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The Benefits of Trade Liberalisation and WTO Members' Negotiating Positions: Are Imports Really Bad?

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The traditional notion among trade economists is that governments perceive imports to be detrimental and accept them only in exchange for foreign market access. In contrast, the results of a survey of the national missions at the WTO presented in this article indicate that governments see substantial benefits in domestic trade liberalisation. For most governments, these benefits approximately balance the associated costs. Countries appear to complain about being forced to open markets for political rather than economic reasons.

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1 Introduction

Anyone who has tried to make sense of international trade negotiations eventually concludes that they can only be understood by realizing that they are a game scored according to mercantilist rules, in which an increase in exports – no matter how expensive to produce in terms of other opportunities forgone – is a victory, and an increase in imports – no matter how many resources it releases for other uses – is a defeat.[1]

It would be difficult to argue against the first of KRUGMAN's conjectures in the quote above, which suggests that governments consider exports to be good. A country gains from access to export markets benefits and from the international specialisation of production, and it may improve its terms of trade due to the increasing global demand for its goods. The conjecture is not only theoretically convincing but corresponds also to empirical observations of trade-policy making. Governments aggressively seek market access in international negotiations and sell international trade agreements at home by emphasising the market access gains.

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1 KRUGMAN (1997).

The first evidence appears also to confirm the idea that the negative aspects of imports dominate in the eyes of governments. Despite eight rounds of multilateral trade negotiations conducted since the Second World War, substantial barriers to trade still remain. Governments repeatedly resist demands in WTO negotiations for further opening of markets, even at the expense of forgoing additional access to foreign markets which could be gained in exchange. When a state makes concessions in WTO negotiations, news of these concessions are usually downplayed in domestic settings.

This article tests the traditional notion that governments believe imports have negative implications. But even if KRUGMAN is right, governments can be supposed to attribute at least some weight to the benefits of domestic trade liberalisation. This raises the question of which of the potential benefits matter how much.

To this end, an empirical project was conducted during 2006 in Geneva. The one hundred missions at the WTO in Geneva were asked to fill out up to three questionnaires on negotiations regarding non-agricultural market access, agriculture, and services, respectively. Twenty eight WTO members provided forty four total responses. In addition, twenty seven interviews on national negotiating positions and WTO negotiations, each lasting about ninety minutes, have been conducted with WTO employees and members of the national delegations (mostly among the survey participants). These interviews served primarily to prepare the survey questions but also to interpret the results.

The next section begins by presenting the research problem in greater detail. In doing so, it examines the potential benefits of domestic trade liberalisation and reviews why it is so difficult to ascertain the respective weight the various benefits have in governments' negotiating positions. Section 3 describes the survey and Section 4 analyses the survey results regarding the relative weight of potential benefits. Section 5 considers how states perceive the balance of benefits and costs of domestic trade liberalisation before concluding in section 6.

2 Research Problem

Opening a state's markets to trade brings a broad array of economic benefits to a liberalising country.[2] (1) Countries have different production technologies and different relative factor endowments, such as labour, capital, and land. This being the case, trade allows a state to gain from exploiting different marginal opportunity costs of production. (2) Scale economies make international specialisation of production beneficial even among identical countries. (3) Knowledge contained in goods or transmitted through the trading interaction may improve the importing country's production methods. (4) Imports enhance competition, thus reducing distortions that arise if producers with market power set their profit-maximising prices above marginal production costs. (5) Domestic market opening bound and enforced in the WTO may offer a credible commitment device to reassure foreign and domestic investors that governments will not implement harmful trade policies in the future.

In addition to these effects on national income, trade liberalisation also affects the domestic income distribution. The principal channel through which trade liberalisation can reduce domestic inequality and thus poverty is by raising salaries for low-quality labour.[3] Countries relatively rich in (low-skilled) labour compared to capital – that is, most developing countries – tend to import goods and services whose production is relatively capital-intensive and export (low-skill) labour-intensive goods and services. Accordingly, the demand for labour increases.

Despite substantive research on the various benefits of domestic trade liberalisation, it remains unclear how governments evaluate and rank these benefits.

1. From an economic perspective, predictions are unreliable. The fundamental differences between the global multi-commodity multi-region equilibrium models employed to assess the expected gains from the Uruguay Round are revealing in this regard (and even the ex-post estimates vary greatly).[4] The forecasts drastically differed on the overall global gains, on how much each country would win, and which sectors would bring what size of gains. Moreover, they often did not include time frames and used different reference points. Finally, they did not model

2 See Corden (1974) and Bhagwati (1991).

3 See Galiani and Porto (2006), Kim (2007), Krebs, Krishna, and Maloney (2005), Milanovic and Squire (2005) and UNCTAD (2004).

