The WTO's Development Crumbs

Timothy A. Wise | January 23, 2006

Conflicts over agriculture once again stalled World Trade Organization negotiations, which took a few halting steps in Hong Kong in December. Rich-country promises to reduce poverty and underdevelopment at the event, which representatives from 149 countries attended, gave way to minor face-saving reforms and a promise to keep talking. Developing countries came to the table, and they walked away with crumbs.

Though the Hong Kong talks did not collapse as they had in previous sessions in Seattle and Cancún, that was the best that could be said for them. Militant protests dogged the talks, with over 1,000 arrested on the next to last day. Many of the protestors were farmers, from South Korea, the Philippines, and other countries, demanding an end to rich country dumping of low-priced grains and respect for each country's "food sovereignty"—the right to apply food policies without WTO interference.

U.S. officials were quick to place the blame for the ongoing stalemate on the European Union for failing to make concessions on farm subsidies. In the end, the EU salvaged the talks by agreeing to eliminate agricultural export subsidies, but not until 2013. The United States gave an inch by pledging to eliminate export subsidies on cotton next year, but left the meetings with no firm commitments to end its other cotton subsidies, which have already been ruled illegal and which West African nations consider far more damaging to their farmers.

The talks will now continue, with an extended deadline of April 30. More concessions are likely, such as limited reductions in farm subsidies and agricultural tariffs by rich countries in exchange for developing countries opening their markets more to foreign manufactured goods and services. Few experts are counting on significant benefits for the world's least developed countries from what is billed as the "Doha Development Round" of trade talks.

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. What happened to that promise?

In part, the free-trade juggernaut has lost momentum because most developing countries have little or nothing to gain from further liberalization, even if rich countries make more significant concessions on their farm support programs. Meanwhile, developing countries have seen their own proposals to address farm issues shoved aside by more powerful nations in the rush to open the world economy.

Shrinking Gains from Trade

New projections from the World Bank highlight the shrinking gains from trade for poor countries. Shortly before the Hong Kong meetings, the World Bank released updated forecasts of the economic benefits from further global trade liberalization. Under a scenario of significant 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 just crumbs from the world economy's table. 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's 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), your gains from a successful WTO negotiation would be a raise of sixteen cents a month — $100.16. Following negotiations that are purportedly 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.

But won't big concessions from developed countries on their protective tariffs and farm subsidies yield large benefits for farmers in developing countries? In Hong Kong, U.S. Trade Representative Rob Portman justified the talks' strong focus on agricultural reforms, invoking bank robber Willie Sutton's oft-quoted line that he robbed banks because "that's where the money is." Isn't agriculture where the WTO money is?

No. Even the world's poorest countries aren't rushing to grab the paltry sums in the WTO's agricultural vault. Sure, the majority of gains are in agriculture, but a bigger share of a tiny pie won't feed the hungry. The World Bank estimates that the most ambitious current proposals for agricultural trade reform would provide just $9 billion for developing countries, just a penny every other day per person.

Selling the Trade Agenda

These meager sums did not stop the World Bank or U.S. trade officials from strengthening their call for deep reforms. Rather than cite the lower, more realistic projections from their model, they cited the World Bank's estimate of $287 billion in potential gains from "full" trade liberalization, a figure that negotiators and the press dutifully reported in their calls for ambitious reforms in Hong Kong.

What's wrong with that estimate? First, it is derived from the entirely unrealistic scenario in which all countries eliminate all tariffs, subsidies, and other trade barriers. While Bank researchers acknowledge the abstraction, they most often present these more encouraging numbers in the lead-up to WTO meetings, even though their lower numbers are more realistic.

Second, $287 billion is still not much of a gain—a one-time gain in 2015 of less than one percent in income for the world economy.

Third, the $287 billion figure hides the embarrassing finding that the majority of the gains—60%—go to rich countries. So much for a "development round."

In other selective presentations of its projections, the World Bank raised alarms that any exemption of agricultural goods as "special and sensitive products" due to their importance to a country's food security, rural development, or farmer livelihoods would wipe out the gains from trade for developing countries. Indeed, their economic models showed just that: The $9 billion in projected developing-country gains from agricultural trade reform would disappear with even modest exemptions for such products.

But developing countries have gotten more sophisticated about such estimates. That's one of the reasons the talks have lost momentum. The exemption for special products, such as rice in the Philippines and other Asian countries, can be a key anti-poverty buffer for the poorest subsistence farmers, by protecting producers from market distortions such as the rampant rich-country dumping of agricultural commodities. If it costs less than a penny-a-day per capita to keep such protections, that is a small price to pay for retaining sovereign control over key food resources.

Getting Serious About Poverty

The obvious conclusion from the World Bank's economic projections is that trade liberalization is likely to contribute very little to reducing world poverty, the supposed goal of the ongoing round of global trade negotiations. Just two years ago in Cancún Bank researchers used their older projections for full trade liberalization to talk encouragingly about trade lifting 144 million people out of poverty. Now, with their revised and more realistic numbers, the Bank projects that just 2.5 million people in the developing world would move above the $1-per-day threshold for extreme poverty, only 0.5 million from agricultural reforms alone.

That's 2.5 million out of 622 million extremely poor people. In Sub-Saharan Africa, just 500,000 people out of 340 million poor would move out of extreme poverty with a successful negotiation, a reduction of well under one percent in 2015.

If the world community takes seriously the goal of halving global poverty by that year, trade will be only a tiny part of the solution.

To have any meaningful impact, rich countries would have to make good on their 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.

For its part, the U.S. government could make an important contribution by simply implementing the standing WTO ruling that its cotton subsidies violate existing rules. West African cotton farmers would see tangible benefits from such measures. Instead, the U.S. has cynically offered compliance with the ruling as a possible concession in exchange for developing country trade openings in manufacturing and services. That is the kind of hypocrisy—"We'll follow the rules we've already agreed to, but only if you give us more"—that undermines Doha progress.

Another reform that could make a difference came from a coalition of African countries, including Kenya, Tanzania, Uganda, and Rwanda. They called for WTO actions to address their most pressing agricultural issue: chronically low and falling prices for farm products. The group has proposed reining in transnational commodity traders and buyers, which squeeze farm profits. They also call for greater international cooperation to manage world production, so prices will stay at reasonable levels.

Those actions, which would remove important distortions from the world economy, could make a significant difference to poor people in commodity-dependent developing countries, but they are nowhere near the center of the official WTO agenda. If they were, maybe we would see more widespread enthusiasm for a Doha agreement.

Instead, as the April deadline for a WTO deal approaches, look for continued exhortations for deeper and faster trade liberalization from the United States and other rich nations, amid hand-wringing about lost opportunities to capture billions of dollars in gains. Expect renewed U.S. pressure to reduce exemptions for key food crops. And look for continued hypocrisy from U.S. officials unwilling to follow the existing trade rules, much less make them fairer for developing countries.

In other words, look for more crumbs for development from the WTO negotiating table.

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