Policy coherence and agricultural trade liberalization: Lessons for the Doha Round

Excerpted from
Sailing Close to the Wind:
Navigating the Hong Kong WTO Ministerial

A PUBLICATION OF THE INSTITUTE FOR AGRICULTURE AND TRADE POLICY
IATP.ORG

Policy coherence and agricultural trade liberalization: Lessons for the Doha Round

By
Dr. Steve Suppan
Director of Research
IATP

ssuppan@iatp.org

Introduction

According to a World Trade Organization secretariat note in October 2004, the primary objective of cooperation and policy coherence among the WTO, the World Bank and the International Monetary Fund for the Doha Round negotiations is to expand market access opportunities.[62] Agricultural trade liberalization is central to their cooperative initiatives and policy coherence because "poverty is concentrated in rural areas and activities in poor countries," the secretariat writes. The World Bank's econometric modeling studies estimate that "the benefits of global liberalization in agriculture—the elimination of all border restrictions and subsidies—would top $350 billion for the world as a whole. With liberalization, world prices for many commodities would increase: by 10-20 percent for cotton and groundnuts, 20-40 percent for dairy products and sugar, and 33-90 [!] percent for rice."[63]

Such projected price increases may have tempted some developing country trade ministers to heed the advice of World Bank and IMF officials at a November 2004 meeting of the WTO Committee on Agriculture. World Bank and IMF officials recommended that developing countries should abandon their fight for a new special safeguard mechanism and special product designations for food security and rural employment purposes, in exchange for obtaining market access opportunities by lowering tariffs.[64] The World Bank/International Monetary Fund "take-away message" to the negotiators differed little from that of a Cargill executive speaking about the "disappointing" draft Agreement on Agriculture (AoA) synthesized by Ambassador Stuart Harbinson for the WTO ministerial in Cancún: "It offers developing countries a program of 'special and differential treatment' that is largely a series of exceptions to and exemptions from reform. In their own best interests, developing countries should resist this temptation to be excluded from reform. They should insist on disciplining developed country subsidy practices and the least developed countries may deserve longer transition periods. But, developing countries refusing to lower their own market access barriers will prove a prescription for perpetuating poverty, not reducing it."[65]

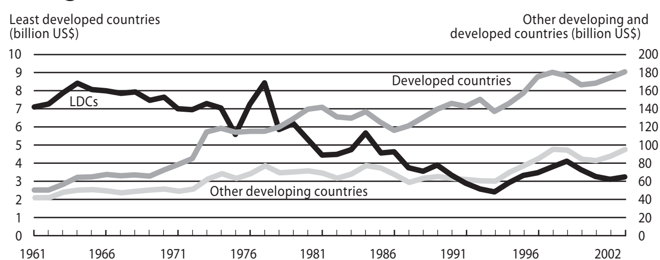
For a transnational corporation that trades in dozens of WTO member countries to expand market share and increase profits, the interests in lowering market access barriers everywhere are clear. But given the World Bank's latest computer modeled projections, outlined below, that show decreasing benefits from AoA market access opportunity expansion for most developing countries (assuming they can comply with non-tariff import requirements), it is not clear why international civil servants

mandated to reduce poverty would follow the same policy prescription as Cargill's. Yet even though developing country negotiators have yet to abandon their insistence on getting binding provisions for a special safeguard mechanism against import surges, special product protection against tariff reductions, and other special and differential treatment measures, the agricultural negotiations continue to be dominated by the debate over tariff reduction formulas for expanding market access.[66]

The inability of agricultural trade liberalization to help raise agricultural commodity prices is causing even developed country negotiators, such as Canadian Ambassador John Gero, to question the purpose of agricultural trade liberalization: "If they [farmers] can't produce at a profitable level, sooner or later they don't produce, so what's the point of having trade rules?"[67] This question, of course, does not reflect the concerns of Canada's AoA negotiating position, but frustration at the failure of agricultural markets to pay prices that would allow Canada, a fervent advocate of trade liberalization, to reduce the record high levels of Canadian government payments to compensate for plunging farmgate prices paid by agribusiness.[68] As transnational agribusiness increasingly dominates Canadian agricultural markets and the market power leverage of even the largest farm operations disappears,[69] there is nothing in the AoA negotiating agenda that would authorize study of, much less disciplines on, the effects of agribusiness market share concentration and anti-competitive business practices on farm gate prices.

Of course, low and volatile farmgate prices are not limited to Canada. According to the United Nations Food and Agriculture Organization (FAO), "from 1997 to 2001 alone, the combined price index of all commodities fell by 53 percent in real terms."[70] The FAO's *State of Agricultural Commodities Markets 2004* reports, "many farmers and exporting countries still find themselves trapped by their dependency—producing and exporting more, but earning less than they did in the past."[71] Although there has been an increase in the integrated commodity price index of the IMF since 2001, agricultural commodities have not enjoyed the same increases as mineral commodities, particularly oil.[72]

Table 1. Income terms of trade for agriculture (1961-2002)



Source: FAO, State of Agricultural Commodities Markets 2004, *p. 13.*

Remarkably, just a year after the World Bank, IMF and WTO secretariat made their promise that agricultural trade liberalization could generate very significant (and much needed) commodity price increases, the World Bank is now decreasing its estimates of benefits from agricultural trade liberalization. World Bank trade director Uri Dadush says it now projects all trade liberalization benefits to be no more than $30 billion for developing countries after implementation of the Doha Round reforms. World Bank modelers had projected global benefits as high as $500 billion in preparation for the 2003 Cancún ministerial.[73] Since World Bank economic modelers estimate that two-thirds of these global benefits would come from agricultural trade liberalization,[74] according to the revised estimates as little as $20 billion of benefits would result from agricultural trade liberalization.

