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## **Of Course WTO Talks Are Stalled: A Decade of Results Show the Model has Failed Even Explicit Promises of Increased Growth and Decreased Poverty, Yet Agenda for Current Talks Is Just More of the Same with Very Limited Possible Gains for Any and Projected Net Losses for many Countries...**

### **I. Conclusive Data Show that a Decade of WTO Implementation Has Left the Majority in Worse Conditions in Poor and Rich Countries Alike**

- **Poverty on the rise during WTO decade.** The number and percentage of people living on less than \$1 a day (the World Bank definition of extreme poverty) in regions with some of the worst forms of poverty – Sub-Saharan Africa and the Middle East – have increased since the WTO went into effect, while the number and percentage of people living on less than \$2 a day has gone up in the same time for these regions, as well as for Latin America and the Caribbean. The number of people living in poverty has gone up for South Asia, while the rate of reduction in poverty has slowed nearly worldwide – especially when one excludes China, where huge reductions in poverty have been accomplished, but not by following WTO-approved policies given that China only became a WTO member in 2001.<sup>1</sup>
- **U.S. \$700 billion trade deficit threatens global economic stability as imports boom amidst three million U.S. manufacturing job loss and stagnant real wages in WTO decade.** During the WTO era, the U.S. trade deficit has risen to historic levels (nearing \$700 billion) and approaches six percent of national income – a figure widely agreed to be unsustainable, putting the U.S. and global economy at risk.<sup>2</sup> Soaring U.S. imports during the WTO decade have contributed to the loss of nearly one in six U.S. manufacturing jobs.<sup>3</sup> U.S. real median wages have scarcely risen above their 1970 level, while productivity has soared 82 percent over the same period, resulting in declining or stagnant standards of living for the nearly 70 percent of the U.S. population that does not have a college degree.<sup>4</sup>
- **Gap between rich and poor widens worldwide during WTO decade.** Instead of generating income convergence between rich and poor nations, as WTO proponents predicted, the 1990s corporate globalization era exacerbated income inequality between industrial and developing countries, as well as between rich and poor within many nations. According to one United Nations study, “in almost all developing countries that have undertaken rapid trade liberalization, wage inequality has increased, most often in the context of declining industrial employment of unskilled workers and large absolute falls in their real wages, on the order of 20-30% in Latin American countries.”<sup>5</sup> According to another, the richest 5% of the world’s people receive 114 times the income of the poorest 5%, and the richest one percent receives as much as the poorest 57%.<sup>6</sup> This trend is widening over time, not closing, with the 20 richest nations earning per-capita incomes 16 times greater than non-oil producing, less developed countries in 1960, and by 1999 the richest countries earning incomes 35 times higher, signifying a doubling of the income inequality.<sup>7</sup>
- **U.S. inequality up while social conditions worsen during WTO decade.** Meanwhile, during the WTO decade these trends have resulted in U.S. income and wage inequality increasing markedly. In 1995, the top five percent of U.S. households by income made 6.5 times what the poorest 20 percent of households made, while this gap grew by nearly 10 percent by 2003. In wages, the situation was comparable. In 1995, a male worker that ranked at the 95<sup>th</sup> percentile in wages earned 2.68 times what a worker at the 20<sup>th</sup> percentile earned. By 2003, that gap had widened nearly 8 percent.<sup>8</sup> Nearly all economists agree that increased trade has partially driven this widening inequality. One study by the non-partisan Center for Economic and Policy Research found that trade liberalization has cost U.S. workers without college degrees an amount equal to 12.2 percent of their current wages. For a worker earning \$25,000 a year, this loss would be slightly more than \$3,000 per year.<sup>9</sup> William Cline, at the pro-WTO Institute for International

Economics, estimates that about 39 percent of the actually observed increase in wage inequality is attributable to trade trends.<sup>10</sup> The rise in inequality takes place against a backdrop of dire social conditions, where over one in ten people lack health care<sup>11</sup> and nearly one in five children are poor.<sup>12</sup>