4 See Francois (2000), Piermartini and Teh (2005) and Whalley (2000).

certain benefits or did not separately account for them. The models predicting the consequences of a potential Doha deal also vary greatly with different assumptions about the underlying economics.[5]

2. Political/social psychology attempts to explain how governments and the general public form preferences facing uncertain and conflicting accounts about the effects of trade liberalisation. Historical studies, experiments, and surveys show that individuals' attitudes towards trade are shaped by subjective beliefs and education levels,[6] and that they depend on altruism, social status, and ideology.[7] Consequently, the weight of the potential trade-liberalisation benefits cannot exclusively be derived from their expected contribution to national income as established by economists.
3. From a political economy perspective, governments' appreciation of the trade-related benefits depends on the lobbying of special interest groups.[8] Import-competing sectors strive for the protection of domestic markets against foreign competition. Export-oriented sectors engage in counteractive lobbying in order to improve access to primary resources and intermediate goods. In principle, consumer groups strive for trade liberalisation to lower prices and increase variety, providing this does not deteriorate quality or imply health risks. Development NGOs campaign for market opening and subsidy reductions to help poor foreign exporters.

In sum, economic theory does not clearly indicate which expectations governments should reasonably form about the wealth effects of trade liberalisation. Political psychology cannot explain how governments and the population actually construct preferences, while political theory underlines the influence of special interest groups without specifying precisely how these groups bias governments' valuation of benefits from trade liberalisation.

3 Survey

This section introduces the survey questions, presents the responses, lists the participating countries, discusses the potential non-response bias, examines the likely quality of responses, and reports the statistical significance of

5 See ANDERSON, MARTIN, and VALENZUELA (2006), MENSBRUGGHE (2007) and OECD (2006).

6 See GOMES (2003), HAINMUELLER and HISCOX (2006), HAY and ROSAMOND (2002), IRWIN (1996) and KEMP (2007).

7 See HERRMANN, TETLOCK, and DIASCRO (2001), MAYDA and RODRIK (2001) and O'ROURKE and SINNOTT (2001).

8 See GAWANDE and KRISHNA (2003), GROSSMAN and HELPMAN (2002), WTO (2006) and ZAHRNT (2008).

differences in means across different questions and industrialised/developing countries.

3.1 Questions

Preparatory interviews were used to design the questionnaire in a way that corresponds how national delegates framed issues. This also helped avoid asking leading questions: The interviews showed that the effects suggested in the questionnaire were not an object of debate themselves but only their intensity. Four of the questionnaire's categories deal with wealth creation and one category addresses the distribution of wealth:

1. What influence do the following (perceived) benefits of liberalising access to one's own market have on your country's negotiating position?
   a. lowering prices and enhancing choice for consumers
   b. lowering input prices for domestic producers
   c. promoting competitiveness of domestic producers through competition and innovation brought about by foreign producers
   d. reassuring domestic and foreign investors through credible commitment to liberal trade policies
   e. reducing poverty or inequality, especially by raising the income of labour with low qualifications

3.2 Responses

Respondents could choose between five answers (very low, low, medium, high, very high). The results are shown in Table 1 which gives the frequency with which each of the five possible answers was chosen. Answers are coded with numbers ranging from 1 (very low) to 5 (very high). The table also presents average response values constructed by assigning weights to the responses, ranging from 1 (very low) to 5 (very high). Where a country returned two or three (sector-specific) questionnaires, a country-based average was formed first, thus ensuring that all participating countries have the same weight regardless of the number of questionnaires they sent back. Averages are presented on the second-digit level in order to keep the figures from distortion through rounding.

Table 1: Benefits of domestic trade liberalization

	Number of responses	Distribution of responses 1	2	3	4	5	Average value
1a) Prices and choice for consumers							
Industrialized countries	8	0	3	4	0	1	3.03
Developing countries	36	0	6	13	15	2	3.24
High income group	13	0	1	5	6	1	3.48
Low income group	23	0	5	8	9	1	3.08
1b) Input prices for producers							
Industrialized countries	8	1	1	5	0	1	3.20
Developing countries	36	0	4	13	17	2	3.33
High income group	13	0	1	5	7	0	3.35
Low income group	23	0	3	8	10	2	3.31
1c) Competition and innovation							
Industrialized countries	8	0	2	4	1	1	3.30
Developing countries	36	0	5	15	11	5	3.20
High income group	13	0	3	5	4	1	2.91
Low income group	23	0	2	10	7	4	3.38
1d) Reassurance for investors							
Industrialized countries	8	0	3	4	1	0	2.93
Developing countries	36	0	4	14	11	7	3.56
High income group	13	0	1	5	4	3	3.59
Low income group	23	0	3	9	7	4	3.54
1e) Reduction in poverty or inequality							
Industrialized countries	8	3	1	3	1	0	2.37
Developing countries	36	1	13	11	9	2	2.77
High income group	13	1	6	3	2	1	2.48
Low income group	23	0	7	8	7	1	2.95

In addition, Table 2 shows the correlation between responses across countries; the references correspond to the questions in Table 1.