Tufts University economist Frank Ackerman's analysis of two 2005 World Bank studies likewise show that it anticipates greatly diminished projected benefits, though not as severely reduced as Dadush estimates, when compared to 2002 and 2003 World Bank studies. Using an updated database of the Global Trade Analysis Project (GTAP) modeling system adjusted to analyze agricultural trade policy impacts, Thomas Hertel and Roman Keeney estimate the global benefits of full trade liberalization to be $84 billion, of which $55.7 billion would result from agricultural trade liberalization. Kym Anderson, et al., using the World Bank's LINKAGE model, estimates global benefits of $287 billion,

of which $182 would derive from agriculture and food. Here is the global benefits comparison in Ackerman's analysis:

Table 2. Benefits of complete liberalization, then and now

Model	Year	Benefits (billion US$) to	
		Developing countries	World
GTAP	2005	22	84
GTAP	2002	108	254
LINKAGE	2005	90	287
LINKAGE	2003	539	832

Source: Ackerman, Shrinking Benefits, *p. 3.*

Even under the most optimistic current World Bank modeling exercise, that of Anderson, et al., the benefit of complete liberalization, "to developing countries is more than $17 per person per year, or almost 5¢ per person per day. In high-income countries, the benefit of complete liberalization would amount to nearly $200 per person per year, or 53¢ per person per day."[75] Half of the total projected developing country benefits would go to just eight WTO members.[76]

Granted, there is a wide range of anticipated benefits from agricultural trade liberalization among World Bank studies and projected benefits are calculated for up to eight possible AoA negotiating scenarios, in the case of Anderson et al. But how could World Bank projections in the October 2004 policy coherence paper of $350 billion in economic benefits fall to $55.7 billion, to say nothing of the least optimistic projection of $20 billion, in just one year of updating data and refining modeling assumptions? Given the very modest benefits projected for developing countries under even the most unlikely result of full liberalization, why is the World Bank still advising negotiators that the main road to development and poverty reduction still runs through expanding market access by cutting tariffs and abandoning special and differential treatment measures? If the projected benefits of agricultural trade liberalization are so volatile, what is the merit for developing countries of making concessions in non-agricultural goods and service industry market access in exchange for the forecast opportunity to increase, however slightly, the value of their agricultural exports? Despite the low projected benefits from agricultural trade liberalization in the Doha Round, should developing countries nevertheless follow the World Bank and IMF's advice in order to obtain loans and grants from the "Aid for Trade" program and related credit windows? What other policies, apart from obtaining greater market access, would support rural livelihoods and improve food security, as well as improve commodity prices for farmers who sell often to export firms based in developed countries?

This paper attempts to answer these questions schematically in three sections. The first section explains the dependence of the optimistic projections on politically unrealistic negotiating scenarios and economically unrealistic modeling assumptions, such as fixed employment (no job loss following reform) and perfect competition. Some of the research that led to the World Bank's drastically downward revision of anticipated benefits from agricultural trade liberalization is summarized. The second section reviews briefly an integrated approach to agricultural trade and development issues, particularly regarding agricultural commodity prices, which has been proposed by WTO members but left off the Doha negotiating agenda. If this approach replaced the mercantilist focus on market access in the negotiating agenda, what changes might be needed to economic modeling assumptions in order to advise negotiators more realistically about what they were getting in the negotiating trade-offs?

The third section looks at the "Aid for Trade" loan and grant program that the World Bank and IMF are offering to developing countries that follow their policy advice in the Doha Round. Least developed country criticisms of "Aid for Trade" are summarized in the context of the small amount of loans and grants offered relative to the governance costs of complying just with one set of trade facilitation requirements for food safety and quality of tropical fruit exports from Mozambique. Finally we consider what trade facilitation funding options are available to developing countries, especially

the poorest WTO members, who do not believe that opening market access is the surest path to making agriculture serve development.

Full liberalization scenarios and the WTO/World Bank/IMF projected Doha Round benefits

The World Bank readily explains the failure of the Uruguay Round Agreement on Agriculture (AoA) to produce the projected welfare gains: they claim there has been no actual liberalization at all. As one World Bank study retorts, "there has been no liberalization since 1995, and current farmers' difficulties are mostly self-inflicted by existing domestic farm policies."[77] In other words, the problem, as defined before the Cancún ministerial, lies not in modeling methodology flaws and unrealistic trade scenario assumptions, but from the weakness of the AoA provisions and the failure of WTO members to implement the expected reforms. The World Bank has a point. Negotiators' definitional ruses and accounting manipulations in the AoA negotiations enabled rich countries to block market access, maintain high levels of trade-distorting domestic support and continue with export subsidies, all to the detriment of their farmers and farmers around the world. The hope of the World Bank's economic modelers is that as a result of the Doha Round negotiations, trade liberalization finally will occur to the benefit of all WTO members.

World Bank modelers calculate their projected benefits from trade liberalization according to a range of negotiation scenarios between full liberalization and minimal (Uruguay Round status quo) liberalization scenarios. The full liberalization scenario comprises a 100 percent tariff reduction on all goods, 100 percent reduction on "export subsidies" (their definition does not include less obvious forms of export support, such as export credit guarantees), 100 percent reduction in domestic support for agriculture and trade facilitation reforms (e.g., customs processing, infrastructure investment).[78]

Despite some talk of full tariff and trade-distorting domestic support elimination for a future round, the most recent U.S. offer in the Doha negotiations proposes a 60 percent cut in trade-distorting domestic support, (a cut that would translate into a real drop in spending by perhaps five percent).[79] India's chief negotiator, Kamal Nath, described the U.S. offer as a "post-dated check," offered in exchange for immediate market access in agriculture, non-agricultural goods and services. [80] Japanese, European Union, Swiss and other OECD proposals for agricultural reform are far more modest; only Australia, New Zealand and, to a lesser extent, Canada, are more aggressive than the U.S. on how far to liberalize agriculture.

Nevertheless, both in staff papers and in the less technical "Trade Notes" series, World Bank staff project robust trade benefits under their full trade liberalization scenario. According to the World Bank's econometric modeling, 93 percent of "welfare gains" from liberalization would come from market access opportunities created by cutting tariffs. Just two percent of the gains were projected to come from reducing export subsidies, while five percent would come from disciplines on the use of domestic support measures.[81] Under the World Bank's full liberalization scenario, developed country reluctance to reduce trade distorting domestic support (see recent statements from the U.S. Congress agriculture committees[82]) or export subsidies should be of no great concern to developing countries, since almost all the "welfare gains" are predicted to result from market access openings through tariff reduction.

