Doha Round Dilemmas: What Stakes India holds in the WTO?

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The Doha round of WTO is one of the most contentious and prolonged round in the history of global trade talks and has been facing a roadblock since July 2008 when the talk failed in Geneva. There is a new found interest among the officials to conclude the Round at least by the end of 2011. Under these circumstances, this paper examines why the process of trade negotiation has run into so much trouble in the Doha Round? Is it the round provides only limited scope for the developing countries like India. So this paper explores the available estimates of welfare gains accruing to India form the existing simulations on the DDA, and analyses India's stakes particularly the agriculture sector, the issues of non agricultural market access (NAMA) and service sectors in the multilateral trading system.

Introduction

The Doha Development Agenda (DDA) is a consequence of World Trade Organization (WTO) attempts to ensure fair trade and development concerns of developing countries and aims to further open global trade across a broad front. The Doha Round proffers a new approach to international trade in a pro development manner and sought to work around the issues that address the concerns of the developing countries in three areas (the "three pillars"): domestic support, market access, and export subsidies and related issues. The purpose of this paper is to examine why the process of trade negotiation has run into so much trouble in the Doha Round, is it the Doha round provides limited scope for the developing countries like India. This paper is an analysis of estimates of welfare gains accruing to India form available simulations on the DDA, and analyses India's stakes particularly in agriculture, the issues of non agricultural market access (NAMA) and Services sectors.

Failure of the 2003 Cancun Ministerial had one more structural paradigm shift: QUAD faded away and the G-4 comprising US, EC, India and Brazil became the new inner circle of WTO, while G-7 (Australia, Brazil, China, EU, India, Japan and US) became the next level of inner circle for negotiations followed by the Green Room meetings and the Trade Negotiations Committee (TNC) meetings. This pattern was followed in the July 2008 Mini-Ministerial. Till date negotiators continue to work to achieve a breakthrough in the World Trade Organization's Doha Round. Their goal is to get an agreement by end of the year 2011. The WTO-DG has pointed out in a meeting in New Delhi at the end of 2008 that 18 out of the 20 outstanding issues (mostly in agriculture), is so close to an agreement'. He was also at pains to point out that the potential loss from not

concluding this round is a loss of global savings of around 150 billion USD in tariffs, of which 2/3rds are expected to accrue to the developing countries. However, he pointed over the fact that many controversial issues in non-agriculture market access (NAMA) and rules are still on the table of which the finalization of modalities and drafting of schedules of commitments would be feasible.

Agricultural Issues and Special Safeguard Mechanism (SSM)

Agriculture is important because half of the poor in developing countries drive their livelihood from farming. They number about 58.5 percent of the workforce in the low-income countries, whereas only 3.2 percent of the workforce is engaged in agriculture in the high-income countries. There are 116 million farmers in India, which constitutes 60% of the work force a large number of them managing small scale holdings, on average just 1.4 Ha in the late nineties. (World Development Indicators 2005 and Global Employment Trends 2005, ILO) India has an overall trade deficit since the nineties but has been a small net exporter of agricultural products since 1990. In 2005, its agricultural trade generated a small surplus of just under $4 billions. Agricultural trade flows in India appear relatively modest compared with those of other main players on the world agricultural markets. Agriculture accounts for 9% of total exports and 5% of imports. This can be explained by the fact that although India is a leading world producer of agricultural products it is also a major consumer (MAP, 2007)

Achieving substantial reform in agriculture markets has been the focus of the Doha Development Agenda (DDA) from its launch in 2001. Disagreements on issues of agriculture have been contentious and intractable, which include cuts in overall trade distorting support (OTDS), percentage of products to be declared as sensitive products, tariff rate quota expansion for such products, tariff capping, special products, and the Special Safeguards Mechanism (SSM). The most serious point of contention was on differences in alternative triggers and remedies. More specifically, the particularly critical issue that led to the current stalemate was (1) by how much imports would have to increase before such remedy would be triggered, (2) how much developing countries would be allowed to raise tariffs beyond current (pre Doha) 'bound' tariff ceilings and (3) on how many products. For developing countries, the pre Doha bindings could be exceeded by up to 15 percentage points or 15 percent of the initial tariff binding for 2-6 six digit tariff lines. Looking at the trade weighted average remedies, the remedy for India is generally very high and does not increase very much and the reason for why caps make little difference for India. Only 7.2% percent of India's total trade was triggered against developed country exporters and 92.8 percent triggered against the developing exporters (Gorter H et al, 2009).

In Doha round of negotiations of World Trade Organization, the Indian government has sought to maintain its policy space with respect to agriculture along with the issues regarding non agricultural market access (NAMA) and services. Specifically, it has sought provisions in the Doha round to treat some agricultural commodities as “special products” that would be subjected to lesser or no tariff cuts based on considerations such as livelihood security. India along with G33, G30 has focused its efforts on the ability to protect special products reflecting food-security concerns. It has also championed the development of a “special safeguard mechanism” to protect developing countries against sudden import surges that could threaten domestic production and employment, with special attention to small subsistence farmers. The SSM is a tool that would allow developing countries to raise tariffs temporarily beyond current legal limits when import volumes increase or prices fall suddenly. One of the main sticking points was whether, and by how much, developing countries would be allowed to raise tariffs beyond current 'bound' levels in order to protect domestic producers. India and China fought for more flexible terms for the use of the SSM, while the US was firm in its demands for predictable market access for its farm products. Perhaps there are deeper problems with the Doha Round, but the SSM was certainly the proximate cause of the failure of the negotiations.