- **Displacement and hunger the norm in developing countries after decade of WTO.** According to the Food and Agriculture Organization, “Since the [c. 1990] baseline period, progress [towards reducing hunger] has slowed significantly in Asia and stalled completely worldwide.”<sup>13</sup> Following the decade of the WTO and NAFTA, over 1.3 million Mexican *campesino* farmers were thrown from their land.<sup>14</sup> The agricultural sector, traditionally a major source of employment in Mexico, was devastated by the dumping of U.S. and foreign agricultural products into their markets. Likewise, the Chinese government projects that as many as 500 million of China’s peasants will be made surplus, as the country continues the rapid acceleration of industrial development of its agriculture sector under WTO rules.<sup>15</sup> In country after country, displaced farmers have had little choice but to join swelling urban workforces where the oversupply of labor suppresses wages and exacerbates the politically and socially destabilizing crisis of chronic under- and unemployment in the cities of the developing world.

## **II. The Model Upon Which WTO Is Based Has Proven a Failure, even as Measured Against its Purported Narrow Goal of Increasing Economic Growth**

- **Slowdown in global growth rates under WTO model.** The per-capita income growth rates of developing regions before the period of structural adjustment and WTO liberalization are higher than the growth rates after nations implemented the WTO- International Monetary Fund model – including the WTO’s services, investment, intellectual property and other agreements. For low and middle-income countries, per capita growth between 1980 and 2000 fell to half of that experienced between 1960 and 1980. Latin America’s per-capita GDP grew by 75 percent between 1960 and 1980; however, between 1980 and 2000 – the period during which these countries adopted the package of economic policies required by the WTO and IMF – it grew by only six percent. Even when one takes into account the longer 1980-2005 period, there is no single 25-year window in the history of the continent that was worse in terms of rate of income gains. Sub-Saharan Africa’s per-capita GDP grew by 36 percent between 1960 and 1980 but *declined* by 15 percent between 1980 and 2000. Arab states’ per-capita GDP declined during 1980-2000, after it grew 175 percent during 1960-1980. South Asia, South East Asia and the Pacific all had lower per-capita GDP growth, subsequent to 1980 than in the previous 20 years. (Only in East Asia was this trend not sustained, but only because China’s per-capita GDP quadrupled during this period prior to China joining the WTO).
- **Developing countries that did not adopt the package fared better.** In sharp contrast, nations like China, India, Malaysia and Vietnam, that chose their own economic mechanisms and policies through which to integrate into the world economy had more economic success. These countries had among the highest growth rates in the developing world over the past two decades—despite ignoring the directives of the WTO, IMF or World Bank.<sup>16</sup>
- **The experience of Argentina shows that the model is not necessary – and may even be antithetical – to growth.** From 1998 to 2002, Argentina suffered through a terrible depression. A country that had recently ranked among the highest for living standards in Latin America soon had the majority of the country falling below the poverty line. In December 2001 the government defaulted on \$100 billion of debt, the largest sovereign debt default in history. The currency and the banking system collapsed, and the country sank further into depression. But only for about three more months. Then, to most people’s surprise, the economy began to recover. The recovery began and continued without following the standard prescriptions of the IMF or the dictates of the model enshrined at the WTO. The government was able to chart more of its own economic course, rejecting IMF demands for higher interest rates, increased budget austerity, and utility price increases. The result: a rapid and robust economic recovery, with a remarkable 8.8 percent growth in GDP for 2003 and 9 percent for 2004. With a projected 7.3 percent GDP gain for 2005, Argentina is still the fastest growing economy in Latin America.<sup>17</sup>

## **III. Best Case Scenarios for Doha Talks Would Increase Urban Hunger in Developing Countries, According to pro-WTO World Bank Study**