Remarkably, the World Bank staff project that if just two percent of tariff lines are classified as "sensitive" by developed countries and thus subject to just a 15 percent tariff rather than the much steeper cuts proposed for most tariff lines and, if just four percent of developing country tariff lines are included in their "special product" designations, 75 percent of the projected global welfare gains disappear.[83] Since it is a near certainty that major trading powers will demand and receive sensitive product protection and since developing countries have already been promised non-reciprocal special product designations in the July Framework,[84] the welfare gains projected by the World Bank are already largely moot,

even without taking into account problems with the projections themselves.

The World Bank is careful, in some contexts, to qualify its projections as guides rather than predictions. Bernard Hoekman, a World Bank research manager writes, “The numbers generated by these [econometric] models are not predictions—actual outcomes will depend on actual events (e.g., exogenous changes in prices) as well as the extent to which modeling assumptions are correct (e.g., labor markets equilibrate supply and demand for workers).” Hoekman does go on to say, “That said, they are by far the best available tools to provide policymakers with information on the likely impacts of policy reforms.”[85] But if these policy tools are based on politically unrealistic scenarios and economically improbable modeling assumptions, of what use can they be to negotiators seeking to understand possible consequences of various AoA negotiating proposals?

The World Bank and IMF “messages” for developing country negotiators are based in the research results from computable general equilibrium (CGE) models, such as that of the Global Trade Analysis Project (GTAP). To the extent that trade negotiators use modeling projections to justify their negotiating positions, these projections should be based on the best economic theory and most refined modeling techniques available. Are there better ways to model the real world results of trade policy choices than those used by the WTO secretariat, the World Bank and the IMF?

A few critiques of the World Bank’s CGE modeling suggest there is room for methodological improvement, beyond the updating of data in which the World Bank has participated. Ackerman writes, “The failure of CGE models goes deeper than their inability to produce the expected huge forecast of benefits for developing countries. On a conceptual level, they fail to offer a useful, comprehensive framework for thinking about and measuring the important effects of trade.”[86] The World Bank has refined its modeling techniques, but some of the modeling assumptions are of questionable methodological merit and can lead to results that project as “benefits” socially damaging, if economically efficient, effects of liberalization. Furthermore, there is an institutional optimism among modelers that results in a number of real world factors, such as employment and poverty reduction effects, being calculated in ways that externalize real world costs of liberalization.

GTAP modelers are aware of some of the limitations of their assumptions, calling the assumption of “perfect competition” in world agriculture markets “simplistic but robust.” They comment that an attempt to introduce a methodology to allow for the existence of imperfect competition would be, “very demanding of additional information and unstable for projection purposes.”[87] Yet the assumption, however “robust,” of perfect competition in agriculture and food trade is highly questionable given the degree of market share concentration across many different segments of the global food supply chain.[88]

Several economists question the validity of the projections of welfare gains and poverty reduction that GTAP estimates suggest will materialize from trade liberalization. For example, Weisbrot, et al., reviewed a widely cited World Bank study to show that mathematical error and an inappropriate methodological assumption, when corrected, would reduce the numbers of those whose income would rise above the $2 a day global poverty threshold from the World Bank’s projected 540 million people to fewer than 80 million. Of course, if 80 million people can be lifted from poverty with trade liberalization, that is no negligible feat. However, the projected gains diminish still further when the World Bank’s assumptions and numbers are assessed more rigorously. Weisbrot, et al., go on to show that “escaping poverty” by the World Bank’s definition requires a daily income increase of only about 15 to 25 cents per person for sub-Saharan Africa. The authors conclude, “the projected gains are not lifting impoverished people to living standards that anyone would view as very different from poverty.”[89]

Some economists have attempted to adapt GTAP assumptions to the real world conditions of the economies

they are analyzing. For example, one analysis of the effects of trade liberalization on Africa states, "the standard GTAP model assumes full employment of factors. This is inconsistent with the fact that there are huge reserves of unemployed or underemployed in developing countries. We therefore modify the model to allow for unemployment of unskilled labor in Africa."[90] The modifications reduce the projected benefits. In the case of full liberalization, the nearly three quarters of projected benefits in Africa are not trade or employment benefits, but a reallocation of agricultural resources for the sake of future trade. As an example, "under full reform, the reduction of agricultural support allows far reaching specialization in cereals, cotton and sugar. In order to accommodate the change the African producers partly abandon commodity crops and horticulture."[91]

Such a reorganization of the domestic economy through trade reforms increases investment in more profitable sectors, but will not necessarily generate more jobs or higher incomes. If reorganizing agriculture for the sake of trade results in job losses, those losses cannot be projected according to CGE modeling. According to Ackerman, "the employment-related questions that policymakers most care about cannot be answered within the standard CGE framework, because they cannot even be asked. Consumer benefits from tariff reductions are highlighted, while producer impacts of trade policy are obscured by the assumptions made before the models are built and applied."[92] The standard CGE framework thus makes it impossible for WTO members with a high percentage of their population employed in agriculture to know what the employment effects will be of following World Bank or IMF advice to drop their demands for a special safeguard mechanism and special product designations to meet development objectives of food security, rural development and the protection of livelihoods. These sacrifices for market access opportunities are to be made by developing countries, many of which have neither the supply-side capacity nor the trade infrastructure to turn into real trade benefits.

Agricultural specialization for developing countries in the international division of labor is one of the outcomes projected by GTAP under full trade liberalization. Is this a positive outcome for development? Some economists wonder whether giving up on infant industries in Africa to seek trade revenues through agriculture is a viable development strategy: "Whether the allocation of more resources in agriculture and the move away from the manufacturers is progress or regress in terms of development is an open question."[93] Economists who advise developing countries to pursue full liberalization in agriculture, nonagricultural market access and services are ignoring the strategic use of protection and state interventions that enabled today's trading powers to develop their economies.[94] Economic history, like employment impacts of liberalization, is one of the externalizations that are apparently needed to make CGE modeling "work" for the redrawing of the global economic map.

