

DOHA ROUND IMPACTS ON INDIA

Presentation of a Study by CUTS International

**Room C, Conference Centre Varembe,
Geneva, 1 December 2009, 1000-1200 hours**

Event Report

1. CUTS International has initiated a project titled 'Doha Round Impacts on India: A Study in a Sequential Dynamic CGE Framework' with the support of the William and Flora Hewlett Foundation. The objectives of this project are: (i) to examine the impact of agricultural trade liberalisation under the Doha negotiations; (ii) to examine the impact of NAMA negotiations; (iii) to explore the combined effect of agricultural and NAMA negotiations; and (iv) to examine the impact of liberalisation of the domestic service sectors.
2. The first draft of the report of this project was presented in Geneva on 1 December, 2009 along the sidelines of the seventh Ministerial Conference of the WTO. The presentation was organised at the Official NGO Centre for the WTO Ministerial Conference and had a wide attendance of researchers, civil society members and policy makers representing various countries.
3. Pradeep S Mehta, Secretary General of CUTS International chaired the session. A presentation was made by Selim Raihan, Director of South Asian Network for Economic Modeling (SANEM), Dhaka, Bangladesh and the lead researcher of the project. Richard Newfarmer, Special Representative of the World Bank to the UN and the WTO was the discussant.
4. Pradeep S Mehta opened the session by providing a brief background and description of the project and introduced the speaker and the discussant. He said that the root of many controversies surrounding the Doha Development Round (DDR) is the lack of clear understanding on the outcomes of specific issues being negotiated. Every member needs to understand how the negotiations translate into economic gains in quantitative terms. Such stocktaking exercises not only help to reflect upon one's relative position, but also frame future negotiation positions on the basis of realistic and legitimate goals. This in turn can simplify the negotiation process and DDR may very well see off many unnecessary issues that had been raised on the basis of sheer guesswork. Moreover, a range of advanced statistical and econometric tools are available for such exercises these days though none are perfect. It is in this context that CUTS International decided to initiate a project with the objective of doing a quantitative assessment for India.
5. Providing the background of the project, Pradeep S Mehta said that in November 2008, CUTS entrusted the task of constructing an econometric model for assessing the impacts of DDR on the Indian economy to Dr Selim Raihan. Dr. Raihan, who has vast experience in econometric modelling, along with his colleague Dr. Bazlul Khondker have come up with commendable work. This model is unique as it has analysed the effects of

- negotiations on agriculture, NAMA and services in isolation and also what Dr. Raihan calls the 'Full Doha Scenario'.
6. Before inviting the speaker to present the results, he made it clear that the report will be finalised and published for the benefit of trade policy makers only after proper review and this presentation -- the first one after completion of project research -- would facilitate such review. Through it, feedback for the improvement of the report would be facilitated and similar studies on other countries provoked or inspired.
 7. Selim Raihan presented the study by discussing the DDR issues for India at the outset. He gave an overview of the Indian economy followed by descriptions of the data and the model used for the study. The results for the impact of agricultural liberalisation, NAMA and the 'full Doha scenario' respectively were presented separately.
 8. It was noted at the outset that India's DDR issues in regard to agriculture and NAMA can be prioritised as (i) market access issues, (ii) issues related to domestic liberalisation measures and (iii) terms of trade effects. In addition, domestic support measures and subsidies are important in the case of agriculture. Agricultural trade liberalisation in general is expected to be welfare enhancing for India as it is a net exporter of important farm products. The important considerations under the NAMA negotiations are the extent and modalities of tariff cuts for industrial goods for reducing and ultimately eliminating high bound tariffs rates, tariff peaks and tariff escalation. The NAMA liberalisation would have important implications for India in terms of both developed country market access and domestic trade liberalisation in the manufacturing sector.
 9. Tracing the major structural changes in the Indian economy, Raihan said that the trade basket indicates an increasing share of manufacturing in total merchandise exports, with a level of 70 percent attained by 2005, and declining shares of food and agricultural raw materials.. In the case of imports, manufacturing's share is slightly more than 50 percent and has been increasing over time, fuel account for more than one third while shares of food and agricultural raw materials have been declining over time. In regard to poverty, there has been a reduction over the last three decades both in rural and urban areas. The reduction was sharp between 1993-94 and 1999-00 largely due to an increase in the GDP growth rate. Interestingly, in 2001-2006, a large reduction in the rural headcount poverty index has been accompanied by only a modest fall in urban poverty.
 10. Raihan proceeded to explain the dynamic CGE model constructed for the analysis and the detailed results. The first step in constructing the model was to update the latest available 73 sector SAM for India for the period 2004-2006. For modelling purposes, the researchers used an aggregated version of SAM with 29 sectors and four factors of production: skilled and unskilled labour, agricultural and non-agricultural capital. An important feature of the SAM was the decomposition of the households into nine representative groups along with their classification as urban and rural.
 11. In the next step, a dynamic CGE model was constructed following the representative household approach using information gleaned from the Household Expenditure Survey (HES) of India. The dynamic CGE model takes into account accumulation effects and thus allows long run poverty analysis. In addition, it enables the tracking

of the adjustment path of the economy, which may include substantial effects on poverty.