- **Most developing country consumers would be worse off if current Doha agenda of domestic agricultural subsidy cuts were implemented.** The cuts in domestic agricultural subsidies demanded by major food exporting

countries in the Doha Round – and oddly by some groups claiming to promote the interests of developing countries and the poor – would actually result in net losses for the many developing countries who are net food importers, according to the World Bank study.<sup>18</sup> This is because agricultural subsidies lower the world price of agricultural products, and their removal would increase the price paid by urban consumers in developing countries, including the urban poor. While elimination of export subsidies is vital to limit dumping of subsidized food worldwide which destroys local production, major reductions or elimination of domestic subsidies would perversely harm the majority of developing countries who are net food importers by raising food prices. A pro-development mechanism for countering domestic subsidies' promotion of over-production would be to allow developing countries to apply quotas – a tool forbidden by the WTO – so that these countries could import lowered-priced food when they needed to do so, but could choose to safeguard local production from subsidized imports when local production met local needs.

#### **IV. Best Case Scenarios for Doha Talks Would Result in Extremely Small Gains for Some Developing Countries, Net Losses for Many Others, Per pro-WTO World Bank Study**

- **Small and unequal gains (13 cents per day per person globally) found under the World Bank's "complete liberalization" scenario recently cited in press, but "likely scenario" shows *tiny* (4 cents per day) possible gains.** Press report about a recent World Bank study described how \$287 billion *could* be gained by the year 2015 from complete global liberalization of all merchandise trade.<sup>19</sup> While these sums may seem large, in fact as a practical matter they amount to about 5 cents per person per day in the developing world, or about 13 cents per person per day globally. But the foregoing gains assume *complete* liberalization of all merchandise trade. Under what the Bank considers to be "likely Doha scenarios," the gains are much smaller: between \$17.9 billion and \$119.3 billion, or just 0.04 to 0.28 percent of world GDP.<sup>20</sup> According to the Global Development and Environment Institute's analysis of the World Bank study, the *most* likely Doha scenario would yield benefits of only \$16 billion to developing nations and \$96 billion to the world by 2015, meaning the developing nation share of Doha gains would be only about 16%.
- **WTO negotiations may be called "development round," but World Bank study shows majority of possible gains go to rich countries, while just 16 percent to some developing countries.** Under the World Bank's complete liberalization assumptions, only \$86 billion of the \$287 projected gains (or less than 30 percent) would accrue to developing countries.<sup>21</sup> However, the *most* likely Doha scenario the World Bank reviewed would yield benefits of only \$16 billion to developing countries and \$96 billion to the world by 2015, meaning the developing country share of Doha gains would be only about 16 percent. These projections of gains amount to 0.14 percent of projected developing country GDP by that year, or about 0.23 percent of world GDP. Put another way, it is a little less than one cent per person per day to the developing world, or about four cents per person per day to the world as a whole
- **50 percent of World Bank's projected gains for developing countries would go to eight nations, while Middle East, Bangladesh, much of Africa and Mexico are net losers.** As pathetic as the developing country aggregate possible gains may appear, these combined numbers obscure important differences between developing countries: under the likely Doha scenario, the World Bank study found that the Middle East, Bangladesh, much of Africa and (notably) Mexico would be net losers relative to where they are today.<sup>22</sup> Furthermore, 50 percent of the potential benefit for developing countries under the improbable total global trade liberalization would accrue to only eight individual countries, including Argentina, Brazil, China, India, Mexico, Thailand, Turkey and Vietnam.<sup>23</sup>
- **Revenue losses from tariff cuts would swamp tiny projected gains.** Meanwhile, the extremely modest gains the World Bank projects are based on a methodology that ignores many of the losses from the likely Doha Round outcome. For instance, the World Bank study assumes away the revenue losses that would occur if developing nations cut tariffs on imports by simply presuming that these losses would be made up by implementation of new domestic taxes!<sup>24</sup> This is a ridiculous assumption, given on average tariff collection accounts for 14 percent of developing countries' government revenue, and an average of 32 percent for the least developed countries.<sup>25</sup> Moreover, the World Bank study fails to take into consideration the domestic economic effects in developing countries of major tax increases – even if that could be accomplished.<sup>26</sup> Yet, a recent UNCTAD study predicts that the losses in tariff revenue under Doha for developing countries could range between \$32 and \$63 billion annually – or two to four times the \$16 billion in World Bank-projected benefits. For Brazil, tariff losses are projected to be as high as \$3.1 billion – only \$200 million less than the entire projected benefit for Brazil from agricultural product tariff cuts from the talks.<sup>27</sup>

