websites: <http://www.ris.org.in>  
<http://www.newasiaforum.org>