Commodities such as raw cotton, rice, fruits and vegetables, spices, tea and the marine products are the main export items of India. India has a distinct advantage in all agricultural commodities except in sugarcane, groundnut, sunflower and pulses. Fruits and vegetables also have a comparative advantage. Cotton is another important item of the exports. The EU is India's top market, followed by ASEAN, USA, Bangladesh and China. These Commodities represent around one third of agricultural exports. The single biggest export is milled rice, accounting for over 15% of the value of exports in 2003-2008. ASEAN is by far the biggest supplier of agricultural products to India, accounting for a massive 40% of India's imports in 2003-2005. Argentine and Brazil rank second and third respectively. Intermediate products account for 56% of India's agricultural imports, reflecting the importance of vegetable oils. Palm oil imports, mainly from Indonesia and Malaysia, represent 29% of the total imports value.

Analysis of India’s agricultural tariff structure shows that 4 per cent of the tariff lines are bound at 300 per cent. The average bound tariff for agricultural products in 2006/07 was 117.2% while the average applied tariff was 40.8%. More than 49 per cent of all agricultural products have bound tariff rates between 75 to 100 per cent. The bound tariff for around 20 tariff lines is zero. These products include mostly cereals like rye, barley, oats, etc. Almost all tariffs are advalorem and there are only a couple of instances of specific tariffs. However, the average applied rate in India is considerably lower than the average bound rate. India’s applied tariff structure for agricultural

goods is shown in Table below. Average bound tariff rate for India is more than 113 per cent while the average applied tariff rate is about 35 per cent. This gap between the bound and applied rate acts as a cushion against sudden international price drops and allows authorities to raise applied MFN (Most Favoured Nation) rates if and when required. Average final bound duties are higher for agricultural products such as, oil seeds, fats and oils, coffee, tea, cereals& preparations and cotton ranging for 168% to 100%. These high rates of average bound duties reflect in MFN applied duties where beverages and tobacco have the maximum rate equal to 63.3% followed by coffee and tea have average applied rate equal to 55.9% and oil seeds, fats and oils equal to 48.8. The applied tariff for cotton is relatively less among agricultural products which have a rate of 17 per cent (WTO, 2008).

Table 1: India's tariff structure

	Agricultural products			*Non Agricultural products*			*Maximum Tariff*
	Simple mean tariff	Weighted mean tariff	Std dev	Simple mean tariff	Weighted mean tariff	Std dev	
1990	82.87	50.27	46.26	82.17	49.55	38.53	355
2001	40.64	49.07	26.76	31.00	24.81	8.64	210
2004	37.37	60.89	30.10	27.81	20.95	8.48	182
2005	37.57	52.30	33.48	15.00	11.97	7.35	182

Source: UN TRAINS

For some important agricultural products such as some varieties of coffee and tea, sugar, rice, maize, cloves, cardamoms, bay leaves, fresh grapes, apples, plums and sloes and some varieties of nuts, sorghum, millet, dairy and various vegetable products, the gap between applied and bound rates are low or negative. India's bound tariffs are still relatively high, although applied tariffs are much lower. Because of this gap, the government currently retains significant policy space with respect to trade and agricultural prices, including the ability to raise and lower tariffs in response to world price changes and prevailing conditions. Trade policy changes can have important effects on poverty-both positive, through improvements in export opportunities or lower prices, for example, and negative, if cheaper imports reduce the incomes of poor farmers or eliminate employment opportunities in some sectors without creating sufficient jobs in others. The country remains one of the less open economies among large developing countries, with average applied tariffs of 12.1 percent (14.1 percent including ad valorem equivalents) on nonagricultural products and 40.8 percent on agricultural products (World Trade Organization , 2007).

Most of the studies on DDA highlight the prospects and important challenges faced by negotiating countries in the Doha round of the WTO trade negotiations. The studies provide a sharper look at the North-South dimensions of the agricultural trade debate with the North's trade barriers,

domestic support, and tariff escalation. They also underline the South-South challenge on border protection, and reduced rural income opportunities for the lowest-income countries due to policies in higher-income countries depressing world prices. Most of the simulation results of these studies show that, there is a great deal to be gained from liberalizing merchandise – and especially agricultural – trade under Doha, with a disproportionately high share of that potential gain available for developing countries (relative to their share of the global economy). Moreover, it is the poorest people in developing countries that appear to be most likely to gain from global trade liberalization, namely farmers and unskilled laborers in developing countries. To realize more of their potential gains from trade, developing and least developed countries would need to forego some of the Special and Differential Treatment they have previously demanded, and perhaps also commit to additional unilateral trade (and complementary domestic) reforms, and to invest more in trade facilitation. High-income countries could encourage them to do so by being willing to open up their own markets more to developing country exports, and by providing more targeted aid.

Non Agricultural Market Access under Doha

When projections of gains from trade are presented to policy-makers, many of the underlying assumptions are left out of the discussion. Many observe that slashing tariffs will not only restrict the ability of India to foster new industries so that they may integrate into the world economy, but it will also limit government funds to support such infant industries and to maintain social programs for the poor. A key assumption in the modeling exercises of the Doha benefits is that that governments' fiscal balances are fixed –in other words any losses in tariff revenue are offset by lump sum taxes. Indeed, it has been shown that tariffs may be preferable in developing countries with large informal sectors that cannot be taxed efficiently (Kevin P. Gallagher, 2006). Using the same model as the World Bank, UNCTAD has published estimates of projected tariff revenue losses under the NAMA negotiations of the Doha Round for a 'Swiss formula' scenario, which resembles the likely Doha outcome with a coefficient of 10 for developing countries. In India tariff as a percentage of government revenue or as a % of GDP have been felling for a long time now and there is already a trend away from this way of rising revenue. The peak tariff has been slashed from 25% to 10% from 2003-04 to 2007-08, which is a reflection of the radical unilateral tariff liberalization carried out by India. This has provided real and substantial additional market access, to all of India's trading partners without attaching any conditions of reciprocity. In terms of dispersion of tariffs, only 2.21% of the current tariff lines are above the average applied rates of 10.1% for non-agricultural tariffs in 2007-08, indicating that the duties on the bulk of India's non-agricultural tariff lines remain moderate to low (WTO 2007)