Table 2: Correlation matrix of economic benefits

	1a	1b	1c	1d	1e
1a	1,00				
1b	,78	1,00			
1c	,68	,74	1,00		
1d	,38	,48	,50	1,00	
1e	,52	,47	,66	,54	1,00

3.3 Participating Countries

The survey results are differentiated between industrialised and developing countries. The industrialised countries are (with the number of responses in brackets): Australia (2), Canada (1), the European Communities (3), New Zealand (1), and Switzerland (1) – that is, all countries that are commonly treated as industrialised countries in the WTO with the exception of Japan, Norway, and the United States. Problematically, two of the missing countries, the US and Japan, have a particular weight in negotiations. The literature does not suggest, however, that they generally pursue goals different from those of other developed countries. Still, it would be highly desirable to obtain responses from the absent industrialised countries in a future survey.

Out of 102 developing countries with permanent missions to the WTO in Geneva, 23 responded. These were: Angola (1), Antigua and Barbuda (1), Brazil (3), China (3), Colombia (1), Croatia (1), Ghana (1), Hong Kong (1), Israel (1), Jordan (1), Malaysia (1), Mexico (2), Oman (1), Panama (2), Paraguay (1), Qatar (1), Romania (2), Senegal (1), South Korea (2), Taiwan (3), Trinidad and Tobago (2), Turkey (3), and Zambia (1). The potential non-response bias is thus greater for developing countries. In order to assess whether the set of responding developing countries is representative, their geographical composition and income levels are examined.

Table 3 splits up the responding countries by regions. It can thereby be seen that Africa is underrepresented and that no country from South-Asia responded, whereas Latin American countries were particularly willing to respond. This geographic representation is somewhat problematic. The average values of the seven Latin American countries for the economic benefits of liberalisation compared to the corresponding average values of other countries are between −0.54 ("lowering input prices for domestic producers") and +0.26 ("reducing poverty or inequality, especially by raising the income of labour with low qualifications"). On average, Latin American countries rate the economic benefits of liberalisation slightly lower (−0.26).

Table 3: Developing countries by regions

Region	Responses	Countries
Europe	2	Croatia, Romania
Latin America	7	Brazil, Antigua and Barbuda, Colombia, Mexico, Panama, Paraguay, Trinidad and Tobago
East Asia	5	China, Hong Kong, Malaysia, South Korea, Taiwan
Africa	4	Angola, Ghana, Senegal, Zambia
Middle East	5	Israel, Jordan, Oman, Qatar, Turkey

Table 4 presents the purchasing-power-parity adjusted gross domestic product of the responding countries for the year 2006 as estimated by the IMF. Least-developing countries are notably underrepresented. The small number of African countries (4) and least-developed countries (3) prohibits any generalisation. At least for this small set of poor African countries, there are notable differences compared to the other, wealthier developing countries. The average value of the African countries for the benefits of liberalisation is consistently lower than the corresponding average value of the other countries (−0.38). The deviation is highest for "lowering costs and enhancing choice for consumers" and "reducing poverty or inequality" (−0.59 and −0.63). A bias towards wealthier developing countries is tolerable if the objective is to assess implications for WTO negotiations, that is, if the data set does not need to exactly reflect the membership composition but should also account for countries' weight in negotiations.

Table 4: Income levels of developing countries

Country	GDP/capita	Country	GDP/capita	Country	GDP/capita
Zambia	1,083	Panama	8,389	Trinidad/T.	17,451
Senegal	2,007	Turkey	9,107	Oman	18,841
Ghana	2,771	Brazil	9,108	South Korea	23,926
Angola	3,399	Romania	9,869	Taiwan	30,084
Paraguay	5,277	Mexico	11,249	Israel	30,464
Jordan	5,542	Malaysia	11,858	Qatar	33,049
China	7,598	Antigua/B.	13,909	Hong Kong	38,127
Colombia	8,091	Croatia	14,368		

The developing countries were further divided into a high-income and a low-income group. The nine countries with an average per-capita GDP of above \$13,000 are Antigua and Barbuda (1), Croatia (1), Hong Kong (1), Israel (1), Oman (1), Qatar (1), South Korea (2), Taiwan (3), and Trinidad and Tobago (2). The other 14 countries in the sample with \$12,000 or less of average per-capita GDP are Angola (1), Brazil (3), China (3), Colombia (1), Ghana (1), Jordan (1), Malaysia (1), Mexico (2), Panama (2), Paraguay (1), Romania (2), Senegal (1), Turkey (3), and Zambia (1).

