Poorest Nations Hit Hardest by WTO Agenda, Study Finds

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March 15, 2006
Inter-Press Service

WASHINGTON - Developing nations are likely to end up being net losers under the current global trade agenda because they do not have the agricultural or industrial capability to compete with the United States, Japan, Europe or even China, the expected winners, a new study says.

According to "Winners and Losers" by Sandra Polaski, a researcher with the Washington-based Carnegie Endowment for International Peace, the so-called Doha Development Round, which launched the current trade World Trade Organisation talks, will not actually generate development benefits for poor nations as initially promised.

"There are both net winners and net losers under different scenarios, and the poorest countries are among the net losers under all likely Doha scenarios," says the study.

While critics of the 149-member World Trade Organisation (WTO) have long argued the same point, the findings of the report bolster their position even as the world's richest nations aggressively pursue new markets.

The 116-page study is based on unemployment models in developing countries that separate agricultural labour markets from urban unskilled labour markets.

Polaski, a former State Department trade official, worked with a team headed by Zhi Wang, a renowned statistical modeler who also previously worked for the U.S. government. She discussed their conclusions in Washington on Wednesday.

Polaski's main finding is that free trade will produce only modest gains at the global level, on the order of a one-time rise in world income of between 40 to 60 billion dollars, or an increase of less than 0.2 percent of current global gross domestic product (GDP).

The report says that the adjustment costs to which countries expose themselves when they commit to the free trade policies promoted by the industrialised nations could in fact be greater than the benefits.

The Doha Round, so named for a meeting in the capital of Qatar in 2001, has stalled over a number of trade issues, and several meetings since have failed to jumpstart it.

Last December's WTO ministerial meeting in Hong Kong made little progress in many contentious areas. The European Union and Japan have refused to offer significant new market access for agricultural goods, while the United States made its approval for further opening its markets conditional on that of the EU and Japan and of major developing countries, like India and Brazil.

Washington has also resisted reducing trade-distorting domestic agricultural subsidies, a crucial demand for poor nations.

India and Brazil, two key nations in the talks, say they will not be able to unlock trade in manufactured goods and services without concessions from rich nations on agriculture, among other demands.

A mini-ministerial meeting held in Davos, Switzerland in late January and another meeting in London earlier this month both failed to change these negotiating dynamics.

The Carnegie Endowment report says that one of the reasons developing nations are likely to suffer under the proposals currently on the table is that that many of the most economically powerful countries will continue to insist that any agreement must accommodate their interests.

"As a result, the Doha Round will probably achieve only modest changes in any sector," says the study.

It says that at the country level, maximum gains or losses are about one percent of GDP for the most affected economies.

It predicts the biggest winner to be China, with gains ranging from 0.8 to 1.2 percent of GDP under different scenarios.

The biggest losers are many Sub-Saharan African countries, already among the world's poorest, which could actually see a loss in income in the region of one percent.

On the all-important question of agricultural goods, the study finds that because many poor nations are net food importers and rely on low-productivity, small-scale subsistence farming, which is generally not competitive in global markets, the benefits of agricultural trade liberalisation will flow overwhelmingly to rich countries.

Developing countries will also lose relative advantages that now exist under preferential trade deals, the study says.

A few countries could gain in the agricultural arena, notably Brazil, Argentina, and Thailand, but more will suffer small losses from agricultural liberalisation.

The losers include many of the poorest countries in the world, such as Bangladesh and the countries of East Africa. Middle Eastern and North African countries, Vietnam, Mexico and China would also experience losses.

"It is important not to overstate the possible gains from the Doha Round, as has been done by many political leaders, commentators, and activists," recommended the study.

The report, which clearly states that trade is not a panacea for poverty alleviation or for development, says that for the Doha Round to be less destructive, a number of changes should take place.

These include additional measures for the least development countries. In Hong Kong, developed countries agreed to extend duty-free and quota-free market access for most exports of LDCs. But their most competitive products can still be excluded.

The study also suggests that developing countries should require very long phase-in periods and a careful sequencing of sectoral liberalisation measures, to allow for the effect of new trade rules on their less diversified economies.

U.S. Trade Representative Rob Portman responded to the report in a statement saying it leaves out the effect of trade on economic growth.

"One reason welfare benefits are not larger is that gains from trade liberalisation in services are not measured in this study," he said.

"Also, the use of a static rather than dynamic model in this study limits the measurement of net welfare gains because it does not include estimates of the economic growth effects of trade liberalisation." (END/2006)

*****Link to the Carnegie Endowment for International Peace Report:**
http://www.carnegieendowment.org/publications/index.cfm?fa=view&id=18083&prog=zgp&proj=zted