These tariff revenue losses are shown with the World Bank benefit projections for the world and various regions and countries in the table below. As the table below shows, tariff revenue losses will be significant and even outweigh the benefits in some cases. Indeed, at US$63.4 billion, the total of such losses for developing countries under NAMA could be almost four times the benefit. Africa, the Middle East and Bangladesh - areas with large informal economies and where tariff revenues are key for government revenues - are predicted to be net losers in terms of benefits, as well as to suffer even larger losses in tariff revenues.

Table 2: Doha Round and NAMA Tariff Losses

Country or Region	**NAMA Tariff losses** (US$ 2001 billion)
Developed	38.0
Developing	63.4
Middle East and North Africa	7.0
Sub- Saharan Africa	1.7
Latin America and the Caribbean	10.7
India	7.9
Brazil	3.1
Mexico	0.4
Bangladesh	0.04

Source: ICTSD, 2006

Several recent studies have dealt with the impact of liberalizing market access for nonagricultural products in the Doha Round. They show that market access is still "unfinished business", since applied protection remains substantial in numerous countries (most of all developing ones) including India. Negotiation requires compromise and success mainly depends on finding the solution for a handful of sensitive issues, and reaching a balance between offensive and defensive interests for most countries. Market access for non-agricultural products is certainly among these important items. The agenda for liberalising market access for non-agricultural products is ambitious. Several studies have dealt with the impact of liberalising NAMA. Bacchetta and Bora (2001, 2003) paint a detailed picture of protection in industrial products, both in terms of bound and applied MFN protection. It is worth noting that exempting even a small percentage of “sensitive” products (in terms of number of tariff lines) could cause the market access gains for developing countries to evaporate. Unless the agreed list of exceptions is quite limited and the cuts in tariffs are substantial, the new market-access opportunities provided by the round will be minimal. Moreover, agreed tariff reductions might prove inconsequential in many cases because they are applied to bound tariffs rather than actual applied rates, which in developing countries are typically much lower and India has one of the biggest gaps between bound and applied rates.

Import duties are among India's main trade instruments as well as an important source of tax revenues, accounting for around 17.5% of Central Government tax revenue. Applied MFN tariffs, especially for non agricultural products, have continued to fall steadily, with the overall average currently at 15.8%. At 12.1% (14.1% including ad valorem equivalents), the average for non agricultural products is considerably lower than the average for agricultural products, which is 40.8%. The growing gap between agricultural and non agricultural tariffs has also raised dispersion in the tariff and the escalation pattern shows increasing de escalation between unprocessed and semi processed and in some cases between semi processed and final products. With the exception of a few applied tariffs, which are at their corresponding bound rates, the difference between the bound and applied tariff rates is considerable. This difference gives the Government considerable scope to raise applied tariffs, scope that was used to raise tariffs for some agricultural products in recent years. Nonetheless, the overall trend in tariff rates continues to be downward; in its 2007/08 Budget, the Government announced a further reduction of the "peak rate" from 12.5% to 10% (WTO 2007).

In the ongoing Doha Round, developed countries are seeking an ambitious tariff reduction in developing countries under the negotiations on non-agricultural market access (NAMA) through application of a non-linear formula. The peak tariff has been slashed from 25% to 10% from 2003-04 to 2007-08, which is a reflection of the radical unilateral tariff liberalization carried out by India. This has provided real and substantial additional market access, to all of India's trading partners without attaching any conditions of reciprocity. In terms of dispersion of tariffs, only 2.21% of the current tariff lines are above the average applied rates of 10.1% for non-agricultural tariffs in 2007-08, indicating that the duties on the bulk of India's non-agricultural tariff lines remain moderate to low.

The 2008 draft modalities on Agriculture and on Non-Agricultural Market Access (WTO 2008) reflect an enormous amount of negotiating effort since the launch of this negotiating round in 2001. Key elements of the agricultural modalities include a 'tiered' formula for reductions in bound tariffs; a tiered formula for reductions in trade-distorting domestic support; and the abolition of export subsidies. The NAMA negotiations focus much more heavily on market access, and include very ambitious Swiss formula tariff-cutting formulas under which the highest tariffs are cut to the greatest degree. In cases, such as China and India, the cuts resulting from application of the formula would be larger, with a cut of almost eight percentage points required in India. Furthermore, new problems and disagreements have emerged from the proposals on mandatory sectoral negotiations for tariff reductions in key sectors beyond the general cuts agreed in tariffs (as demanded by USA), and anti-concentration in tariff reduction commitments. Large developing countries like India and China have expressed their unhappiness with these new proposals.