As the trade policy monitoring scenarios, including those of the World Bank, become more realistic and the economic data and assumptions are refined, the projected benefits of agricultural trade reform decrease, including for already depressed agricultural commodity prices. One CGE modeling exercise, on the basis of the "modest liberalization" provisions in the revised Harbinson proposal for the AoA negotiations (March 2003), concludes: "African countries which benefit from preferential access to the EU and the U.S. will faced heightened competition from Cairns group countries. Overall, sub-Saharan countries will experience a decrease in welfare, even under the optimistic assumption that U.S. and EU cotton and tobacco subsidies will be reduced by a large amount. … The main gainers of the Doha round are likely to be developed countries and Cairns group members."[95] According to this study, if the revised Harbinson text is implemented, only three agricultural products will enjoy price increases over three percent.[96] This meager price result under a more realistic trade policy scenario suggests that if commodity prices are to increase significantly, policy tools outside of those in the Doha Round have to be considered.

Table 3: Impact of the Doha Agreement scenario [Harbinson draft, March 2003] on world prices (import prices)

Sector	Initial share in world exports	Domestic support	Export subsidies	Tariffs	Doha agreement, 3 pillars
Paddy rice	0.6	8.2	0.1	1.3	9.4
Processed rice	1.2	0.6	0.0	0.3	1.0
Coarse grains	3.6	2.6	0.1	0.5	3.1
Wheat	3.9	1.4	0.1	0.9	2.3
Sugar	2.7	0.2	5.6	-1.5	2.8
Oilseeds	5.7	9.1	0.0	0.5	9.7
Live animals	1.2	0.9	0.1	0.7	1.6
Animal products	3.4	0.6	0.0	0.1	0.8
Meat	4.0	0.6	0.1	0.5	1.2
Meat products	4.8	0.3	1.5	0.1	2.0
Dairy products	3.6	0.3	2.3	0.0	2.7
Fibers	3.6	25.6	0.0	0.2	26.0
Fruits and vegetable	8.3	0.1	0.2	0.5	0.8
Other crops	10.1	0.8	0.0	0.4	1.2
Fats	7.2	2.8	0.0	0.2	3.0
Beverages and tobacco	11.0	0.1	0.5	0.3	0.3
Processed food	25.0	0.3	0.6	0.4	0.9
Total agrofood	100.0	2.1	0.5	0.3	2.8

Source: "Multilateral agricultural trade liberalization: The contrasting fortunes of developing countries in the Doha Round," Centre d'Études prospectives et d'Informations internationales, Working Paper No. 2004-CEPII Working Paper, Bouët et al, p. 25

Policy coherence to increase commodity prices and the "development dimension" of the Doha Round

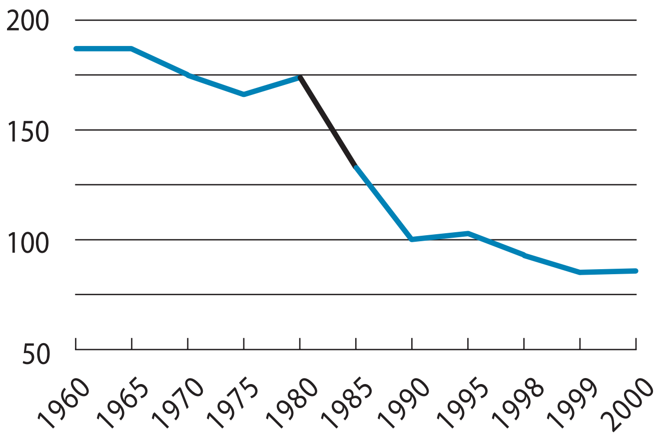
The international development community acknowledges that commodity prices are in crisis and yet continues to refuse to tackle the crisis head on. There are proposals, backed by computer modeling, that suggest ways to increase domestic farm gate prices without liberalization, while decreasing the need for taxpayer support to agriculture. These proposals include managing productivity increases resulting from new agricultural technology through acreage diversion from food to bioenergy crop reserves. [97] To date, however, most WTO members have shown little interest in such tools, in part because of the recollection of tools to manage inventory and supply as expensive and difficult to use when supply management was conceived of as little more than the warehousing of excess food supplies.

The lack of international donor interest in funding meetings to deal with the crisis in commodities is evident in the lack of follow-up to the International Task Force on Commodities, launched at the 11th meeting of the June 2004 United Nations Conference on Trade and Development (UNCTAD) in Brazil. Another example of the lack of an integrated approach to the commodities crisis is in the steady stream of money and advice from bilateral and multilateral aid donors that focuses on increasing commodity supply, when many commodity prices are already in free-fall due to oversupply. A recent report from the UK donor agency (DIFD) dismisses the feasibility of international supply management and concludes that though "agriculture is the key to poverty reduction," "there is little hope of reversing the long-term decline in global agriculture prices,"[98] save perhaps for a yet to be realized increase in demand from China and India for feedstuff imports for their livestock sectors.

Just three of the dozens of non-papers tabled by WTO members in Agreement on Agriculture (AoA) negotiations have addressed the chronic depression plaguing agricultural commodity prices. According to one of these non-papers: "co-sponsors of this paper view the Doha 'Development Round' as deserving its name only when the measures taken in the Round strongly contribute to assisting these countries [Côte d'Ivoire, Kenya, Rwanda, Tanzania, Uganda and Zimbabwe] in dealing with the problems posed by declining commodity prices."[99] There has been no consensus for the WTO members to study, much less to negotiate solutions to, the issues outlined in these three non-papers.

Table 4. Decline in African agricultural commodity terms of trade, 1960-2000

Index (1990 = 100)



Source: UNCTAD in FAO State of Agricultural Commodity Markets 2004, *p. 13*

At October's meeting of the WTO General Council, Uganda spoke on behalf of other sponsors of the non-papers on the crisis in commodities to call for:

1. An elimination, through the Agreement on Agriculture negotiations, of tariff escalation used by developed countries.

2. The creation of a WTO consultation mechanism on the declining prices of primary commodities.

3. Clarification of the rules in the General Agreement on Tariffs and Trade that allow WTO members to work jointly to "attain stable, equitable and remunerative prices" (Article XXXVIII, 2a) for exports of primary products. The African countries want a clear mandate in the WTO ministerial declaration in Hong Kong to include these issues in the WTO work program.[100]

Given the Doha Declaration mandate to make the Doha Round a "Development Round," there is a striking lack of urgency in efforts to address commodity prices, although commodity dependent WTO members are among the poorest in the membership. At this point, there is no likelihood that the Doha agreements will include a mandate to address the commodity crisis in a coherent fashion. At an informal consultation of the WTO Working Group on Trade, Debt and Finance, held on October 5, the United States quashed a proposal from developing countries to create a permanent WTO Committee on Trade, Debt and Finance that would have had among its tasks to support economic diversification among commodity dependent countries.[101]

One of the constant refrains (and proffered solutions) to issues such as commodity over-supply and depressed prices is to find money in the international finance system to buy a solution. Yet as a World Bank consultant recently said, the financing of trade infrastructure and development remains a small part of the World Bank Group loan portfolio. [102] For example, there is a $1 million ceiling per qualified beneficiary country in the three-year, Window II program of the Integrated Framework for trade-related technical assistance to least developed countries. As of June 30, 2005, several countries have received considerably less than the ceiling.[103] (The issued of financing least developed country governance, technical assistance and other trade-related costs is discussed in greater detail below.)