3.4 Quality of Responses

The reliability and validity of responses depend upon four factors: (1) whether delegates have the requisite knowledge to answer the questionnaire, (2) whether they attribute the same meaning to the questions which is given to them by the researcher, (3) whether they make an effort to be precise in their responses, and (4) whether they do not consciously misrepresent their beliefs.

Knowledge

At first sight, national delegations to the WTO appear not to be the best judges of how the costs and benefits of trade liberalisation are weighted in the domestic policy-making processes. The disadvantage of their distance to capitals, however, is mitigated by the fact that most delegates have accumulated substantial experience with trade policy-making at the national level before being dispatched to Geneva. Furthermore, they are generally in close contact with their capitals, receiving negotiating orders and also participating in the elaboration of negotiating positions. Delegates even present an advantage over national trade policy makers due to their bird's-eye perspective. They are often in charge of a broad portfolio of negotiating issues. Finally, they enjoy some discretion within their mandate. How they weigh costs and benefits in order to arrive at concrete positions in changing negotiating instances is something that can only be accounted for by the delegates themselves.

Attribution

The questions asked in the surveys were developed in preparatory interviews. The subsequent interviews served to interpret the results and confirmed that delegates shared an ordinary understanding of the questions.

Precision

Responses were generally highly differentiated across the questions within each questionnaire returned. This indicates that delegates attempted to correctly assess their countries' trade policy-making. Only one questionnaire was eliminated ex-post as it gave the same response to all questions.

Misrepresentation
Delegates may bias their responses in order to please certain constituents or to give socially desirable answers. Therefore, delegates were assured total confidentiality. Moreover, they were free not to respond to questions rather than to give distorted answers for political reasons.

It is also important to know that the questionnaire contained further sets of questions notably on the relative influence of various domestic constituents in the formulation of WTO negotiating positions, and changes in their respective influence over time. The results attained from answers to these questions are consistent and reasonable – compared across questions, between industrialised and developing countries, and between more and less democratic countries. This suggests the responses on the costs and benefits of trade liberalisation are also reliable.

Respondents were additionally asked to identify the sector upon which they based their assessment (non-agricultural market access, agriculture, and services). Alternatively, they could choose not to select a specific sector but to base their answers on their experience in the WTO in general. As the majority of delegates selected the latter option, the number of responses for the three sectors is too small for a meaningful interpretation. This sector-specific information does, however, fulfill a control function. The sector-specific responses are quite evenly distributed (with 1/1/2 responses by industrialised countries and 6/6/7 responses by developing countries that are specific to non-agricultural market access/agriculture/services). Since the differences between non-agricultural market access, agriculture, and services are moderate, the slight difference in the share of responses based on a certain sector does not significantly distort overall results or the relationship between industrialised and developing country responses.

3.5 Statistical Significance of Differences in Means

Whether the differences in responses across benefits are meaningful or random results can be assessed not only through a qualitative evaluation of the survey – as done above – but also in statistical terms. A so-called t-test measures the probability that the differences in means across the questions are significant, that is, that they are not the product of random responses. Table 5 shows at which level differences in means for all dyadic combinations of potential benefits of trade liberalisation are significant for developing countries. In the case of industrialised countries, where the number of responses is inherently smaller, no pair of benefits is significantly different at the 20% significance level. The potential benefits are abbreviated and presented in the same order as in the discussion of the survey above.

Table 5: Differences in means for developing countries

	a	b	c	d	e
a		-	-	20	10
b	-		-	-	5
c	-	-		20	20
d	20	-	20		5
e	10	5	20	5	

4 Survey Results on the Benefits of Domestic Trade Liberalisation

A number of observations can be made from these tables.

4.1 Comparison across Wealth Creation Benefits

Governments in industrialised countries attach almost equal importance to the four benefits related to wealth creation (lowering prices and enhancing choice for consumers: 3.03, lowering input prices for domestic producers: 3.20, promoting competitiveness of domestic producers through competition and innovation brought about by foreign producers: 3.30, and reassuring investors: 2.93). The same evenness can be found in the case of developing countries (3.24, 3.33, 3.20, and 3.56). Importantly, this is not due to the homogeneity of responses within a questionnaire. Delegates did differentiate strongly across the various benefits.

4.2 Consumer and Producer Interests

The literature suggests that producer interests dominate the WTO.[9] A strong mercantilist spirit focusing mostly on producer benefits is, however, not prevalent in the results. Governments in industrialised countries weigh the benefits enjoyed by consumers of final goods about as much as those falling to commercial buyers of intermediate goods (3.03 compared to 3.20). The same situation applies in the case of developing countries (3.24 compared to 3.33). Four countries favoured consumer interests, eight countries favoured producer interests, and sixteen countries attached the same weight to falling prices in both categories. Furthermore, the highest correlation found is between price decreases for consumers and producers (0.78).