Table 3: Industrial tariff rates and bindings- post UR and ITA

	Percent of MFN imports that are subject to:				Tariff lines	
	Bound tariffs	unbound tariffs	tariffs bound above applied rates	Tariffs unbound or bound above applied rates	Share of bound duty free tariff lines to total tar. lines	Total tariff lines
Argentina	100.0	0.0	99.9	99.9	0.0	10530
Australia	96.9	3.1	31.7	34.8	17.7	5520
Brazil	100.0	0.0	91.0	91.0	0.5	10860
Canada	99.8	0.2	45.7	45.9	34.5	6261
Chile	100.0	0.0	99.7	99.7	0.0	5055
Colombia	100.0	0.0	97.7	97.7	0.0	6145
El Salvador	97.1	2.9	96.0	98.9	0.0	4922
European Union	100.0	0.0	17.7	17.7	26.9	7635
Hungary	93.6	6.4	3.3	9.7	10.4	5896
India	69.3	30.7	14.8	45.5	0.0	4354
Indonesia	92.3	7.7	86.6	94.3	0.0	7735
Japan	95.9	4.1	0.1	4.2	47.4	7339

Source: CEPII 2003

In NAMA, as the world is aware, India had peak tariffs above 150 percent during the pre-reform days. India bound two-thirds of its tariffs during the Uruguay Round at levels in the range of 25-40 percent. Since the Doha Round began, India has brought down its import tariffs successively every year and the peak tariffs are now 10 percent (except for a handful of products). This is where India can seize initiative. The NAMA negotiations call for a line-by-line tariff reduction, as well as full binding coverage for nearly all tariff lines, except a few flexibilities for developing countries - the so-called 'Paragraph 8 flexibilities'. By moving ahead of the curve and offering real concessions in manufactures (meaning cuts in the applied tariffs) and services in return for concessions for its own exports. But with Doha, whose full implementation would take some more years, India can simultaneously bring down the peak tariffs on our labour-intensive exports such as apparel in the rich countries and extract assured and expanded market access for our IT and other service exports. In his Budget Speech of 2008, the Finance Minister, P. Chidambaram, said quite clearly that the reduction in peak customs duties on non-agricultural products, from 12.5 per cent to 10 per cent, was part of the ongoing process of bringing down the rates to "comparable East Asian rates". Admittedly, there is still some way to go before the targeted compatibility is achieved (East Asian peak rates are around 8 per cent).

India and the Service Sector in DDR

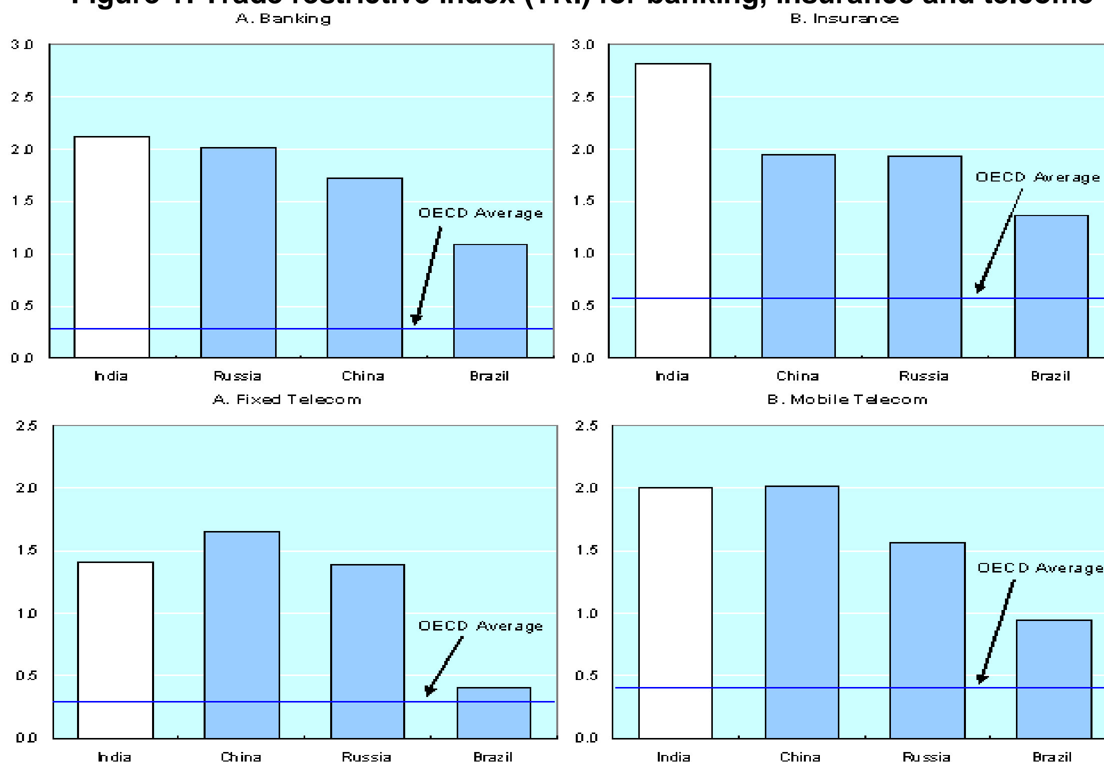
Liberalization of trade in services is much more complex than that of merchandise trade and there are major concerns about the international comparability of statistics on services trade. Service negotiations have to a large extend been overshadowed by the focus on agricultural negotiations so far in the DDR. However, the potential gains from liberalization of services are substantial. Countries that have successfully reformed their telecommunications and financial sectors, in a simplified manner, one can characterize industrialized countries as the main “demandeurs” of mode 3 (commercial presence) liberalization, while a subset of developing countries (e.g., India, China, The Philippines, Thailand, Indonesia, Pakistan and most Latin American countries) emphasizing the importance of mode 4 liberalization.

India’s recent growth has been led by the dynamism of its services sector – particularly high-end, knowledge-intensive services exports. This growth has been driven by the miscellaneous services segment, especially IT and ITES and other business services. Greater progress has been made in reforming services than in other sectors of the economy. Trade, hotels, transport, and communication services grew at double digit rates for the three consecutive years (from 2003/04 to 2005/06). Services liberalisation is another important issue for India due to its interest in the movement of natural persons in the category of experts and skilled persons. There was a Signaling Conference on Services during the July 2008 meeting with the idea that members with an important interest in services could provide clear signals to each other regarding their intentions to open their markets.