12. The results were shown separately for Agriculture, NAMA and the 'Full Doha Scenario' in terms of both sectoral and aggregate welfare and poverty effects. The highlights of the results were given as follows:

- (i) **Agriculture:** Agricultural liberalisation would have very little effect on Indian GDP. The welfare effects are positive and the effects are stronger in the long run. Paddy, wheat, oilseeds and cotton would emerge as the major beneficiaries of this liberalisation. All the household categories appear to experience growth in real consumption and welfare. Poverty falls for all household categories both in the short and long run.
- (ii) **NAMA:** The NAMA scenario would lead to a rise in real GDP despite the fact that a number of manufacturing sector would contract. This is because of the more than offsetting effect of the expansion of textiles as well as some services and agricultural sectors. The cotton textile, other textile and few services sectors appear to be the gainers from such a scenario. All the household categories would experience fall in real consumption and welfare because of fall in nominal income overwhelming the fall in CPI. Poverty indices would rise for all households relying significantly on non-agricultural capital income as well as unskilled labour income. In sum, the NAMA scenario would lead to some negative outcomes for the Indian economy.
- (iii) **Full Doha Scenario:** The Doha scenario would lead to rise in real GDP in the short run and this effect would become stronger in the long run. In the short run, aggregate welfare would decline but in the long run but this negative effect would become minimal. In general, the agricultural and services sectors and a few sectors in manufacturing, namely textiles would be beneficiaries under this scenario. Among agricultural sectors cotton would expand the most whereas in the manufacturing sector 'other textiles' would be the analogous sub-sector. The largest reduction in output would be seen in the machinery sector.

In the short run, 'all household categories combined' would experience fall in real consumption and welfare because of the fall in nominal income overwhelming that in CPI. However, in the long run, for some household categories such as rural agricultural labour, urban self employed, urban salaried class and urban other households, the exact opposite would lead to a rise in real consumption.

It appears that a full Doha scenario would result in a rise in poverty indices for every household category in the short run, though the long run effects would be much less pronounced, and in fact, for some household categories in the opposite direction. In sum, the Doha scenario would lead to mixed results.

13. Richard Newfarmer, as discussant, said that this work is markedly superior to other similar quantitative pieces of work in terms of its coverage. He said that it is a

commendable achievement to have broken down and analysed the sector wise effects of DDR outcomes on poverty in India. The results are insightful, but must be understood in the light of the inherent limitations of modelling exercises. It is widely recognised now that the value of the DDA is more than that from nominal market access conditions. It will also generate reduced uncertainty regarding future policies by placing upper bounds on what India and trading partners may do in terms of tariffs, policies relating to the service sector, agricultural subsidies, contingent protection, etc. This point can be stressed in the paper so that policymakers can understand that the agenda is broader than that analysed in the paper.

14. Another suggestion by Newfarmer was regarding the checking of the practical applicability of sector specific results by taking into account the flexibilities and other exemptions relating to sensitive and special products etc. He added that if such special exemptions have already been incorporated by the model then that should be conveyed explicitly along with elaboration of the impacts of these exceptions on the trade and welfare effects of the DDA.
 15. One important feature of this model, according to the discussant, was its analysis of services trade liberalisation. More analysis, he added, could be done without altering the basic structure of the model to bring out the effects of efficiency and productivity improvement in the services sector which would surely take place in developing countries such as India.
 16. According to Newfarmer, it is also important to take into account the impact of reduction of transaction costs through trade facilitation measures and reduction of non-tariff barriers. Though these factors are difficult to model, the researchers may try to supplement their model results with qualitative assessment of these factors.
 17. An open floor discussion followed and several suggestions and clarifications were put forward by the audience. The predominant question was regarding the scope for treatment of exogenous factors affecting trade through the model. It was suggested that qualitative assessment of exogenous variables would facilitate such treatment. The most important suggestion pertained to the need to refer back to the actual experiences of Indian economy regarding liberalisation prior to the DDR in the 1990s for comparison with the results of the model. Such an attempt would help in identifying results that were possibly inaccurate.
 18. Concluding the session Pradeep S Mehta congratulated the researchers for producing this outstanding work and urged them to revise and improve the report so that it may serve its purpose of feeding the negotiations as soon as possible. He thanked Richard Newfarmer and the participants for sharing their views and suggestions and expressed the hope that this work becomes an inspiration for other developing countries to undertake similar studies.
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