



No Fast Track to Global Poverty Reduction

By Timothy A. Wise and Kevin P. Gallagher*

The March 31 deadline for the Bush Administration to submit a World Trade Organization agreement to Congress under its current “fast track” trade promotion authority has passed, with talks still stalled over agricultural issues. Yet hope is not lost, to listen to trade negotiators and congressional sources.

Congressional Democrats have been quietly negotiating with the Bush Administration to achieve a bipartisan consensus on trade, one that can move forward not only the Doha negotiations but the range of bilateral trade deals – Colombia, Peru, Panama, and now South Korea. Some in the new Democratic majority have urged the Bush Administration to incorporate worker protections, environmental provisions, and greater flexibility on intellectual property, particularly in the case of pharmaceuticals. Like the trade negotiators, they report progress toward such a consensus, but the details remain somewhat of a mystery.

Meanwhile, to read some of the public pronouncements, WTO negotiations are picking up momentum, with ongoing formal and informal talks among the four countries that have emerged as lead negotiators – the United States, European Union, Brazil, and India. Though little concrete progress is reported on the many issues that have prevented agreement up to now, U.S. Trade Representative Susan Schwab and her counterparts urge us not to lower the Doha flags to half-mast just yet.

The WTO’s Doha negotiations remain the big prize, and even some congressional Democrats skeptical of the bilateral agreements seem willing to consider extending fast track authority beyond its current June 30, 2007, deadline if it will get a Doha deal done. They cite the importance of fostering multilateral initiatives, and they recall the Doha mandate to make this a “development round” of negotiations that fosters economic development for the world’s

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poorest countries and contributes to reducing global poverty. When the round was launched in 2001, a new trade deal was considered crucial to achieving the international community's Millennium Development Goal of halving poverty by 2015.

Congress should think twice before extending fast track authority to achieve a new WTO agreement. Most evidence suggests that the emerging set of tariff and subsidy reductions will have little impact on global poverty; according to the World Bank, the number of people living on less than a dollar-a-day will decline by less than one-half of one percent with a Doha deal. More worrisome, some the world's poorest nations may end up worse off, while some of the poorest people – small farmers – lose ground even in countries the World Bank predicts will gain from an agreement. Finally, the costs of liberalization to poor countries, particularly in lost tariff revenue on which they depend for key government services, make the new WTO agreement anything but friendly to development and poverty reduction.

The Poverty of the Doha Round

Given the proliferation of lofty rhetoric about Doha and poverty reduction, the public can be excused for thinking this agreement is all about poverty. As recently as 2003, at the Cancún, Mexico, WTO negotiations, former World Bank executive Eveline Herfkens stated, "A pro-poor Doha Round could increase global income by as much as \$520 billion and lift an additional 144 million people out of poverty. This is why so many hundreds of us come together today."¹

Table 1: Doha's Limited Poverty Impact
Projected Drop in \$1/day Poverty from "Likely Doha" Deal

	Baseline millions	Decrease millions	Decrease %
East Asia & Pacific	19	0.3	1.6%
Latin Am. & Caribbean	43	0.4	0.9%
South Asia	216	1.4	0.6%
Sub-Saharan Africa	340	0.5	0.1%
All Developing Countries	622	2.5	0.4%

Source: World Bank, Agricultural Trade Reform and the Doha Development Agenda, chapter 12, Table 12.19, p. 382, column 5, Doha scenario 7 for 2015.

It turns out Ms. Herfkens was using World Bank projections that, by the Hong Kong ministerial meeting of December 2005, would be considered exaggerated and obsolete. Based on old data and the entirely unrealistic assumption of full global liberalization – the elimination of all tariffs, subsidies, and other trade distorting measures by all countries – the Bank got a very large number.

Just two years later, though, the data and modeling had gotten much better, and the poverty-reduction numbers had not. In fact,

these more realistic estimates had shrunk to near-insignificance. With better data and a policy scenario more closely aligned to the kinds of partial reforms actually being considered by negotiators, Bank researchers projected that the current round of negotiations promised to lift not 144 million of the world's 622 million poorest people out of poverty, but just 2.5 million.²

That is a reduction of less than one-half of one percent in the number of people living on less than one dollar per day. In Sub-Saharan Africa, just 500,000 people out of 340 million poor would move out of extreme poverty with a successful negotiation, barely one-tenth of one percent. Moreover, as many have pointed out, moving from \$1.00/day to \$1.10/day might get you above the world's current standard for extreme poverty, but it certainly doesn't get you out of poverty.