The high growth services have been mainly those that have undergone deregulation and significant changes in policies concerning participation of private domestic and foreign players. According to a World Bank study of the Indian service sector, liberalized services such as business services, telecommunications, and financial services sectors have experienced higher growth and greater productivity improvements than services such as legal and real estate services, where there has been limited liberalization. Not surprisingly, India has also been active in voicing concerns about growing protectionist threats with respect to cross-border trade (mode 1). Liberalization of services does not fit comfortably into trade models; for the most part, there is no service tariffs, making it hard to apply methods developed for merchandise trade analyses. The failure of CGE trade models goes deeper than their inability to produce the expected huge forecasts 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.

When services are introduced in the picture, a very interesting outcome appears: there is more to be gained, for the world economy, from a 25% cut of the barriers in services, than from a 70% tariff cut in agriculture in the North, a 50% cut in the South, and a reduction by half of domestic support, as well as the phasing out of export subsidies. India, which has moved in recent years to become a major exporter in services (including software and back office services), is projected to be a bigger potential winner from services liberalization than North America. In fact, as a share of GDP, services is a more important source of gains for India than agriculture and manufacturing liberalization combined. The other important source of gains for India (and for much of the world) is trade facilitation (CEPII, 2003)

Figure 1: Trade restrictive index (TRI) for banking, insurance and telcome



Source: OECD, 2007a

Various reports dealing with India's services sectors highlight particular problems related to market access in financial, telecommunication and distribution services. The OECD Secretariat assessed barriers in banking, insurance, telecom (fixed and mobile), and distribution service and liberalisation effects in many countries, including India. The results show that India is quite restrictive in banking, insurance, mobile telecom, and distribution. The results show that despite significant liberalisation steps, which in the analysed sectors far exceed India's GATS commitments, barriers remain high. In telecommunications, India has eliminated all restrictions on the number of service providers, except in areas where limits are dictated by the availability of

spectrum. The extent of India's autonomous relaxation of foreign ownership limitations-ranging from 74 per cent to 100 per cent across different segments-far exceeds its commitment under GATS to allow 25 per cent in wire-based and cellular services, and even its most recent offer of 49 per cent foreign ownership. While India committed under the GATS to allow FDI up to 51 per cent in computer-related services, it has autonomously liberalized this sector almost completely, with very few explicit barriers. Today, 100 per cent FDI is permitted in almost all segments of the software sector, as is reflected in its most recent GATS offer. Sectors such as banking, insurance, construction and related engineering services, and health are examples of services where the policy regime is moderately liberal with some explicit barriers. FDI up to 49 per cent has been permitted in banking and other financial services except insurance, subject to approval by the central bank.

In services India's major interest is the liberalization of cross-border trade (Modes 1&2) and 4. In cross-border trade India has requested for broad-based commitments across a wide range of service sectors. In Mode 4 the main request by India is in respect of admission of independent professionals and contractual service suppliers for provision of services. It has been pressing for reduction of impediments such as visa and immigration procedures, economic needs test, works permit norms etc. Its main trading partners have not been forthcoming in offering openings for professionals under Mode 4. Most members have not offered any commitment in the categories of contract service providers and independent professionals. Where a response has been forthcoming it is lacking in sectoral spread. Efforts to take up visa and immigration matters in the discussions on Domestic Regulations have also not gone very far. India has autonomously liberalized Mode 3 in many sectors. Today FDI is allowed in all service sectors except retail trade, and establishment restrictions exist in accountancy and legal services. Among important service sectors foreign equity caps of less than 50% apply only on insurance, print and electronic media covering news and current affairs, air transport and higher caps apply to telecommunications and private sector banking at 74 %. India should be in a position to bind most of these, and perhaps go even further but there is no promise that reciprocity would be. Finally, an agreement to liberalize the movement of natural persons is of vital interest to India. Any agreement concluding the Doha round should include significant liberalization of movement of natural persons. The Doha Round is a great opportunity for India to aggressively pursue a substantial liberalization of world trade that is vital for accelerating its economic growth and eradicating mass poverty.

Ex-Ante: Results from the Simulations

India has taken a keen interest in the Doha Round and has become one of the key actors in the WTO negotiations. A multilateral trade agreement would affect India's trade relationships with all trading partners, and thus it is likely to have a larger impact on the Indian economy than any single bilateral free trade agreement. At the same time, the depth of liberalization in the Doha Round would be less than in an FTA in which tariffs (and perhaps other barriers to trade) were entirely eliminated. An agreement in the Doha round negotiations would require India and other countries to bind their agricultural tariffs at lower levels. As a result, the government would have less scope for raising tariffs to offset negative global price changes that could disrupt domestic farm incomes, the source of livelihood for a majority of Indian households. Agricultural price changes would have the strongest effects on India under a Doha agreement, as compared with bilateral trade agreements, because Indian tariffs would be lowered toward all trading partners, including the lowest-cost producer of each agricultural product. Of the benefits projected for developing countries, only a few see most of the gains. According to the World Bank, half of all the benefits to developing countries are expected to flow to just eight countries: Argentina, Brazil (which stands to receive 23 per cent of the developing country benefit), China, India, Mexico, Thailand, Turkey, and Vietnam. There are a number of studies which calculated the potential benefits of the Doha outcomes for both developing and developed countries.