It is also noteworthy that governments in industrialised/developing countries appreciate competition and innovation brought about by foreign producers (3.30/3.20) about as highly as decreases in input prices for producers (3.20/3.33). In seven cases, input prices were considered more important, in five cases competition and innovation attained higher scores, while sixteen countries considered these two effects to be equally beneficial. Since enhanced competition lowers producer gains at least in the short run (while it may contribute to creating multinational enterprises with large earnings in the long run), this speaks against the view that governments primarily defend current producer gains.

The correlation analysis reveals that governments concerned about input prices for their producers also care strongly about competition and innovation induced by foreign suppliers. This supports the argument that governments intend to strengthen their country's supply-side rather than just protecting producer gains.

4.3 Reassurance for Investors

Interestingly, even for industrialised countries, the reassurance for investors provided through WTO agreements is relevant (2.93). This effect is generally associated with developing countries where domestic political uncertainty is higher and protection through alternative investment/regional agreements is weaker.

9 See MAVROIDIS (2005) and PETERSMANN (2004).

There is a weak positive link between the FDI/GDP ratio of a country and its valuation of the WTO as a reassurance device for investors, but this link is statistically clearly insignificant. Besides the fact that the question asked for domestic *and* foreign investments, so that FDI is not the only factor, other considerations make this result plausible. On the one hand, countries receiving relatively large amounts of FDI have more at stake than those who do not. On the other hand, these countries are less dependent on additional FDI and/or need the WTO less for investor-reassurance purposes. These FDI-related factors may well equalise each other. Note, however, that generalisation here is complicated not only by the small sample size, but also by the fact that the nature of FDI inflows varies by country; for example, oil-rich countries are likely to need the WTO less in order to attract FDI.

Finally, reassurance for investors is the benefit least correlated with other wealth creation benefits. Whether governments value the price-decreasing and competition- and innovation-enhancing effects of trade liberalisation and/or the investment-stimulating effect are separate issues.

4.4 Poverty and Inequality

Industrialised countries give a low score to a possible reduction in poverty and inequality (2.37). If one takes into account that industrialised countries' governments believe that trade liberalisation has beneficial growth effects which work against poverty, this signifies that industrialised countries' governments generally do not expect trade liberalisation to abate inequality. This is in line with economic expectations based on the Stolper-Samuelson theorem.

Remarkably, most developing countries also perceive only a weak or moderate poverty-alleviating, equalising effect (2.77), though their workers should benefit from the inflow of capital and capital-intensive goods in the wake of trade liberalisation.[10] An explanation could be that the growth- and equality-promoting effects of trade liberalisation in developing countries are substantially counteracted by equality-diminishing side effects.[11] One such effect is that factor rewards depend not only on the relationship be-

10 Developing countries' ratings on poverty and inequality are only weakly correlated with their GDP, their GINI coefficients as a measure of existing inequality, and the wealth creation benefits they expect (the correlation coefficient of the average response on Questions 1a-d and Question 1e is 0.60).

11 On the effect of trade on (in)equality, see GALIANI and PORTO (2006), KIM (2007), KREBS, KRISHNA, and MALONEY (2005), MILANOVIC and SQUIRE (2005) and UNCTAD (2004).

tween capital and labour income, but also on the wages for different labour skill levels. Generally, the premium for skilled labour in comparison to unskilled labour tends to rise with trade liberalisation.

4.5 Industrialised and Developing Countries

The economic benefits were mostly rated moderately higher by developing countries than by industrialised countries. Differences between the low and the high-income group of developing countries are small. The high-income group is more interested in reducing prices and providing more choices for consumers; the low-income group is more eager to promote competition and innovation through foreign suppliers, and to reduce inequality and poverty. Comparing the survey responses on the benefits and costs of trade liberalisation reveals that the benefit perceptions are broadly shared among WTO membership. This is in contrast to cost perceptions which display a marked difference across groups of different development stages.