Gains from Trade: Shrinking and Unequal

What happened to the WTO's promise to help halve global poverty by 2015? The poverty projections declined along with the projected "welfare gains" from the economic models used to predict the outcomes of trade-policy changes. The new projections from the World Bank

highlighted the shrinking gains from trade for poor countries.

With their new data and improved modeling, the projected global gains from full trade liberalization fell from \$832 billion to just \$287 billion. The developing country share dropped from \$539 to \$90 billion, underscoring the ways in which the so-called Development Round was shaping up to be anything but.³ Most useful, though, was the Bank's modeling of partial reform under a "likely Doha scenario." Based on assumed cuts to agricultural subsidies and tariffs as well as industrial tariff reductions – reforms that now seem ambitious – Bank researchers projected income improvements of just \$96 billion for the world community in 2015. Of that, \$80 billion would go to rich countries, leaving just \$16 billion in gains for the large majority who live in the developing world.

Billions always sound like a lot of money, but these are paltry sums by any reasonable measure. The developing-country share is less than the annual U.S. food stamp budget. It amounts to less than a penny-a-day per person. It is a 0.16 percent one-time gain that would marginally boost income a decade from now.

How small is that?

If you were a typical poverty-level farmer or worker in the developing world making \$100 per month (roughly \$4 per day to support your family), your gains from a successful WTO negotiation would be a raise of sixteen cents a month – \$100.16. It is no wonder the World Bank finds such meager reductions in poverty.

Following negotiations supposedly focused on developing country needs, rich countries are projected to receive an embarrassing 25 times the per-capita gains of developing countries. That's right: we get \$79 each a year, they get \$3.

And that is just the average. A small number of large countries – Brazil, Argentina, China, India, and a few others – capture the bulk of the projected gains for developing countries. Sub-Saharan Africa would get almost nothing. Bangladesh would end up worse off.

Not surprisingly, those projected to lose under Doha are some of the poorest parts of the world outside of China and India. The World Bank's "likely Doha scenario" counts among the "losers" Bangladesh, Vietnam, the Middle East and North Africa, and Sub-Saharan Africa (not counting South Africa).

And unfortunately even in those countries projected by the Bank to be winners under the agreement, many poor segments of society will lose. India, for example, may see modest gains in some manufacturing and service industries, but its poorest farmers stand to lose.

Subsequent studies have predicted even more dire impacts for the poorest countries. The Carnegie Endowment for International Peace, using more realistic modeling assumptions, released a report shortly after the 2005 Hong Kong ministerial that projected even worse prospects for Bangladesh, East Africa, and Sub-Saharan Africa.⁴ They project China to be by far the biggest developing-country winner from a Doha deal, capturing nearly half of the still-small gains from a Doha agreement. That could lead to poverty reductions in China, where many of the world's poor live, but the authors point out that these losing countries are home to more of the world's desperately poor (267 million) and nearly as many of the "very poor," with 486 million living on less than \$2/day.

Hidden Costs

Much of the discussion of the Doha Round's development impact has centered on the potential benefits of the round, but less attention has been paid to the costs. Important costs are, in effect, assumed away in the economic modeling.

In particular, tariff losses for developing countries could outweigh the benefits by a factor of four. 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, sometimes accounting for more than 40 percent of all government revenue.

Table 2: Doha's Hidden Price Tag
Doha Benefits vs. NAMA Tariff Losses
(billions of 2001 US dollars)

	WB "likely" Scenario*	NAMA Tariff Losses**
Developed Countries	79.9	38.0
Developing Countries	16.1	63.4
Selected developing regions		
Middle East and North Africa	-0.6	7.0
Sub-Saharan Africa	0.4	1.7
Latin Am. and the Caribbean	7.9	10.7
Selected countries		
Brazil	3.6	3.1
India	2.2	7.9
Mexico	-0.9	0.4
Bangladesh	-0.1	0.04

* Anderson and Martin (2005), *Agricultural Trade Reform and the Doha Development Agenda*. Table 12.14; scenario 7.

