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Recalibrating expectations

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World Trade Organization Director General Pascal Lamy called last month for "recalibrating expectations" about what can be accomplished at the upcoming WTO ministerial in Hong Kong. But more is needed than lowering expectations for reducing tariffs and subsidies. The whole premise that trade liberalization is the main driver of development is also in need of urgent recalibrating.

After ten years of the WTO, economists are far from agreed on the anticipated benefits of trade liberalization. On October 16 in Hong Kong, Lamy cited a University of Michigan econometric study that projected $574 billion in welfare gains that would result from the removal of tariffs and subsidies in the Doha Round negotiations. These projected gains recall exuberant World Bank numbers of just two years ago—$500 billion was the most frequently invoked number used to convince developing country negotiators at the Cancún ministerial in 2003 to trade away tariff protection for food security crops in exchange for market access opportunities for their exporters.

Now, using updated data and refined computer modeling assumptions, the latest World Bank studies project much reduced global gains of $287 billion by 2015, and that only if politically improbable liberalization objectives are met. A different World Bank study projects only $84 billion in benefits, about two thirds of which would come from agricultural trade liberalization.

Under the circumstances, it is irresponsible of trade officials to convey the impression that the impact of multilateral trade liberalization on poverty reduction will be significant. Assuming an equitable distribution of the presumed benefits of trade liberalization, a recent study by Frank Ackerman of Tufts University points out that the most optimistic World Bank projections would deliver developing countries only, "$17 per person per year, or almost $.05 per person per day."

Even these much reduced numbers do not take into account the devastating effects in such countries as Malawi and Ghana of unilateral liberalization and privatization, which were required by the World Bank and the International Monetary Fund as a policy condition of receiving loans. A 2005 study by Christian Aid estimates $272 billion in damages suffered in sub-Saharan Africa alone during the past 20 years as a result of forced liberalization. If the costs of this kind of trade related damage were to be added to the estimated benefits of the Doha Round, then the net result of liberalization policies on poverty reduction would compute as negative numbers for many developing countries.

Of course bad economic performance in the past does not predict that the future performance of multilateral trade liberalization will be as bad or worse. To get a more realistic assessment of whether the Doha Round points to a better future, interested parties, especially least-developed country (LDC) WTO members, are reviewing the Bank and Fund's trade-related technical assistance packages.

Technical assistance loans and grants to LDCs not only come with a lot of policy strings attached: they do not come close to meeting the costs of converting market access opportunities into capacity to meet technical, food safety and other market entry requirements. For example, a recent UN Conference on

Trade and Development study estimated that the start-up costs for Mozambique to meet just food safety and plant health requirements for tropical fruit exports would be $9.3 million—while one World Bank "Aid for Trade" credit window has a $1 million per country ceiling. Indeed, most LDC members of the WTO do not have the money needed even to assess the costs to set up infrastructure needed to comply with agricultural market entry requirements.

For many WTO members, the World Bank and IMF offer the only credit window available to them, so taking their policy advice is an unavoidable cost of doing business. But some countries are not willing to accept the World Bank's and IMF's terms. In October, LDCs rejected the terms of the "Aid for Trade" program because of the low level of aid and the large number of policy conditions attached to that aid. Several LDCs have proposed that they not be required to comply with their WTO commitments until they have the infrastructural capacity in place to do so. Rich-country members rejected this proposal and the WTO negotiating group on trade facilitation remains deadlocked.

Given the downward (though still optimistic) revisions of the anticipated benefits of trade liberalization for most developing countries and the huge shortfall in financing trade infrastructure for the majority of WTO members, the relation of trade to development needs to be reframed conceptually and institutionally. The Hong Kong ministerial should be used to reconsider what a real development agenda would look like. ▣

For more information, visit iatp.org. Frank Ackerman's report, "The Shrinking Gains from Trade: A Critical Assessment of Doha Round Projections," can be downloaded at http://ase.tufts.edu/gdae/pubs/wp/05-01ShrinkingGains.pdf.

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