If developed country WTO members lack the political will to raise the profile of trade, debt and finance for commodity dependent countries and if funding for WTO/IFI trade-related technical assistance is limited, what prospect is there to address the persistently low agricultural commodities trade revenues faced by most developing countries? Can policy coherence among WTO rules, international financial institution policy advice and IFI loan practices do anything to raise commodity prices in the "fair and market oriented agricultural trading system" that has yet to emerge from WTO negotiations? If not, will the developing countries that are most subject to those rules, policy advice and loan practices have good reason to conclude, in the words of an anonymous World Bank staff person, "If you want to keep these countries poor, implement the WTO?" [104]

The World Bank and IMF "Aid for Trade" loan program

In September 2005, the World Bank/ IMF Development Committee adopted, with some revisions, a staff generated paper, "Doha Development Agenda and Aid for Trade."[105] The paper surveys the Doha Round negotiations and gives a synthesis of World Bank and IMF staff research on the projected benefits of full trade liberalization resulting from the WTO negotiations on agricultural, services and non-agricultural market access expansion. The paper then describes staff proposals for "Aid for Trade," which includes "technical assistance; capacity building, institutional reform; investments in trade-related infrastructure; and assistance to offset adjustment costs, such as fiscal support to help make the transition from tariffs to other sources of revenue."[106]

"Doha Development Agenda and Aid for Trade" references staff research on projected benefits to be derived from implementation of full liberalization policies in each of three "pillars" of the AoA negotiations: market access, domestic support measures and disciplines on all forms of export subsidies, as outlined in the July 2004 Framework for renegotiating the AoA. The paper mentions the World Bank's CGE projected welfare gains without giving specific figures, except to note in a footnote that the gains will be minimal if market access is not fully liberalized:[107] "empirical studies suggest that improved market access would offer by far the largest development payoff."[108] Hence, for a good Doha Round outcome, the paper encourages developing countries to show a "willingness to trade away 'special and differential treatment' for increased market access in agriculture and elsewhere to spur their own development."[109]

Perhaps surprisingly, in view of their political and economic vulnerability, the least developed countries who would purportedly benefit from "Aid for Trade" responded negatively and harshly to the World Bank/ IMF paper. The WTO LDC coordinator, Minister of Commerce, Trade and Industry Dipak Patel of Zambia, stated, "It is insulting that after all the efforts LDCs have made, rich countries have responded this meagerly to begin addressing supply-side constraints in LDCs." The Minister noted that the "Aid for Trade" proposal would only increase resources $200-400 million over 5 years for 40 countries, which means that each LCD would receive about $1-2 million a year, if it satisfied World Bank/IMF criteria for receiving the money.[110]

Indeed, an annex to "Doha Development Agenda and Aid for Trade" reports "preliminary estimates suggest that trade capacity building and supply-side constraints could require a commitment of $40-80 million per country over 10 years. Additionally, costs related to associated governance costs would need to be taken into account."[111] So World Bank and IMF staff are already aware that what they have proposed to developed country donors is inadequate to meet the "Aid for Trade" objectives. Even these higher "Aid for Trade" estimates are too low to cover the governance costs of just one area of trade facilitation, compliance with international and private food safety and food quality requirements. For example, a recent UN Conference on Trade and Development study estimates that the initial set-up costs of meeting those requirements for tropical fruit exports from Mozambique would be about $9.3 million.[112]

If the problems underlying "Doha Development Agenda and Aid for Trade" were only of donor financial shortfalls and the difficulties and costs of realistically assessing the costs of trade facilitation, there would be less cause for concern. But given the lack of World Bank projections about the costs of adjustment related to loss of employment and/or income resulting from trade liberalization, the "Aid for Trade" proposal on paying for the adjustment costs/losses of liberalization are under-funded, tentative and increase the role of the Fund in determining the size of the costs/losses. One NGO writes that given the history of the Fund's unwarranted optimism about economic growth and debt sustainability project,[113] "poor countries should think twice before giving the Fund a role as arbiter in determining the size of the trade losses warranting compensation."[114] Furthermore, writes the same NGO, donor financial commitments to "Aid for Trade" programs are not binding nor enforceable, whereas "the obligations developing countries are

asked to undertake in exchange [for 'Aid to Trade'] once adopted, cannot be signed away."[115]

The incongruity between the funds needed and funds offered and the institutional structure of "Aid for Trade" could be overcome by generosity on a small fraction of the scale of charitable donor response to natural disasters. However, the overall resource flow to developing countries is increasing only in debt relief and emergency aid, notes an October resolution to the UN General Assembly. The resolution "notes with concern the continued net outward transfers of financial resources from developing to developed countries" and calls for measures to reverse the resource flow, beyond commitments to begin to compensate for the collapse of official development assistance in the 1990s.[116]

But even if "Aid for Trade" were adequately financed and structured to meet the governance, trade-facilitation and trade infrastructure needs of LDCs, there would still remain the problem for the developing country negotiators of judging the coherence of the policy advice, research and loan programs of the World Bank and IMF. Nothing in the "Doha Development Agenda and Aid for Trade" paper indicates that the World Bank or IMF have learned lessons from the methodological shortcomings of their modeling techniques nor from the greatly diminished projections of benefits resulting from even politically unrealistic trade liberalization assumptions. There is a disturbing lack of frankness in the report about the greatly reduced CGE anticipated benefits of liberalization and how that research might affect developing country decisions on whether to meet the policy requirements to receive "Aid for Trade" loans and grants.

