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What You Need to Know About the WTO **Before the Hong Kong Ministerial**

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

- **Poverty rose 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 began operating, while the number and percentage of people living on less than \$2 a day has increased in the same time in these regions, as well as in Latin America and the Caribbean. The number of people living in poverty has increased in South Asia, while the rate of reduction in poverty has slowed in most parts of the world – especially when one excludes China, where huge reductions in poverty have been accomplished, but not by following WTO-approved policies (China became a WTO member only in 2001).¹
- **The United States' \$700 billion trade deficit threatens global economic stability; imports boom, three million U.S. manufacturing jobs have been lost and real wages stagnated since the WTO's inception.** During the WTO era, the U.S. trade deficit has risen to historic levels (nearing \$700 billion) and approaches 6 percent of national income – a figure widely agreed to be unsustainable, putting the U.S. and global economy at risk.² Soaring U.S. imports during the WTO decade have contributed to the loss of nearly one in six U.S. manufacturing jobs.³ 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.⁴
- **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 percent in Latin American countries.”⁵ According to another, the richest 5 percent of the world's people receive 114 times the income of the poorest 5 percent, and the richest 1 percent receives as much as the poorest 57 percent.⁶ This trend is widening over time. In 1960, the 20 richest nations earned per capita incomes 16 times greater than non-oil producing, less developed countries. By 1999, the richest countries earned incomes 35 times higher, signifying a doubling of the income inequality.⁷
- **U.S. inequality up while social conditions worsen during WTO decade.** During the WTO decade, U.S. income and wage inequality has increased markedly. In 1995, the top 5 percent of U.S. households by income made 6.5 times what the poorest 20 percent of households made, and this gap grew by nearly 10 percent by 2003. In wages, the situation was comparable. In 1995, a male worker who ranked in the 95th percentile in wages earned 2.68 times what a worker in the 20th percentile earned. By 2003, that gap had widened nearly 8 percent.⁸ 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 (CEPR) 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.⁹ William Cline, at the pro-WTO Institute for International Economics, estimates that about 39 percent of the observed increase in wage inequality is attributable to trade trends.¹⁰ The rise in inequality takes place against a backdrop of dire social conditions, where more than one in 10 people lack health care¹¹ and nearly one in five children are poor.¹²

- **Displacement and hunger are the norm in developing nations after the WTO decade.** According to the Food and Agriculture Organization, “[s]ince the [1990] baseline period, progress [toward reducing hunger] has slowed significantly in Asia and stalled completely worldwide.”¹³ Following the decade of the WTO and the North American Free Trade Agreement (NAFTA), more than 1.3 million Mexican *campesino* farmers were ejected from their land.¹⁴ The agricultural sector, a traditional source of major Mexican employment, was devastated by the dumping of U.S. and foreign agricultural products after quotas and tariffs were eliminated. Now, the Chinese government projects that as many as 500 million of China’s peasants could see their jobs disappear, as the nation continues the rapid acceleration of industrialization of its agriculture sector under WTO rules.¹⁵ In nation after nation, displaced farmers have had little choice but to join swelling urban workforces where the oversupply of labor suppresses wages, exacerbating the politically and socially destabilizing crisis of chronic under- and unemployment in the developing world’s cities.

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 and International Monetary Fund (IMF) 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 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 6 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 growing 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, which chose their own economic mechanisms and policies through which to integrate into the world economy, had more economic success. These countries had some of the highest growth rates in the developing world over the past two decades – despite ignoring the directives of the WTO, IMF or World Bank.¹⁶
- **The experience of Argentina shows that the WTO model is not necessary – and may even be antithetical – to growth.** From 1998 to 2002, Argentina suffered a terrible depression. The country, which had ranked among the highest for living standards in Latin America, soon saw the majority of the country’s inhabitants fall 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 after about three months, the economy began to recover. The recovery continued without following the standard prescriptions of the IMF or the dictates of the WTO. The government charted 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.¹⁷