Figure 1: Developing countries' perception of aggregated benefits

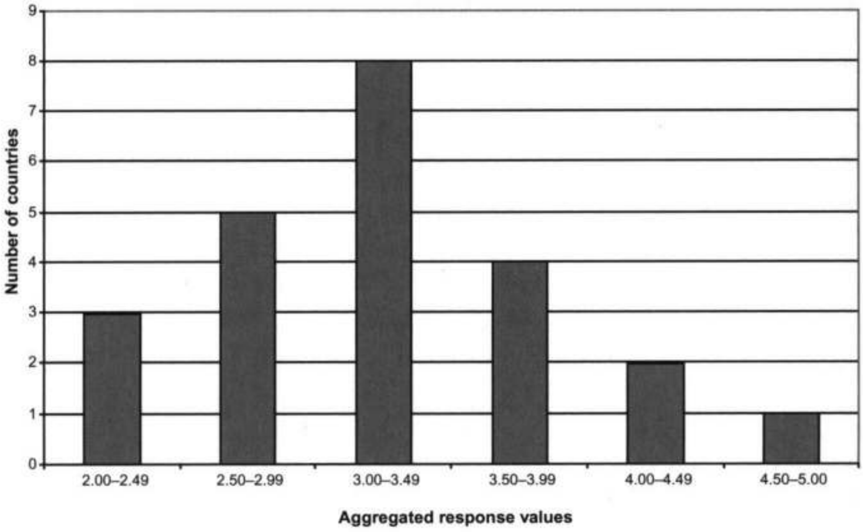


Figure 1 shows the distribution of average benefits as perceived by developing countries. Responses for each country have been aggregated across all questions 1a-1e and then divided by the number of questions. As can be seen, no country believes that only very low or low benefits would result from its liberalisation efforts; the smallest average benefit is at 2.20. Keeping in mind that the cost side has not yet been considered, this speaks against the general notion that developing countries are forced to liberalise against their best interest by overly powerful industrialised countries or that developing countries should be largely exempted from liberalisation commitments in the Doha Round.

5 The Balance of Benefits and Costs of Domestic Liberalisation

The above survey results indicate governments' appreciation for the benefits of their domestic trade liberalisation efforts. The question remains as to how these benefits relate to costs for governments. The various costs of domestic trade liberalisation, which could explain why governments are reluctant to commit to multilateral disciplines, are outlined first. Then, the survey results on these costs are presented and compared to those on the benefits.

5.1 The Costs of Domestic Liberalisation

Loss of tariff revenues
Tariffs are easy to collect but strongly distort the economy. For countries that find it difficult to raise taxes other than tariffs, tariffs may thus be an efficient way to finance their public budget.

Loss of economic policy space
Governments may worry that industrial policies might be restrained by WTO policies, such as infant-industry protection. The basic assumptions are that markets are not perfectly competitive, so that companies with market power can make profits, and that companies learn over time how to reduce their costs of production. The recommendation that results from this is that governments should offer suitable domestic companies temporary protection, giving them time to reduce their costs of production and allowing them to make profits even after the protection is discontinued.

Costs of restructuring
Restructuring an economy to adapt to the change in relative prices brought about by trade liberalisation depreciates physical, intellectual, and human capital that is specific to the company or sector where it has previously been employed (that is, it creates less value in alternative production processes).

Furthermore, the transfer of resources is costly in itself; for instance, when workers need to search for a new job, they can be temporarily unemployed and may need to move to a new location. Governments may be concerned about adjustment because of its direct economic costs, because they want to preserve the stability of individuals' incomes and social peace, or because they fear the political clout of the losers.

Increase in long-term unemployment

The temporary adaptation effects discussed in the previous section included frictional unemployment provoked by the destruction and creation of jobs in response to the initial shock of trade liberalisation. Trade liberalisation may affect the steady-state level of such frictional unemployment. If an open economy is more volatile, people may spend more time out of their jobs searching for new employment.

Other than triggering the movement of labour between sectors and companies, tariff liberalisation can exert downward pressure on wages (at least for certain skill-groups) across entire economies. In the case of inter-industry trade based on different relative factor endowments, wages decline where labour is a scarce factor of production. If trade liberalisation is accompanied by more efficient, technologically advanced production processes, wages for unqualified work may be particularly depressed. Long-term unemployment arises if wages do not adapt to the downward pressure. This adaptation may fail for diverse reasons; for example, labour unions may negotiate above market-clearing wages or minimum wage legislation and unemployment benefits may form a floor. Companies may also voluntarily pay an efficiency wage that includes a premium on top of the market-clearing wage in order to increase employees' efforts and to reduce employee turnover.

Increase in inequality and poverty

Just as trade can raise workers' wages in developing countries that are rich in labour, it can depress labour earnings in capital-rich developed countries. Furthermore, trade liberalisation may exacerbate the wedge between high and low skill labour, it may contribute to price volatility that harms the poor disproportionally, and it can undermine governmental pro-poor policies that are partly financed through tariffs.