Indeed, in a recent speech WTO Director-General Pascal Lamy, apparently unable to find sufficient support for trade liberalization in the latest World Bank CGE estimates, notes "The University of Michigan forecast that a reduction of trade barriers by even one-third would book global economic output by $574 billion."[117] It appears that we are back to the future as it was told during the Cancún ministerial.

Perhaps the zealous pursuit to make trade and financial liberalization "irreversible" and to "lock in" the benefits of liberalization forecast for Cancún has blinded the World Bank and the Fund to the consequences of the dramatically downward CGE revisions for the "Aid for Trade" program. Regardless of the results of cost/benefits analysis of turning market access opportunities into hard currency benefits, the heads of the World Bank and the Fund are still maintaining, "Comprehensive and sharp reductions of tariffs in the largest countries will deliver the greatest development gains."[118] In any event, the institutional response to the loss of policy coherency in the methodological shortcomings and decreasing World Bank benefit projections of trade liberalization may be to assert policy uniformity.

Such was the message some observers took away from a speech by UNCTAD's new Secretary General, Dr. Supachai Panitchpakdi at the 52nd session of the Trade and Development Board. At the session, U.S. and EU officials called for UNCTAD officials to "speak with one voice" in cooperating with the World Bank, Fund and WTO.[119] It would be most unfortunate if major donor political objectives constrained research agendas and the policy formulated on the basis of research, in order to "speak with one voice" about trade, finance and development. Surely, a disclaimer disassociating a heterodox researcher's views from the views of UNCTAD's members would be enough to ensure that multilateral policy coherency was not disrupted.

The failure to learn from research and policy errors is part of a larger problem of lack of accountability of the international financial institutions to their developing country members.[120] This problem, particularly the World Bank's efforts to incentivize loan program supervision, is far more complex than can be summarized here.[121] However, numerous case studies points to the failings for development of unilateral liberalization. Although World Bank economists are right to say that the Uruguay Round did not bring about multilateral trade liberalization, a great deal of unilateral liberalization has occurred in many developing countries, enforced by the need to follow World Bank and IMF policy to qualify

for receiving credit or debt relief.[122] For example, Christian Aid notes that as part of trade and financial policy coherence, "[T]he release of Senegal's final tranche of debt relief was contingent on structural reforms, including the dissolution of the state company that provides seeds and fertilizer to the groundnut sector [a major source of export earnings]. The reform led to chaos, affecting thousands of producers."[123] But for econometric modeling that presumes fixed employment as a result of trade "reforms," this chaos is not a negative result, but the collateral damage of efficient resource reallocation. Hence there is no evidence of a policy error, just people rioting about an "enlightened" economic policy whose long-term good they simply cannot understand.

In the broadest terms, the World Bank and IMF policy prescriptions of the 1980s and '90s failed to deliver economic growth—growth that the "bad" policies of the '60s and '70s did manage to generate. Economist Ha Joon Chang, who has documented this failure, remarks that criticism of the reigning policy coherence paradigm may not lead to any policy changes, however, because the World Bank and IMF control access to capital and debt relief for many least developed and highly indebted developing countries.[124] No matter how counterproductive the policy advice, the poorest countries have but little choice finally to accede to the policies to some degree if they wish to obtain credit.

Developing country trade negotiators have to decide whether to follow the Doha Round negotiating advice of World Bank and IMF officials in order to qualify for loans and grants, however inadequate, such as those of "Aid for Trade." For developing country members without sufficient access to private capital markets, this is a very difficult decision to make because of what they know about the results of the World Bank and IMF's policy experiments of unilateral liberalization with their countries.

Conclusion

The CGE modeling results are the anticipatory "proof" of the purported benefits of trade liberalization and the main empirical guide for trade negotiators assessing the likely macro-impacts of their policy choices. For a layperson, the complexity and variety of assumptions of CGE modeling is an awesome and marvelous thing. The modeling assumptions alone of the MIRAGE modeling system under the most realistic and detailed current AoA scenario, the revised Harbinson draft rejected at the Cancún ministerial, take nine pages to describe.[125]

Still, the complexity of econometric modeling should not distract negotiators and civil society from a few simple facts. Economists are now reducing the projected benefits and even projecting some negative results from implementation of a likely Doha Round outcome. These economists are using more realistic scenarios of likely reforms, updated data sets and more robust methodologies. Yet their results are not reflected in the public speeches and WTO-focused "messages" from the World Bank and IMF for developing country WTO negotiators and trade ministers. Instead, the heedless optimism of the proponents of liberalization at any cost remind one of the "man of system" harshly criticized by Adam Smith: "The man of system, on the contrary, is apt to be very wise in his own conceit; and is so enamoured with the supposed beauty of his own ideal plan of government that he cannot suffer the smallest deviation from any part of it."[126]

The results of CGE modeling of multilateral negotiations need to be taken with still greater circumspection when we consider what is not modeled, e.g., the effect of supply management tools on commodity prices; the results of World Bank and/or IMF obliged unilateral liberalization; the practice of repatriating profits from developing countries to (usually) developed country headquarters; corporate tax avoidance; the costs of exploitation of non-renewable natural resources; and, a host of social and environmental costs associated with intensifying agricultural exports. The recent collapse of projected benefits, as well as limitations of current modeling assumptions should convince the WTO, the World Bank, the IMF and other international agencies to not use those results to force liberalization commitments and the taking on of more debt for the sake of liberalization "opportunities."

Insofar as the "development dimension" of the Doha Round is concerned, the best economic modeling shows aggregate benefits for very few developing countries should the new AoA proceed as expected. These meager benefits and the negative ones for some of the WTO's poorest members indicate there we have a long way to go before trade and finance can jointly provide policies that will tackle the commodity crisis and help move commodity-dependent developing countries out of poverty.