Table 4: Doha's Hidden Price Tag, Doha Benefits vs. NAMA Tariff Losses, and Terms of Trade Losses (billions of 2001 US dollars)

	WB likely Scenario*	Terms of Trade (%)**
Developed Countries	79.9	-0.12
Developing countries	16.1	-0.74
Middle East and Africa	-0.6	-1.32
Sub-Saharan Africa	0.4	-0.83
Latin Am. and the Caribbean	7.9	-1.12
India	2.2	-1.62
Brazil	3.6	-0.18
Mexico	-0.9	-0.48
Bangladesh	-0.1	-0.58

Note : * : Anderson and Martin (2005), Agricultural trade reform and the Doha development agenda, Table12.14; scenario 7

** : Polaski, Sandra (2006), Winners and losers: Impact of the Doha round on developing countries, Carnegie Endowment, Table .4

The table reveals that India gaining a US$ 2.2.billion under World Bank likely Doha scenario with the developing countries gaining 16.1 billion. A likely deal will also contribute to declining terms of trade for developing countries, the ratio of export to import prices, where India is having a wider gap of -1.62 % than any other groupings or individual countries. Under their "likely Doha"

scenario, World Bank researchers projected that the current round of negotiations promised to lift not 144 million of the world's 622 million poorest people out of poverty as projected in previous studies, but just 2.5 million (Anderson and Martin, 2006). Another modeling group, at the French research institute CEPII, has applied a different CGE model, MIRAGE, to agricultural trade liberalization in the Doha round. This model employs a number of innovations, including a new, detailed data set for agricultural tariffs and trade policies, the assumption of imperfect competition in industry and services, and a dual labor market in developing countries structured among other features. The study of (CEPII, 2005) demonstrates a complete liberalization translates into a 0.6% increase in the terms of trade of industrialized countries. In contrast, developing countries record 1.3% of deterioration and LDCs 0.6% deterioration. Countries that were facing large terms of trade worsening, such as India, also sharply limit their loss. Where India's terms of trade worsens to a percentage of -3.22 at peak elimination and -5.99 at complete liberalization. Indeed, they consider trade liberalization in non-agricultural products alone, while negotiations concern other aspects, and in particular agricultural products the over all result may vary.

Table 5: Assessing the Gains from Doha, Welfare Gains from Partial Trade Liberalization, Two Models (billion of 2001 US dollars)

	World Bank Doha Scenario*			CEIP Hong Kong Scenario**		
	Manuf.	Agric.	Total	Manuf.	Agric.	Total
High-income countries	13.6	18.1	31.7	16.4	5.5	21.9
Developing countries	7.1	-0.4	6.7	21.7	-0.06	21.5
India	2.0	0.2	2.2	2.3	-0.04	2.3
Brazil	0.3	1.1	1.4	0.8	0.3	1.1
China	2.2	-1.5	0.7	10.6	-0.3	10.3
Bangladesh	0.1	0.0	0.1	-0.03	-0.02	-0.05
Sub-Sah. Africa	0.6	-0.3	0.3	-0.08	-0.11	-0.19
World total	20.7	17.7	38.4	38.1	5.4	43.4

Note : * : Anderson and Martin (2005), Agricultural Trade Reform and the Doha Development Agenda, World Bank; Table12.14; scenario 7 with SSPs

** : Polaski, Sandra (2006), Winners and losers: Impact of the Doha Round on Developing Countries, Carnegie Endowment; Figures 3.1,3.3,3.5,3.8

The above table presents the projected gains under World Bank Doha scenario and CEIP Hong Kong scenario for both agriculture and manufacturing sectors, in cases of Doha scenario high income countries gain much higher than developing countries both in manufacturing and agriculture and under Hong Kong scenario developing countries gain a little higher than the high income countries in manufacturing sector. However, the two scenarios reveal that a loss of USD billion -0.4 and -0.06 for agriculture sector of developing countries. India benefits than Brazil and China and the combined gains of agriculture and manufacturing come above 2 billion dollars under Doha scenario, while under Hong Kong scenario the potential gains for China is much higher than India in manufacturing sector.

Using the computable general equilibrium models to simulate potential outcomes of the Doha development round negotiations a study by (Polaski S et al, 2008) shows that a multilateral agreement at the WTO has a much larger impact on the Indian economy than bilateral trade agreements with the EU, the United States, or China. Overall, India's real income would increase by about six times as much under a Doha agreement compared with the gain from the most beneficial bilateral agreement. Still, the gain would amount to only about $1.2 billion, or one-quarter of one percent of the current economy. Exports would increase by about 4 percent, while imports would grow by about 3 percent. Domestic production would increase by about $4.5 billion, or one-half of one percent. A Doha agreement along the lines of the study's simulation would be positive, albeit quite modest, for India.

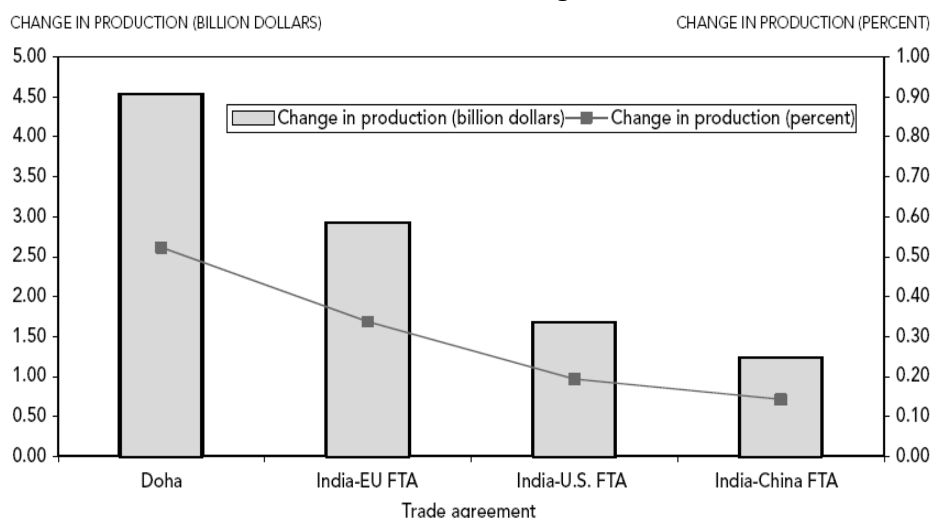
Table 6: Macroeconomic Results for India of a Doha agreement (Change from base simulation in billion dollars and percent)