5.2 Comparing the Benefits and Costs of Domestic Liberalisation

The survey contained the following questions on the costs-side:

2. What influence do the following (perceived) costs of liberalising access to one's own market have on your country's negotiating position?
   a. losing tariff revenues
   b. restraining economic policies (such as infant-industry protection or regulation imposed on foreign direct investment to foster technology transfer) that aim at promoting certain sectors, types of businesses, economic activities, etc.
   c. incurring the economic, social, and political costs of restructuring (including temporary unemployment)
   d. increasing unemployment in the long run
   e. increasing poverty or inequality, especially by lowering the income of labour with low qualifications

Table 6: Costs of domestic trade liberalization

	Number of responses	Distribution of responses					Average value
		1	2	3	4	5	
2a) Tariff revenues							
Industrialized countries	8	5	2	1	0	0	1,57
Developing countries	36	5	13	6	9	3	2,74
2b) Economic policy space							
Industrialized countries	8	3	3	2	0	0	1,63
Developing countries	36	3	1	11	16	5	3,61
2c) Costs of restructuring							
Industrialized countries	8	0	1	3	4	0	3,33
Developing countries	36	0	2	10	17	7	3,78
2d) Long-term unemployment							
Industrialized countries	8	1	5	1	1	0	2,10
Developing countries	36	0	5	10	15	6	3,64
2e) Inequality and poverty							
Industrialized countries	8	3	4	1	0	0	1,57
Developing countries	36	1	8	5	17	5	3,46

The results are shown in Table 6 which is coded and structured in the same manner as the previous table on the benefits-side. It can be seen that industrialised countries attach significantly lower importance to the costs on average than to the benefits (presented in Table 1).[12] The average across all five types of costs for industrialised countries is 2.0, whereas the average across the five types of benefits is 3.0. Developing countries attach almost identical weight to the costs and benefits, with overall averages at 3.4 and 3.2. (Note that these are not interval scales that would allow to strictly rely on averages formed across averages. These highly aggregated figures only serve as a rule of thumb.)

Figure 2 offers a further comparison. For every country, its average response on the costs (Questions 2a–2e) and the benefits (Questions 1a–1e) is calculated separately. The figure shows the distribution of countries' average benefit and cost perceptions. It can be seen that most countries have moderate positions (averages somewhere between 2.00 and 3.99) and that for no country average benefits fall below 2.00.

Figure 2: Aggregate responses on benefits and costs

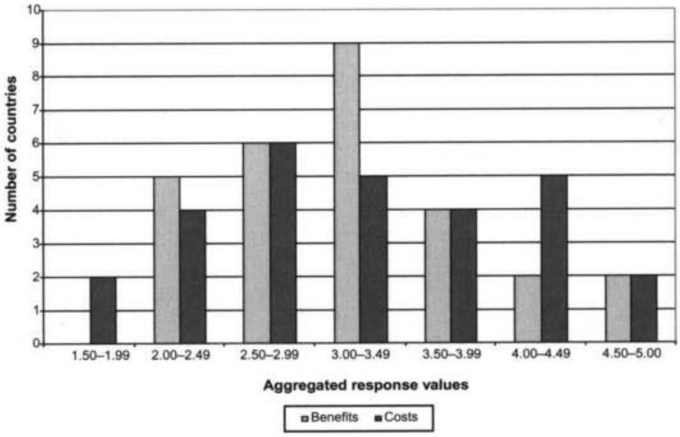
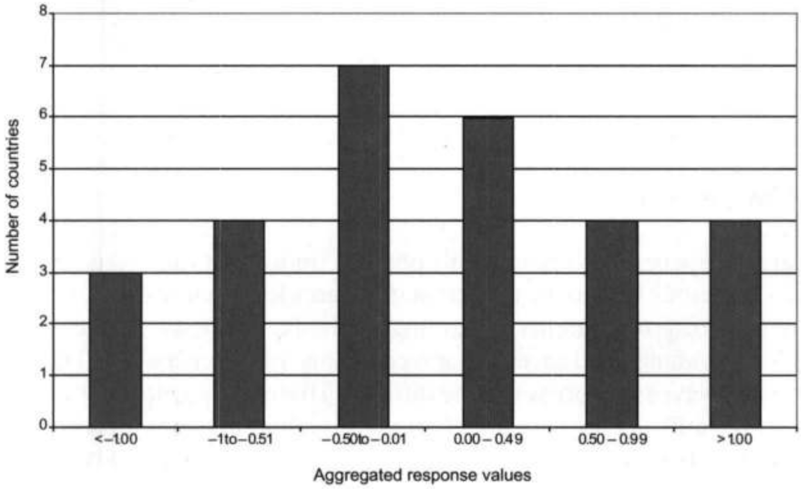


Figure 2 does not reveal whether those countries that have the lowest benefit perceptions also have the highest cost perceptions, so that they see themselves as losing from domestic liberalisation. In Figure 3, the aggregated costs from Figure 1 are therefore subtracted from the aggregated benefits for each country. For thirteen countries the benefits of domestic liberalisation approximately equal the costs (net value between ±0.5). For seven countries, benefits fall significantly short of the costs (net value smaller than

12 The results are not discussed in detail but treated only as a benchmark. For further analysis of governments' perception of the costs of domestic trade liberalisation, see ZAHRNT (Draft).