At the foundational meetings of the Bretton Woods institutions, the Brazilian delegation proposed a resolution to convene a United Nations meeting "to promote stability of raw materials and agricultural products and to formulate recommendations for attainment of a more balanced growth of international trade." John Maynard Keynes supported this position, since he believed that the lack of fair trade in commodities was a source of "the evils of economic cycles."[127] When the next International Conference on Financing for Development meets in 2007 in Qatar, delegates to the conference should dedicate a retrospective seminar to the original purpose of the Bretton Woods institutions, particularly regarding their role in resolving or at least mitigating the crisis in commodities. The conference seminar, among other topics, could discuss how to update Keynesian thinking on commodity prices, beginning, perhaps with this thought:

> Proper commodity prices should be fixed not at the lowest possible level, but at a level sufficient to provide producers with proper nutritional and other standards in the conditions in which they live . . . and it is in the interest of all producers that the price of a commodity should not be priced below this level, and consumers are not *entitled* to expect that it should.
>
> —*John Maynard Keynes*[128]

References

62. "Coherence in Global Economic Policymaking and Cooperation Between [sic] The WTO, The IMF and The World Bank: Note by the Secretariat," World Trade Organization, WT/TF/COH/S/9 (October 11, 2004), paragraph 2.
63. *Ibid.*, paragraphs 6 and 8.
64. "World Bank on agricultural trade: export strategy "impoverishing," BRETTON WOODS PROJECT (February 2, 2005) at http://www.brettonwoodsproject.org
65. David W. Raisbeck, "The Role of Agriculture in the Global Economy," World Agricultural Forum, St. Louis, Mo., May 18, 2003.
66. "Lamy Sees Big Gaps in Market Access Ahead of Next Week's Talks," *Inside U.S. Trade*, October 13, 2005 and Kanaga Raja, "Agreement needed by 31 October or no Hong Kong deal," SUNS, October 24, 2005.
67. Cited in Barry Wilson, "Farm profitability key to WTO deal," *The Western Producer*, December 9, 2004.
68. Wilson, "Government farm aid on the rise," *The Western Producer*, September 1, 2005.
69. E.G., Wendy Holm, "Cargill's domination a concern," *The Western Producer*, September 8, 2005
70. FAOSTAT 2004 data cited in "Productivity growth for poverty reduction: an approach to agriculture," (draft paper for comment) Department of International Development, United Kingdom (July 2005), paragraph 31.
71. *State of Agricultural Commodity Markets 2004*, United Nations Food and Agriculture Organization at ftp://ftp.fao.org/docrep/fao/007/y5419e/y5419e00.pdf, 7.
72. The IMF statistics are referenced in Duncan Green, "Conspiracy of silence: old and new directions on commodities," Oxfam Great Britain, conference paper presented to Strategic Dialogue on Commodities, Trade, Poverty and Sustainable Development (June 13-15, 2005), 9. Green does not disaggregate agricultural from mineral commodities.
73. "World Bank scales back predictions on benefits of Doha Round," Bloomberg News, October 12, 2005.
74. 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), 5 at http://ase.tufts.edu/gdae/pubs/wp/05-01ShrinkingGains.pdf The Hertel and Keeney, and Anderson et al. studies are chapters in *Agricultural Trade Reform and the Doha Development Agenda* ed. by Kym Anderson and Will Martin to be published in November 2005 but are also available at http://www.worldbank.org/trade/wto.
75. *Ibid.*
76. *Ibid.*
77. Patrick Messerlin, "Agriculture in the Doha Agenda," World Bank, Research Working Paper 3009 (April 2003), 1 at http://econ.worldbank.org
78. This widely used definition is summarized in Thom Achterbosch, Hakim Ben Hammouda, Patrick N. Osakwe and Frank van Tongeren, "Consequences of the Doha Round Trade Reforms for Africa," Paper prepared for the 7th Annual GTAP conference on Global Economic Analysis, June 17-19, 2004 in Washington, DC, 7. The calculation of the value of trade facilitation reform is problematic, if only given the difficulty of estimating the cost of trade infrastructure (e.g., storage, transport facilities etc.) investment.
79. Sophia Murphy, "The U.S. WTO Agriculture Proposal of October 10, 2005," Institute for Agriculture and Trade Policy at http://www.tradeobservatory.org/library.cfm?refid=77195
80. Cited in "Ag Subsidies On Negotiating Table; Haggling Underway," *Bridges,* Vol. 9, No. 34, October 12, 2005.
81. Kym Anderson and Will Martin, "Agricultural Market Access: The Key to Doha Success," *Trade Note,* World Bank, No. 23 (June 27, 2005), 1.
82. "Chambliss Says U.S. Cannot Agree To Specific Farm Subsidy Restrictions," *Inside U.S. Trade*, October 7, 2005.
83. Anderson and Martin, *op cit.*, 2.
84. E.g., "U.S. For First Time Signals Demands on Sensitive Farm Products," *Inside U.S. Trade*, October 7, 2005.
85. Bernard Hoekman, "The World Bank Trade Research Program: Summary and Synthesis," World Bank (April 2004), 13, footnote 10.
86. Ackerman, *op cit.* 24.
87. Kym Anderson, Joe Francois, Tom Hertel, Bernard Hoekman and Will Martin, "Potential gains from trade reform in the new millenium," (June 2000), Paper for the Third Annual Conference on Global E, Economic Analysis (Monash University; June 27-30, 2000) 9 and footnote 6.
88. For overviews on the lack of competition within agribusiness sub-sectors and the abuse of market power by transnational agribusiness, see, e.g., Dominic Eagleton, "Power hungry: six reasons to regulate global food corporations," Action Aid International (2005) at http://www.actionaid.org; Bill Vorley, "Food Inc.: corporate concentration from farm to consumer," UK Food Group (2003) and data from the Market Share Matrix of the Agribusiness Accountability Initiative at http://www.agribusinessaccountability.org/page/data
89. Mark Weisbrot, David Rosnick and Dean Baker, "Poor Numbers: The Impact of Trade Liberalization on World Poverty," Center for Economic and Policy Research (November 18, 2004), 1-5 at http://www.cepr.net/publications/poor_numbers.htm See also by Baker and Rosnick, "Too Sunny in Latin America? The IMF's Overly Optimistic Growth Projections and Their Consequences," (September 16, 20003) at http://www.cepr.net/publications/econ_growth_2003_09.htm
90. Achterbosch et al, "Consequences of the Doha Round Trade Reforms for Africa," 5.
91. *Ibid.,* 21.
92. Ackerman, *op cit.,* 22.
93. *Ibid.,* 21.
94. Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective* (London: Anthem Press, 2002), 125-136.
95. Antoine Bouët, Jean-Christophe Bureau, Yvan Decreux and Sébastien Jean, "Multilateral agricultural trade liberalization: The contrasting fortunes of developing countries in the Doha Round," Centre d'Études prospectives et d'Informations internationales, Working Paper No. 2004-18, 6-7 at http://www.