- **Losses from patent protectionism swamp tiny gains.** Perhaps more significantly, the losses of surrendering patents to developed countries under new intellectual property rules are dramatic. CEPR analysis based on World Bank estimates concludes that the cost to developing countries of complying with the WTO's intellectual property requirements would amount to more than two percent of developing country GDP by the year 2015.<sup>28</sup> This easily swamps the 0.14 percent of GDP in gains by 2015 to developing countries under the "likely Doha scenario," pointing out the inappropriateness of terming the current WTO negotiating round a "development round."
- **Poverty reductions extremely minimal under Doha.** Even ignoring the losses of revenue cuts under NAMA and intellectual property South-North transfers, which the World Bank study's methodology does,<sup>29</sup> the prospects for poverty reductions are miniscule. While the press reported the World Bank's news release claim – that as many as 66 million people could be lifted out of poverty under complete global trade liberalization – a review of the actual World Bank study reveals that under the "likely Doha scenario," only 2.5 million people would be lifted out of the \$1 a day poverty level category – meaning that under an estimate of the effects of the likely Doha scenario by the year 2015, the vast majority of the world's population (996 out of every 1,000 poor people) would remain below the extreme poverty line.<sup>30</sup>

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## ENDNOTES

<sup>1</sup> Shaohua Chen and Martin Ravallion, "How Have the World's Poorest Fared since the Early 1980's?" *World Bank Research Observer*, vol. 19, no. 2, 2004, at 152-153.

<sup>2</sup> Nouriel Roubini and Brad Setser, "The U.S. as a Net Debtor: The Sustainability of U.S. External Imbalances," New York University Briefing Paper, Nov. 2004.

<sup>3</sup> This number refers to manufacturing job loss since the most recent manufacturing employment peak in 1998 of 17.6 million, relative to the 2003 number of 14.6 million. See Josh Bivens, Robert Scott, and Christian Weller, "Mending manufacturing: Reversing poor policy decisions is the only way to end current crisis," Economic Policy Institute Briefing Paper #144, Sept. 2003.

<sup>4</sup> Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2004/05*, (Washington, DC: Cornell University Press, 2004), at 154.

<sup>5</sup> UNCTAD, "Least Developed Countries Report 1998," United Nations, 1998, at 3.

<sup>6</sup> UN Development Program, "Human Development Report 2003: Millennium Development Goals: A compact among nations to end human poverty," United Nations, at 39.

<sup>7</sup> UNCTAD, *Least Developed Countries Report 2002*, at 17.

<sup>8</sup> Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2004/05*, (Washington, DC: Cornell University Press, 2004), at 69 and 122.

<sup>9</sup> Dean Baker and Mark Weisbrot, "Will New Trade Gains Make Us Rich? An Assessment Of The Prospective Gains From New Trade Agreements," Center For Economic and Policy Research Briefing Paper, Oct. 3, 2001.

<sup>10</sup> William Cline, *Trade and Income Distribution*, (Washington, D.C.: Institute for International Economics, 1997).

<sup>11</sup> Center on Budget and Policy Priorities, "Number Of Americans Without Insurance Reaches Highest Level On Record," CBPP Brief, Aug. 2004.

<sup>12</sup> Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2004/05*, (Washington, DC: Cornell University Press, 2004), at 319.

<sup>13</sup> Food and Agriculture Organization, "The State of Food Insecurity in the World: 2005," United Nations Report, at 6.

<sup>14</sup> John Audley, Sandra Polaski, Demetrios G. Papademetriou, and Scott Vaughan, "NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere," Carnegie Endowment for International Peace Report, Nov. 19, 2003.

<sup>15</sup> Quote from Wen Tiejun, Director of the Rural Economy Research Center, which is part of the Ministry of Agriculture. See "Chinese farmers face bleak future," *BBC News*, Dec. 14, 2000.