** De Cordoba and Vanzetti (2005). *Coping with Trade Reforms*. UNCTAD. Table 11.

Using the same model as the World Bank, UNCTAD projected tariff revenue losses under the proposed reduction levels in the ongoing negotiations over industrial tariffs (NAMA).⁵ These tariff revenue losses for the world and selected regions and countries are shown in Table 2 compared to the World Bank benefit projections.⁶

Total tariff losses for developing countries under the NAMA could be \$63.4 billion, four times the World Bank's projected gains from Doha. Africa, the Middle East, and Bangladesh—areas with large informal economies and where tariffs are key for government revenues—are projected to suffer additional losses from tariff revenues. It is unrealistic to think that these cash-strapped governments could make up those losses with new taxes.

These losses are not reported in discussions of the gains from trade because they are assumed away in the modeling exercises. A key assumption in

most models is that governments' fiscal balances are fixed—in other words any losses in tariff revenue are offset by lump sum taxes. In the real world such taxation costs political capital and in some cases may not even be possible.

In a recent issue of *Foreign Affairs*, pro-free-trade economist Jagdish Bhagwati commented that more attention needed to be paid to this issue:

“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 this gap in lost tariff revenue.

The Need for Special Treatment

The Doha mandate was explicit in its call for “special and differentiated treatment” for developing countries, recognizing that the rich countries that have benefited the most under the current trade rules must offer significantly greater concessions, while allowing flexibility to developing countries. Thus far, this commitment has taken the form primarily of exempting the so-called “least developed” countries from any tariff cuts and allowing slightly lower tariff reductions from other developing countries.⁷

Agriculture negotiations now present the greatest source of conflict and concern for developing countries. The United States and European Union have balked at calls to reduce

significantly their “trade-distorting” agricultural supports. At the same time, U.S. negotiators have taken an aggressive stance toward one of Doha’s most significant pro-development planks – the right to protect rural livelihoods and food security by designating key food crops as “special products” exempt from most liberalization.

For countries with large numbers of small farmers, liberalization could flood their markets with cheap, subsidized imports, rapidly displacing farmers at a time when alternative employment in other parts of the economy has not been created. Mexico experienced precisely this problem under NAFTA, provoking a surge in both legal and illegal migration to the United States, the one market where jobs – not mostly good jobs by U.S. standards – were being created.

Despite tacit agreement early in the negotiations that developing countries would be able to designate at least four percent – and perhaps as much as 20 percent – of their hundreds of agricultural tariff lines as special products, based on a set of agreed indicators, U.S. negotiators shocked the WTO membership by proposing an SP limit of just five tariff lines.

Indonesia, which leads a group of over 40 countries with large numbers of subsistence farmers, has pointed out that such a limit would not even cover all types of rice – an important and sensitive product for many developing countries – let alone all crops crucial to the livelihoods of small farmers. The so-called G33 has countered with a proposal to allow 20 percent SP exemption, as long as products meet the criteria, such as the percentage of employment in a given crop, significant dependence of the poor on its consumption, or its sensitivity to import competition from subsidized crops from rich countries.

World Bank modelers caused a stir when they released a report claiming to show that such protections in these countries would make the poor worse off, principally by raising food prices for non-farmers.⁸ The study’s methodology was immediately called into question, and the G33 issued a rebuttal, saying Bank researchers were trying to undercut legitimate and agreed-upon claims for special and differentiated treatment.⁹

In fact, some evidence suggests that the costs of extending special product protection to developing countries would be very small. The Carnegie Endowment projected that even exempting 100 percent of developing country agricultural products from tariff cuts caused projected losses to other countries of under \$1 billion. Failure to protect sensitive food sectors, on the other hand, can have very high costs. Again, Mexico’s unbridled liberalization of its maize sector stands as a warning to any developing country with a large number of small farmers producing staple food crops for domestic consumption.

The Fast Track to Underdevelopment

The Doha agreement currently being negotiated fails to make good on the commitment to, as the Doha Declaration states, place developing countries’ “needs and interests at the heart of the Work Programme adopted in this declaration.” That would mean recognizing in practice the need for “special and differentiated treatment” for developing countries, to leave them the policy tools to industrialize and develop. It would mean accepting developing-country proposals to let countries exempt sensitive food crops such as rice, maize, and wheat from liberalization. In the Doha negotiations, developing countries have put forward many creative proposals to address these problems; they have been routinely ignored.¹⁰

Extending the President’s trade promotion authority to complete an agreement so hostile to true economic development and so ineffectual in reducing global poverty would be a sad mistake. New global trade rules are needed to better regulate an increasingly integrated world economy dominated by large multinational firms. The United States would be better

served by a full debate over its approach to trade and the WTO, and ultimately by policies that strengthen the U.S. economy by increasing the buying power – and welfare – of the world’s poorest residents.