Macroeconomic indicator	Billion dollars	Percent
Private consumption	0.53	0.17
Government consumption	–0.01	–0.01
Investment consumption	0.68	0.65
Absorption	1.21	0.25
Import demand	2.18	2.87
Export supply	2.43	3.84
Total domestic production	4.54	0.52

Source: Carnegie Endowment, 2008

The above table presents the main macroeconomic results for India of the Doha simulation. India's overall real income increases by $1.2 billion, about one quarter of one percent (0.25 percent).Of this overall gain, real income for households increases by about $530 million and investment increases by $680 million. Imports increase by $2.2 billion, while exports increase by $2.4 billion. Because both net exports and domestic consumption increase, production increases in India, with a potential positive impact on employment of labor and other resources. Total domestic production increases by $4.5 billion (0.52 percent). According to these macroeconomic measures, except for a very slight reduction in government expenditures, the results of a Doha agreement along the lines of this simulation would be positive, albeit quite modest, for India.

Figure 2: Change in Domestic Production in India Under Different Trade Agreements



Source: Carnegie Endowment, 2008)

The effect of different trade policy choices on production in the Indian economy is slightly larger than the overall effect on income. The impact on production of the bilateral agreements is a gain of $2.9 billion (0.34 percent) under an India-EU FTA, $1.7 billion (0.19 percent) under an agreement with the United States, and $1.2 billion (0.14 percent) under an agreement with China. Multilateral liberalization through the WTO's Doha Round would produce larger gains for India than free trade agreements with any of its major trading partners, including the EU, the United States, and China. Nonetheless, a Doha agreement would represent only a small gain for the Indian economy. These changes result from the implementation of the total Doha package as represented in the simulation, including reduction of both agricultural and manufacturing tariffs and of agricultural subsidies. The separate elements of this package produce results that can be quite different from the overall simulation. For example, Indian domestic production decreases as a result of a Doha reduction of agricultural tariffs, processed food tariffs, and domestic agricultural subsidies, while it increases as a result of reduction of manufacturing tariffs. Exports also decline as a result of agricultural and food liberalization, whereas they increase as a result of manufacturing liberalization. Increases in imports are also driven primarily by a reduction of manufacturing tariffs. However the analysis by Polasky reveals another scenario for both China and India, the pattern of imports does not follow changes in agricultural tariffs. High applied tariffs have coexisted with both low and high import levels in those countries, and low tariffs have not caused imports to rise when income levels were very low. The recent experience of these two countries is consistent with the well-established historical pattern that the main drivers of agricultural imports are income levels and variations in domestic harvests, not tariff levels

In a multi country global model, using a variant of the Global Trade Analysis Project (GTAP) model, (Hertel and Keeney, 2006) examine the potential implications of full global merchandise free trade, involving the elimination of all tariffs, export subsidies, and domestic subsidies, for different countries and regions. Their results for India show that full global merchandise free trade would lead to the expansion of imports of agricultural products, textiles and apparel, and other merchandise by 89 percent, 119 percent, and 54 percent, respectively; exports of these products would also rise, by 88 percent, 31 percent, and 57 percent. Curiously, Hertel and Keeney find that the gains for India from trade liberalization of nonagricultural sectors are less than those from agricultural liberalization, unlike the results from the studies mentioned above. A decomposition of the welfare gains for India shows that they are driven by efficiency gains, of which nearly two-thirds are offset by terms-of-trade losses.

Anderson, Martin, and van der Mensbrugghe (2006) carry out a similar analysis of the impact of full global free trade in merchandise projected to 2015, using the World Bank's recursive dynamic model, known as LINKAGE, which is similar in design to GTAP but ads selected dynamic features, attempting to describe some types of changes over time. Starting from a 2001 base year, it estimates annual growth through 2015, including the assumed effects of trade negotiations. The estimate for global benefits in 2015 from complete liberalization, $287 billion, is more than three times Hertel and Keeney's estimate.

Table 7: Impacts of full global merchandise trade liberalization on real factor prices, 2015

(Percent change relative to the baseline in 2015)	Unskilled wages	Skilled wages	Capital	Land, owner, rent	CPI
India	2.8	4.6	1.8	-2.6	-6.0
China	2.2	2.2	2.8	-0.9	-0.4
Brazil	2.7	1.4	1.6	32.4	2.2

Source: Anderson, Martin, World Bank 2006

Their results show much muted gains for India, with real income only 0.4 percent higher in 2015 compared with the baseline case without reform. In a simulation of an ambitious Doha scenario, the authors find a real income gain of $2.2 billion (0.25 percent) for India by 2015 if additional investment is induced by trade liberalization. However in a sensitivity analysis, Van der Mensbrugghe, one of the study's authors, finds losses for India from Doha in comparative static results that do not include the dynamic model's assumption that trade will induce additional investment and productivity gains. It is only in the most protected developed countries of Western Europe, Northeast Asia and the US that these levels would fall – and even there it is only by small amounts, contrary to the predictions of scaremongers who claim agriculture would be decimated in reforming countries.