<sup>16</sup> Mark Weisbrot, Dean Baker, Egor Kraev, and Judy Chen, "The Scorecard on Globalization 1980-2000; 20 Years of Diminished Progress," Center for Economic and Policy Research Briefing Paper, July 11, 2001.

<sup>17</sup> Mark Weisbrot, "The IMF Has Lost Its Influence," *International Herald Tribune*, Sept. 23, 2005.

<sup>18</sup> Kym Anderson and Will Martin et. al. "Agricultural Trade Reform and the Doha Development Agenda," World Bank Report, Nov. 1, 2005, Table 2.8, at 52.

<sup>19</sup> Anderson and Martin et. al, Table 12.20, at 384.

<sup>20</sup> Anderson and Martin et. al, Table 1.5, at 14.

<sup>21</sup> Kym Anderson and Will Martin et. al. "Agricultural Trade Reform and the Doha Development Agenda," World Bank Report, Nov. 1, 2005, Table 12.20, at 384.

<sup>22</sup> Ackerman describes the "likely Doha scenario" in the following terms: "The scenario they [the World Bank economists] analyze at greatest length (their Scenario 7) calls for agricultural tariff rate reductions in developed countries of 45, 70, and 75 percent within three bands of existing tariffs, and reductions in developing countries of 35, 40, 50, and 60 percent within four bands of tariffs; the least developed countries are not required to make any reductions in agricultural tariffs. For nonagricultural tariff bindings the scenario calls for 50% cuts in developed countries, 33% in developing countries, and zero in the least developed countries." Frank Ackerman, "The Shrinking Gains from Trade: A Critical Assessment of Doha Round Projections," Global Development and Environment Institute Working Paper No. 05-01, October 2005, at 8 and 9. According to Tim Wise of the Global Development and Environment Institute (GDAE), "The 'likely Doha scenario' also includes the elimination of all export subsidies and reductions in domestic support for agriculture of 75% of bound levels for US, Norway, EU15, and Canada, 60% for all other developed countries, and 40% for developing countries. In other words, all the scenarios start with these assumptions then add in different scenarios for tariff reduction." E-mail communication, Dec. 5, 2005.

<sup>23</sup> As pointed out by the GDAE, "These per capita figures are slight overestimates, since they are ratios of benefits in 2015 to population in 2001; with the larger population expected by 2015, the per capita benefit would be smaller." See Ackerman, footnote 1 at 25; per capita numbers and country-specific numbers at 7.

<sup>24</sup> Example provided by Tim Wise of the GDAE.

<sup>25</sup> Sam Laird, "Opportunities and Challenges in WTO Non-Agricultural Market Access Negotiations," United Nations Conference on Trade and Development PowerPoint Presentation, September 2004, At 7

<sup>26</sup> According to Mark Weisbrot of CEPR, the World Bank's analysis assumes a lump sum tax, i.e. one that does not create additional distortions to the economy. Personal communication, Dec. 5, 2005.

<sup>27</sup> Santiago Fernández De Córdoba and David Vanzetti, "Now What? Searching for a Solution in WTO Industrial Tariff Negotiations; Coping with Trade Reforms," United Nations Conference on Trade and Development, 2005, forthcoming. Example provided by Kevin Gallagher of the GDAE.

<sup>28</sup> World Bank, *Global Economic Prospects and the Developing Countries 2002*. Washington, D.C.: World Bank. Cited in Mark Weisbrot and Dean Baker, "The Relative Impact of Trade Liberalization on Developing Countries," Center for Economic and Policy Research Report, 2002.

<sup>29</sup> According to Mark Weisbrot of CEPR, the World Bank study does not make any new assumptions about the ongoing effect of intellectual property protections on developing country economies. Personal communication, Dec. 5, 2005.

<sup>30</sup> The World Bank estimates that the baseline of people in extreme poverty in 2015 to be 622 million people. Under "scenario 7" described by Ackerman in the footnote above, there would be 2.5 million fewer poor people in 2015. Anderson and Martin et. al, Table 12.19 at 382.