Shrinking gains of trade liberalisation

We are often told that trade liberalisation is positive and a win-win situation for developing as well as developed countries. That is why the round of negotiations to lower trade barriers and tariffs (Doha) is called a Development Round. This is then accompanied by economic models that demonstrate these benefits. More recent analysis including of the World Bank, questions the possible gains from further trade liberalization. 80% of the gains appear to have evaporated.

Frank Ackerman, Research Director at the Global Development and Environment Institute at Tufts University, offers a critical review of the new economic modeling results, putting them in context, analyzing the reliability of the models, and explaining why the prospective gains are so low.

The new World Bank projections show:

- 70% of the gains would go to developed countries, up from 40% in 2003;

- a small number of the largest developing countries would capture most of the developing country benefits;

- in a "likely Doha scenario" of reforms, developing country gains amount to less than a penny-a-day per capita;

- poverty impacts are very small, with projected reductions of less than one percent in the number of people living in poverty.

Ackerman concludes:

“For the world's less affluent citizens, for developing countries with many people living on $1 or $2 per day, CGE models of trade liberalization offer a penny per person per day in some variants, and as little as one quarter of a penny from some forecasts of the likely effects of the Doha round. Small wonder, then, that the effects of trade liberalization on global poverty turn out to be much less than originally advertised.”

"The Shrinking Gains from Trade: A Critical Assessment of Doha Round Projections" is available as a GDAE Working Paper at: ase.tufts.edu

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