Table 6: Effects of a comprehensive Doha reform on agricultural out put and Employment growth by region, 2005 to 2015

(Annual average growth rate, percent)

	Output		Employment	
	Baseline	Scenario 5[b]	Baseline	Scenario 5[l]
Australia and New Zealand	3.5	4.3	0.4	1.0
Canada	3.5	4.0	0.2	0.6
United States	2.2	1.9	-0.8	-1.4
EU 25 plus EFTA	1.0	-0.3	-1.8	-2.8
Japan	0.5	-1.4	-2.7	-4.1
Korea and Taiwan	2.2	1.5	-1.3	-2.1
Argentina	2.9	3.5	0.9	1.5
Bangladesh	4.2	4.2	1.1	1.2
Brazil	3.3	4.4	1.1	2.2
China	4.3	4.3	0.8	0.8
India	4.3	4.4	1.0	1.0
Indonesia	3.0	3.0	-0.7	-0.6
Thailand	-0.1	0.4	-4.6	-4.3
Vietnam	5.8	5.9	3.9	4.0
Russia	1.5	1.4	-2.3	-2.4

Source: Anderson, Martin, World Bank 2006

Creating employment is an important goal of the Indian government, both to absorb unemployed workers, currently estimated at about 40.4 million, and also to generate opportunities for the large numbers of underemployed workers in rural areas and the estimated 7 to 8.5 million annual new entrants into the labor force. In a growing economy like India, it is expected that labour demand would match labour supply and would lead to more jobs and output. But, there is no guarantee for this. In India, between 1993-94 and 1994-2000, the economy grew at around 6.7% per year. But, employment grew only 1 % per annum. Labour force during this period was growing at over 2 % per year and there were plenty of backlogs of underemployment and unemployment. Thus, labour demand was growing much slower than labour supply. However, it has to be emphasized that India has low levels of trade relative to its size, so it is not easy to identify direct links between trade and employment. All the trade pacts simulated in Anderson's study would induce small increases in demand for unskilled labor, with a Doha agreement increasing demand by 0.9 percent (about 4 million jobs based on current employment levels).Given the relatively high levels of protection in the Indian economy, it might be expected that greater opening to trade would lead to much faster growth for the economy overall, which could contribute to employment generation and poverty alleviation, though this is a big and controversial subject in the literature and it is quite difficult to draw a conclusion. However the result of the above mentioned and other studies, (e.g., Ganesh-Kumar, Panda, and Burfisher 2006, Polaski 2006) show that the gains for the Indian economy from multilateral trade liberalization are surprisingly modest. Within the developing world, not all countries benefit equally. Argentina, Brazil, and India receive most of the benefits of agricultural liberalization to developing countries as a whole, while China and Vietnam receive most of the benefits of textile liberalization. The benefits to China and India appear large merely because they are such large countries. In per capita terms, both, especially India, receive

less than the average for the developing world; in terms of percentage of GDP, they are both close to the average.

Conclusion

The study shows that by concluding the Doha Round greatest global welfare gains can be achieved while maximum gain amassed to developed world. The developing countries like India have very limited scope and minimum gains particularly in agriculture sector to achieve through liberalization and through tariff cuts. However with the Doha Round at a decisive stage, India has a historic opportunity to seize the leadership role in bringing the Round closer to a successful conclusion. The challenge and the opportunity for India are best understood against the progress that has been made in the Doha Round. Developing countries-like Brazil and India-have so far taken the view that unless the EU moves further on agriculture, they are not willing to move on non-agricultural market access (NAMA) and in services. While EU has already agreed to eliminate export subsidies and also to some cuts in the trade-distorting production subsidies. It demands that any further cuts in agricultural protectionism must be matched by significant reciprocal cuts in manufactures and services abroad and India has proposed to precede the service sector negotiations further along with agriculture and NAMA issues where India has a comparative advantage.

India broadly hailed the Revised Draft Modalities texts on Agriculture and NAMA (Non-agricultural market access) even while expressing some reservations on new insertions in the revised texts that would affect the fundamental interests of developing countries. There are also some other issues on which large divergences still exist, e.g. OTDS (overall trade-distorting domestic support), market access in Sensitive Products and Tariff Capping. “Significant and effective reduction of trade distorting subsidies of the developed countries is an issue on which there can be no compromise because they impact adversely upon the livelihood of millions of our poor farmers”. On the issue of Special Safeguard Mechanism in the revised text many in India believe that that some of the proposals in the text were likely to render the SSM unworkable and detract from its utility. India continue to insist on “effective cuts” in the Overall Trade-Distorting Domestic Support (OTDS) being liberally extended by the rich countries to their farmers and other issues like cotton subsidy on which there was no agreement so far, as well as on the blue box. Blue box subsidies are an exemption from the general rule that all subsidies linked to production must be reduced or kept within defined minimal levels. It covers payments directly linked to acreage or animal numbers, but under schemes which also limit production by imposing production quotas or requiring farmers to set aside part of their land.

A sad fact is that in India's political environment, external stimulus to liberalization is generally counter-productive. External pressure serves to increase the resistance to liberalization. The Indian Government's initiatives for reform in two major service sectors, insurance and retail trade, have been blunted by domestic resistance on account of strident demands by a few large foreign enterprises. According to (A Huda, 2007) planning commission member of India, success in the Doha Round is expected to consolidate and strengthen the system and this will be important for India. Further India needs to continue the process of internal and external liberalization to propel its economic growth further. If the Doha Round were successful it would normally be expected to provide external impulses for liberalization.

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