¹ “A Doha Scorecard: Will Rich Countries Once Again Leave Developing Countries as Beggars at the Feast?” Speech by Eveline Herfkens, WTO Ministerial Cancun 2003.

² Anderson, Martin, and van der Mensbrugghe, “Market and Welfare Implications of Doha Reform Scenarios,” in *Agricultural Trade Reform and the Doha Development Agenda*, Anderson and Martin, World Bank 2005. The principal improvements in the more recent modeling include: an updating of the base year from 1997 to 2001; China’s liberalization as an accomplished fact rather than a prospective gain from the negotiations; incorporating existing trade preferences; and using applied rather than bound tariff rates. Many still question the usefulness of such models for policy analysis; for a critical review, see Ackerman, Frank, “The Shrinking Gains from Trade: A Critical Assessment of the Doha Round Projections,” GDAE Working Paper No. 05-01, October 2005.

³ Even projections that include services liberalization yield only an additional \$6.9 billion for the developing world in a likely scenario of fifty percent reduction in services trade barriers. See Francois, J., H. van Meijl and F. van Tongeren (2003). “Trade Liberalization and Developing Countries Under the Doha Round.” Tinbergen Institute Discussion Paper 2003-060/2. Rotterdam and Amsterdam, Tinbergen Institute.

⁴ Polaski, *Winners and Losers: Impact of the Doha Round on Developing Countries*, CEIP 2006.

⁵ UNCTAD uses the so-called Swiss Formula with approximate coefficient of 10.

⁶ While the projected gains from Doha are not directly comparable to the loss of tariff revenues, both are relevant to developing country policy-makers as they evaluate a proposed agreement. We highlight the lost tariff revenues because the losses are obscured in the modeling exercise.

⁷ The value of this exemption has been called into question. See, for example, “The WTO’s Empty Hong Kong ‘Development Package’: How the World Trade Organization’s 97% Duty-Free Proposal Could Leave Poor Countries Worse Off,” ActionAid and Public Citizen, June 2006. <http://www.citizen.org/publications/release.cfm?ID=7471&secID=1185&catID=126>

⁸ Maros Ivanic and Will Martin, “Potential Implications of Agricultural Special Products for Poverty in Low-Income Countries,” World Bank, 2006. See also “Why Isn’t the Doha Development Agenda More Poverty-Friendly,” Thomas Hertel et al., GTAP Working Paper No. 37, February 18, 2007.

⁹ The G33 rebuttal is available at: <http://www.tradeobservatory.org/library.cfm?refID=96511>. Some researchers (e.g. Ackerman, see note above) argue that the models used for such analyses have a built-in bias that exaggerates the consumer gains from trade liberalization compared to producer losses.

¹⁰ For a good summary of those proposals, see: Gibbon, Peter. (2007), “Africa, Tropical Commodity Policy and the WTO Doha Round,” *Development Policy Review*, 25(1), 43-70.

Additional GDAE Resources:

Doha Round Projections Analysis:

- "The Hong Kong Ministerial: What's at Stake for the Poor?" By Timothy A. Wise and Kevin P. Gallagher, *Bridges Trade Monthly*, December 2005.
<http://www.ase.tufts.edu/gdae/Pubs/rp/BRIDGES9-10.pdf>
- "The Shrinking Gains from Trade: A Critical Assessment of Doha Round Projections," by Frank Ackerman, *GDAE Working Paper No. 05-01*, October 2005.
<http://www.ase.tufts.edu/gdae/Pubs/wp/05-01ShrinkingGains.pdf>
- "Doha Round and Developing Countries: Will the Doha deal do more harm than good?" by Timothy A. Wise and Kevin P. Gallagher, *RIS Policy Brief #22*, April 2006.
<http://www.ase.tufts.edu/gdae/Pubs/rp/DohaRIS2Apr06.pdf>

"Measuring the Cost of Lost Policy Space at the WTO," Americas Program, International Relations Center, March 20, 2007.

http://www.ase.tufts.edu/gdae/policy_research/AmerProgWTOMar07.pdf

Putting Development First: The Importance of Policy Space in the WTO and IFIs, edited by Kevin P. Gallagher, Zed Books, 2005.

http://www.ase.tufts.edu/gdae/policy_research/PuttingDevelopmentFirst.htm

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