cepii.fr

96. Bouët et al., "Multilateral agricultural trade liberalization: The contrasting fortunes of developing countries in the Doha Round," Table 4, "Imapct of the Doha Agreement scenario on world prices (import prices).
97. E.g., Daryll Ray, "Farmer-oriented blueprint increases corn prices 37 percent," Agricultural Policy Analysis Center (August 26, 2005) at http://www.agpolicy.org, derived from Ray, "Agricultural Policy for the Twenty-First Century and the Legacy of the Wallaces," (March 2004) at http://www.agpolicy.org/pesek.html and Ray, Daniel G. de la Torre Ugarte and Kelly Tiller, "Rethinking U.S. Agriculture Policy: Changing Course to Secure Farmer Livelihoods Worldwide," (2003) at http://www.agpolicy.org/blueprint.html
98. "Productivity growth for poverty reduction: an approach to agriculture," (draft paper for comment) Department of International Development, United Kingdom (July 2005), paragraph 44.
99. "Action Required to Address the Crisis Arising from the Decline in Prices of Primary Commodities Faced by Commodity Dependent African Countries," Submission by Côte d'Ivoire, Kenya, Rwanda, Tanzania, Uganda and Zimbabwe, World Trade Organization, Committee on Agriculture Special Session, JOB (05)/113 (16 June 2005), 1. See also "A Conceptual Framework to Understand Supply Management Programmes, SOUTH CENTRE, SC/TADP/AN/COM4 (August 2005).
100. Martin Khor, "WTO General Council discusses text drafting, TRIP, commodities," SUNS (email edition), No. 5898, October 20, 2005.
101. "Working Group on Trade, Debt and Finance To Simply Renew Doha Mandate?" *Bridges*, Vol. 9, Number 33, October 5, 2005.
102. Simon Evenett, "Governance and Economic Development in the World Trade Organization (WTO)," in in *Decision Making in the Global Market: Trade, Standards and the Consumer*, Consumers International (2005), 39.
103. "Window II," Integrated Framework for Trade Related Technical Assistance for Least Developed Countries at http://www.integratedframework.org/window2.htm See also "The Integrated Framework for Trade-Related Technical Assistance: An Introduction," Bank Information Center, (Fall 2004) at http://www.bicusa.org
104. Cited in Lisa Jordan, "The Death of Development? The Converging Policy Agendas of the World Bank and The World Trade Organization, Bank Information Center (November 1999) at http://www.bicusa.org
105. "Doha Development Agenda and Aid for Trade," Development Committee (Joint Ministerial Committee of the Board of Governors of the World Bank and Fund On the Transfer of Real Resources to Developing Countries), International Monetary Fund and World Bank (DC 20005-0016), September 12, 2005.
106. *Ibid.*, footnote 12.
107. *Ibid.*, footnote 2.
108. *Ibid.*, 3.
109. *Ibid.*, paragraph 24 ii), 8.
110. "WTO LDC group coordinator calls for improvement in "scaling up" of aid-for-trade, Press Release, October 10, 2005.
111. "Doha Development Agenda and Aid for Trade," Annex I, 32.
112. Ana Larcher Carvalho, "Cost of Agrifood Safety and SPS Compliance: Mozambique, Tanzania, Guinea; Tropical fruits," Selected Commodity Issues in the context of Trade and Development (2005), Table 9, 41.
113. E.g., Dean Baker and David Rosnick, "Too Sunny in Latin America? The IMF's Overly Optimistic Growth Projections and Their Consequences," (September 16, 20003) at http://www.cepr.net/publications/econ_growth_2003_09.htm
114. Aldo Caliari, "Developing countries are right to be cynical," Rethinking Bretton Woods Project, Center of Concern, letter to Financial Times, October 24, 2005.
115. *Ibid.*
116. "Follow-up to and implementation of the outcome of the International Conference on Financing for Development, United Nations General Assembly, A/C.2/60L.6 (October 14, 2005) and Thalif Deen, "Foreign aid hike too little, too late for MDGs," SUNS email edition, No. 5897 (October 19, 2005).
117. Pascal Lamy, Speech to the Hong Kong Foreign Correspondent's Club, WTO News (October 16, 2005) at http://www.wto.org
118. "IMF-World Bank in WTO talks plea," BBC News, October 30, 2005 at http://news.bbc.co.uk
119. Martin Khor, "UNCTAD to be more "coherent" in policy work, says Supachai," SUNS email edition, No. 5886 (October 4, 2005).
120. See, e.g., Mark Weisbrot and Dean Baker, "Apply Economics to Economists: Good Governance at the International Financial Institutions," Center for Economic and Policy Research (July 20, 2004) at http://www.cepr.net and Kanaga Raja, "Bangladesh: Controversy brews over World Bank immunity," SUNS email edition, No. 5655 (September 29, 2004).
121. "The Wolfensohn Revolution: Supervision and Incentives for Ensuring Results," Bank Information Center (September 2001) at http://www.bicusa.org
122. E.g., On the World Bank and Fund forced opening of the rice and poultry markets in Ghana, see "The damage done: Aid, death and dogma," Christian Aid (2005), 31-43, at http://www.christianaid.org.uk
123. "Business as usual: The World Bank, the IMF and the liberalisation agenda," Christian Aid (September 2005), 12 at http:/www.christianaid.org.uk
124. Chang, *op cit.*, 125-136.
125. Bouët et al., *op cit.*, 14-22.
126. Cited in Alejandro Nadal, "Individuals and the invisible hand," in Frank Ackerman and Alejandro Nadal et al., in *The Flawed Foundations of General Equilibrium* (Routledge, 2005), 186.
127. Cited in Robert Campos, "Fifty Years of Bretton Woods," in *The Bretton Woods-GATT System: Retrospect and Prospect After Fifty Years*, ed. Orin Kirshner (M.E. Sharpe/ Institute for Agriculture and Trade Policy, 1996), 100.
128. Cited in *Human Development Report 2005—International cooperation at a crossroads: Aid, trade and security in an unequal world*, United Nations Development Program, 139.