Seminar on

Doha Round Impacts on India: A Study in a Sequential Dynamic CGE Framework

Conference Hall, Indian Institute of Foreign Trade
New Delhi, 04 March 2010, 1030-1230 hours

Event Report

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1. CUTS International initiated a project titled 'Doha Round Impacts on India: A Study in a Sequential Dynamic Computable General Equilibrium (CGE) Framework' with the support of the William and Flora Hewlett Foundation. Research work carried out under this project included the following areas: (i) impact of agricultural trade liberalisation under the Doha negotiations; (ii) impact of NAMA negotiations; (iii) the combined effect of agricultural and NAMA negotiations; and (iv) impact of liberalisation of the domestic service sectors. The results of this study were disseminated through a seminar jointly organized by CUTS International and the Centre for WTO Studies at the Indian Institute of Foreign Trade, New Delhi on 04 March 2010.

2. Siddhartha Mitra, Director (Research), CUTS International presented the study report. Rajan S Ratna, Professor, Centre for WTO Studies, Amit Shovon Ray, Chair Professor of Trade, Technology and Competitiveness, ICRIER, New Delhi and Bipul Chatterjee, Director, CUTS Institute for Regulation and Competition were the discussants. The seminar was attended by about 30 participants representing academia, media and policy making bodies.

3. At the outset, Siddhartha Mitra clearly explained the rationale for using CGE modelling for this study. He said that in order to correctly assess the impacts of trade liberalisation on the Indian economy under the Doha Development Round (DDR), an assumption of multilateral trade liberalisation should be made. This means simultaneous assessment of not only removal of trade barriers by India but also that by all other participating nations. Moreover interrelationships (input/output flows) amongst traded as well as non-traded sectors within India's domestic economy also need to be taken into account. The CGE method, despite its inherent limitations, is a comprehensive way to undertake such an assessment.

4. Mitra proceeded to provide a brief overview of the CGE method used in the study. The researchers involved in this project made use of the Global Trade Analysis Project (GTAP), which factors in trade relationships among various national economies characterising the world economy. The world prices and quantities emerging out of the GTAP model, given the assumption of multilateral liberalisation, were then fed into a dynamic computable general equilibrium model for India to determine the impact of liberalisation on income and consumption flows. A Social Accounting Matrix (SAM) updated for the year 2006 was used to capture income flows across different household categories. The same process was repeated for various liberalisation scenarios.

5. After giving this technical overview, Mitra presented the results of the study which obtained the effects of four liberalisation scenarios as follows:

(i) *Agricultual Liberalsation* – [*Assumptions on DDR outcomes - developed countries cut agricultural tariffs by 36 percent and the developing countries including India cut the same by 24 percent. Furthermore, both the developed and developing countries carry out a one-third reduction in domestic agricultural subsidies and a complete elimination of agricultural export subsidies.*] Though removal of trade barriers in agriculture will have very little effect on GDP, welfare effect (by way of reduction of poverty) is positive and it becomes stronger in the long run. Major beneficiaries of liberalisation are paddy, wheat, oilseeds and cotton sectors. It will also result in growth of real consumption of all household categories.

(ii) *NAMA Liberalisation* – [*Assumptions on DDR outcomes - developed countries cut their industrial tariffs by 36 percent whereas the developing countries, including India, cut their tariffs by 24 percent.*] NAMA scenarios under DDR would lead to rise in real GDP. Expansion in textiles as well as some services and agricultural sectors would offset contraction of a number of manufacturing sectors. Fall in real consumption and welfare in all household categories as well as rise in poverty for those relying more on non-agricultural capital income and/or unskilled labour income is also predicted.

(iii) *Services Liberalisation* – [*Assumptions on DDR outcomes - Five services sectors (where there are imports of services) have a tariff equivalent protection equal to the average tariff rate on the manufacturing and agricultural sectors and a full liberalisation of such protection. In addition there would be a 10 percent rise in foreign direct investment into these services sectors.*] In the case of services, rise in real GDP and aggregate welfare both in the short and long run is observed, with long run effects being larger. Exports from selected service sectors will increase and tendency for domestic service sectors to contract would be offset by increased flow of FDI into these sectors. The results also show a rise in real consumption and drop in poverty indices for all household categories.

(iv) *Full Doha Scenario* – [*Assumptions on DDR outcomes – Same as above*] There is a rise in real GDP in this case, with the effect getting stronger in the long run. Agricultural and the services sectors and a few sectors in manufacturing, namely textile sectors, will be the beneficiaries while production would contract in most of the manufacturing sectors. In the short run, all household categories would experience fall in real consumption and welfare as fall in nominal income would more than offset by that in CPI. In the long run, for some household categories, such as rural agricultural labour, urban self employed and urban salaried class, the fall in income would be lower than the fall in CPI. Poverty indices would rise for all household categories in the short run.

In conclusion, Siddhartha Mitra quoted the report as saying that the agricultural liberalisation scenario is superior to the other two scenarios as it is the only scenario in which rise in GDP and welfare as well as a fall in headcount index of poverty occur in both long and short runs

6. Rajan S Ratna, the first discussant, said that this study is potentially a valuable exercise which takes into account major effects of India's engagement in the WTO negotiations. According to him, as DDR progresses the study should be updated with the latest changes in the negotiating texts of the WTO. It suffers from one limitation in particular, ie. the study takes cuts in applied tariffs in to consideration, while cuts in bound tariffs as a result of DDR negotiations need not lead to cuts in applied tariffs in an equal measure.

7. Amit Shovon Ray, the second discussant, disagreed with Rajan Ratna and argued that the study was meant to only illustrate the effect of Doha style multilateral liberalisation. It was not necessary therefore to make sure the tariff cuts assumed were exactly those that would actually take place. He lauded the study by saying that there were very few comparable research studies which could enable informed decision making for India in the DDR negotiations. In that respect, this report is a landmark achievement according to him.

8. Amit Ray pointed out that a major hindrance faced by negotiators from India and developing countries is the lack of well researched inputs to assist trade policy formulation. There are certain serious policy implications and alternative scenarios emerging out of the study which should be considered seriously. It is crucial for India to advance negotiating positions based on rigorous studies for deriving more concrete and tangible outcomes from the DDR.

9. Bipul Chatterjee, Director, CUTS Institute for Regulation and Competition, speaking as the third discussant, said that the expectation from this project was not a complete and precise set of possible impacts of DDR, but the unique opportunity to have an overview of possible scenarios which may then be further evaluated by bringing in qualitative aspects and other factors left out by the model. The general results of the report may be used as leads in this respect. Moreover the results of the study can be easily updated *ex post* based on the actual outcomes of the DDR without altering the basic structure of the model. He said that one of the novel features of the study is its consideration of trade in services which would throw up immense opportunities for India.

10. In the ensuing open floor discussion, many suggestions regarding interpreting and using the results of the study were put forth by the participants. The importance of taking into account flexibilities and other exemptions relating to sensitive and special products, the effects of removal of NTBs, reduction of transaction costs through trade facilitation measures etc. was highlighted in the discussion. One of the important suggestions was that the actual experience of India since trade liberalisation of the early 1990s could be compared with the results of the study.

11. In his concluding remarks, Siddhartha Mitra thanked the participants for their valued comments and said that CUTS would keep the initiative alive by attempting to conduct follow up research and advocating for the meaningful usage of the contents of this report for guiding India's participation in the DDR negotiations, making use of the strengths of the report and acknowledging its limitations. He expressed hope that this study would act as a stepping stone for more detailed analysis and would encourage other developing countries also to undertake similar studies so that participation of the developing world in the DDR becomes more productive.