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

- **Most consumers in developing countries 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 result in net losses for the many developing countries that are net food importers, according to the World Bank study.¹⁸ 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 limiting the dumping of subsidized food worldwide, which destroys local production, major reductions or elimination of domestic subsidies would harm the majority of developing countries that are net food importers because food prices would be raised. 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 these countries could import lowered-priced food when they needed to 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 found under the World Bank's "complete liberalization" scenario recently cited in press, but "likely scenarios" show much smaller gains.** Press reports about the recent World Bank study described how \$287 billion *could* be gained by the year 2015 from complete global liberalization of all merchandise trade.¹⁹ While these sums may seem large, as a practical matter, they amount to about 13 cents per person per day globally. Further, only \$86 billion (or less than 30 percent) goes to developing countries under this scenario, which amounts to about 5 cents per person per day in the developing world.²⁰ But the foregoing gains assume *complete* liberalization of all merchandise trade. Under what the World 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.²¹
- **WTO negotiations may be called "development round," but World Bank study shows majority of likely Doha gains go to rich countries, while just 16 percent go to some developing countries.** According to the Global Development and Environment Institute's analysis of the World Bank study, the most likely Doha scenario the World Bank reviewed would yield benefits of only \$16 billion for 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 1 cent per person per day to the developing world, or about 4 cents per person per day to the world as a whole.
- **Fifty percent of World Bank's projected gains for developing countries under "complete liberalization" would go to just eight nations, while Middle East, Bangladesh, much of Africa and Mexico would be net losers under likely Doha scenario.** As paltry 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.²² Further, 50 percent of the potential benefit for developing countries under the improbable total global trade liberalization would accrue to only eight individual countries: Argentina, Brazil, China, India, Mexico, Thailand, Turkey and Vietnam.²³
- **Revenue losses from tariff cuts would swamp tiny projected gains.** Meanwhile, the very 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 dismisses the real world problems that would result from revenue

losses that would occur if developing nations cut tariffs on imports; the Bank simply presumes that these losses would be made up by implementation of new domestic taxes!²⁴ This is a ridiculous assumption, given that on average, tariff collection accounts for 14 percent of developing countries' government revenue and an average of 32 percent for the least developed countries.²⁵ 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.²⁶ Yet a recent United Nations Conference on Trade and Development 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.²⁷

- **Losses from patent protectionism swamp tiny gains.** Perhaps more significantly, the losses caused by surrendering patents to developed countries under new intellectual property rules are dramatic. A 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 2 percent of developing country GDP by the year 2015.²⁸ 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 minimal under Doha.** Even ignoring the losses of revenue cuts under Non-Agricultural Market Access and intellectual property South-North transfers, which the World Bank study's methodology does,²⁹ the prospects for poverty reductions are minimal. While the press reported the World Bank's claim that as many as 66 million people could be lifted from poverty under complete global trade liberalization, a review of the World Bank study reveals that under the most 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 of every 1,000 poor people) would remain below the extreme poverty line.³⁰

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ENDNOTES

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- ² 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.
- ³ 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.
- ⁴ Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2004/05*, (Washington, DC: Cornell University Press, 2004), at 154.
- ⁵ UNCTAD, "Least Developed Countries Report 1998," United Nations, 1998, at 3.
- ⁶ UN Development Program, "Human Development Report 2003: Millennium Development Goals: A compact among nations to end human poverty," UN, at 39.
- ⁷ UNCTAD, *Least Developed Countries Report 2002*, at 17.
- ⁸ Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2004/05*, (Washington, DC: Cornell University Press, 2004), at 69 and 122.
- ⁹ 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.
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- ¹¹ Center on Budget and Policy Priorities, "Number Of Americans Without Insurance Reaches Highest Level On Record," CBPP Brief, Aug. 2004.
- ¹² Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2004/05*, (Washington, DC: Cornell University Press, 2004), at 319.
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- ¹⁴ 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.
- ¹⁵ Quote from Wen Tiejun, Dir. of the Rural Economy Research Center, Ministry of Agriculture. See "Chinese farmers face bleak future," *BBC News*, Dec. 14, 2000.
- ¹⁶ 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.
- ¹⁷ Mark Weisbrot, "The IMF Has Lost Its Influence," *International Herald Tribune*, Sept. 23, 2005.
- ¹⁸ 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.
- ¹⁹ Anderson and Martin et. al, Table 12.20, at 384.
- ²⁰ 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.
- ²¹ Anderson and Martin et. al, Table 1.5, at 14.
- ²² 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.
- ²³ As pointed out by the Global Development and Environment Institute at Tufts University, "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.
- ²⁴ Example provided by Tim Wise of the GDAE.
- ²⁵ 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
- ²⁶ 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.
- ²⁷ 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.
- ²⁸ 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.
- ²⁹ 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.
- ³⁰ 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.