−0.51), while for another eight countries, benefits significantly exceed the costs (net value larger than +0.51).

Figure 3: Balance of aggregated costs and benefits



Another question included in the survey asked for a direct comparison of the benefits and costs. The following question was asked:

3. What influence do the economic benefits of liberalising access to one's own market have in comparison with the associated costs on your country's negotiating position?

Answers could again be given on a scale ranging from 1 to 5 (standing for "much lower", "lower", "equal", "higher", "much higher"). The results presented in Table 7 show that both industrialised and developing countries are on average approximately indifferent about additional domestic liberalisation (3.10 and 2.88).[13] Again, countries' assessments are heterogeneous, with considerable numbers seeing net benefits or net costs of domestic liberalisation. No country believes the benefits are much lower than the costs, and only very few countries perceive the benefits as much higher than the costs.

13 This does not conflict with previous results demonstrating that industrialised countries attribute greater weights to the benefits than to the costs. The reason for this is that the costs of restructuring received the highest weight of any of the economic benefits and costs. The costs of restructuring thus constitute the dominating concern in the eyes of industrialised country governments and offset the low values given to the other types of costs.

Table 7: Direct comparison of economic benefits and costs of domestic trade liberalization

3) Benefits compared to costs	Number of responses	Distribution of responses					Average value
		1	2	3	4	5	
Industrialized countries	8	0	2	4	1	1	3,10
Developing countries	35	0	11	16	6	2	2,88

6 Conclusions

The article opened with Krugman's popular quote that "an increase in imports – no matter how many resources it releases for other uses – is a defeat" in the eyes of governments. Providing evidence in favour or against this anecdotal evidence and revealing governments' preferences in WTO negotiations, however, has proven to be difficult. Theory and empirical work do not clearly indicate which expectations governments should reasonably form about the economic effects of increased imports. Nor do they convincingly argue how citizens and governments actually form preferences in the face of uncertainty regarding effects. They neither specify how exactly the pressure groups influence the decisions. Hence, the article surveyed the views held by the delegates of member states' missions to the WTO. This method also has its disadvantages, such as the subjectivity of responses, limited replicability and, in this case, small sample size. Given the difficulties of indirect inference on governments' preferences, the approach appears however to be a valuable contribution.

The first question discussed in this article regarded the amount of weight various benefits of domestic trade liberalisation have on countries' negotiating positions. The survey results show that governments in industrialised countries, and also in developing countries, attach almost equal importance to lowering prices and enhancing choice for consumers, lowering input prices for domestic producers, promoting competitiveness of domestic producers through competition and innovation brought about by foreign producers, and reassuring investors. The fact that consumers of final goods are on equal footing with commercial buyers of intermediate goods and that governments equally appreciate the competition and innovation brought about by foreign suppliers is noteworthy. This contradicts the often mentioned mercantilist, producer-oriented spirit of trade policy making, where governments are held to shield existing producer gains. It is also interesting to note that the reassurance for investors, provided through WTO agreements, matters even for industrialised countries.

The potential for reduction of poverty and inequality through trade liberalisation receives rather low values from industrialised countries and medium values from developing countries on average. Assuming that growth diminishes poverty, developing country skepticism points to perceived adverse effects of trade liberalisation on equality or, at least, that the equalising effect suggested by traditional economic theory (Stolper-Samuelson theorem) does not materialise in their eyes.

The second concern of the article was how the benefits of domestic trade liberalisation relate to its costs, that is, whether imports are really perceived as bad. According to the survey results, most governments perceive the benefits of domestic trade liberalisation to roughly balance its costs. Only few countries expect substantially larger costs than benefits from their market opening.

Is KRUGMAN thus wrong? It depends. If one asks whether governments really dislike imports in the balance, Krugman's assertion does not capture today's reality as expressed in the survey results. If the question is whether governments act in WTO negotiations as if they disliked imports, the assertion remains valid. The current Doha Round amply reinforces this view. The most important reason for this division are probably the political incentives at the domestic level that reward protectionist "fighting for the gallery" and public complaints about arm-twisting in order to shift blame for painful policy reforms. Whatever the reasons, the challenge is to implement reforms that assure that the majority of governments will act upon their pro-trade beliefs and move multilateral trade liberalisation forward. Given that most governments do not perceive that domestic market opening implies substantially larger costs than benefits and that all governments strongly desire foreign market access, an ambitious trade round is in principle possible.

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