

The Doha Development Agenda Impacts on Trade and Poverty

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A collection of papers summarising our assessments of the principal issues of the WTO round, how the outcome might affect poverty, the progress of the negotiations, and the impact on four very different countries.

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8. Poverty impact of Doha: India

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Like Brazil, India will be expected to liberalise its own trade.

Past trade liberalisation

Trade liberalisation in India has consisted of tariff reductions, elimination of quotas, and also economic reforms. In India, trade reforms followed macroeconomic reforms. Stiglitz has referred to India as a successful case of globalisation. The average rate of growth in the twelve-year period since India initiated the process of economic reforms has been around 6% p.a. Part of this growth can be attributed to the substantial change in the composition of the Indian economy since the Uruguay Round; from import substitution to outward orientation. The Round resulted in trade gains as well as some poverty alleviation for India.

In keeping with the theoretical and analytical literature on trade liberalisation and poverty, studies on India show short term negative effects and long term dynamic positive effects. Although the overall picture for poverty reduction is generally favourable, sectoral studies show differing outcomes. For example, trade liberalisation is expected to lead to gains to the auto components sector, but losses to the machine tools sector.

India and jobless growth?

Trade liberalisation has been associated with an increase in employment, but also a slight deceleration in wages. This suggests workers are pulled into labour markets from a reserve army (infinite elasticity of supply in India), but wages do not rise. Trade liberalisation has also been associated with increasing use of casual labour (see paper *Trade liberalisation and poverty*), and most of the gains in employment are in the informal sector. India is one of the few countries which has a framework of legislation for the informal sector.

The relationship between trade and employment is tenuous at best, as the states

which are better integrated into the global economy have had high unemployment rates. However, these states have higher non food expenditure suggesting higher consumption and living standards. It is now generally agreed, in the light of mixed evidence, that absolute poverty declined in the 1990s, with the headcount ratio falling by almost 1% per year. Attributing this poverty reduction to trade liberalisation is difficult, however, because of the amount of 'noise' surrounding such changes. The share of trade has risen to 20% of GDP.

Tracking the MDGs

India's performance in attaining the Millennium Development Goals is mixed. It is one of the few countries on track for reducing income poverty, and is also likely to achieve the target for enrolment in primary education, and access to improved water sources. However there are several areas of concern like maternal mortality, gender parity in secondary education, undernourishment etc. These can be achieved only through direct government expenditure and facilitation of private expenditure, not through trade liberalisation.

Poverty at centre stage of trade liberalisation

If poverty is to be made the central goal of Indian trade liberalisation strategy, a differentiated strategy, under which developed countries would liberalise to India, but India would cut its protection to developed countries by half, and offer free trade to imports from other developing countries, would yield maximum welfare gains. The welfare effects of this would be 20% higher than those of global free trade. This supports OECD calculations that 79% of total gains from liberalisation for developing countries would come from developed country liberalisation vis-à-vis developing countries. For this reason, it would be wrong to criticise the emphasis by the G20, the group of major developing countries in the WTO, on developed country liberalisation.

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This study aims to map out the issues on which policy and negotiating approaches in the Doha Round of Trade Negotiations could maximize the benefits to the poor given the assumption that the negotiating mandate is completed. Three sectors were studied: services, agriculture and textiles and apparel. Although trade liberalisation has had growth effects in these sectors, the poverty implications have been modest. However, India has, because of its size, low levels of trade, so it is not easy to identify direct links between trade and poverty.

Services as a driver of the Indian economy

India's share in services trade is higher than its share in manufacturing trade. The service sector boom in India in the post Uruguay Round period shows that India has a competitive advantage in several service sectors. There is potential for poverty alleviation from services trade, although this has been largely ignored. While services may not employ people below poverty line directly, liberalisation has made a number of services accessible at economic prices to a large number of people, including the poor. In addition, the potential for employment of unskilled personnel in some services sectors such as telecommunication, tourism and audio-visual is very high. For example, nearly two-thirds of the employment in the telecommunications sector is of those with low or no skills. It is thus essential to lock in commitments on services liberalisation so that there is no backlash and increase in protection that would restrict outsourcing to India. India also wants to obtain assured market access commitments especially for labour movement. Internally, India needs to impose Universal Service Obligations on service providers to help ensure that rural and backward areas also benefit from the liberalisation of services.

High poverty alleviation potential of agriculture

In agriculture, barriers such as tariff peaks, tariff escalation, domestic support and export subsidies continue to restrict effective market access of Indian agricultural products to developed country markets. India's own tariffs have fewer peaks. Peak tariffs are applied to only 1.3% of tariff lines in India, versus 20% of tariff lines in developed countries. India has made reduction of subsidies by developed countries a condition for its own tariff reduction.

Domestic prices in general are not linked to international ones. Domestic prices of most agricultural commodities in India are higher than international prices, except in the case of rice and groundnuts. If there is full trade liberalisation in agriculture, India, as a net food exporting country, is likely to see significant welfare gains. India's exports are likely to increase by 13% if trade distorting domestic support in developed countries is reduced. The main sectors which would gain would be cereals, sugar and dairy products. Simulations show that roughly 100 million people could be lifted out of poverty by liberalisation in the developed countries in agriculture.

The poverty effects of multilateral liberalisation would be increased if adequate reforms are made at the domestic level. Capacity building initiatives are required to help Indian farmers integrate better into the international market and also to meet quality issues in order to overcome the exacting regimes of sanitary and phyto-sanitary measures. Consolidation of land holdings, better infrastructure, better use of IT, and marketing reforms are needed.

Textiles and trade protection

Textiles and apparel is a sector which has a high potential for poverty alleviation. More than 50% of the labour force are women and therefore expansion of this sector would have a significant effect on their conditions. It has a very high exposure to international markets; more than half of the textiles and garments produced in India are exported. This is a high growth sector and some simulations show a very high growth potential (especially in garments) with the removal of quotas. The end of the Multi-Fibre Arrangement was agreed in the Uruguay Round, but phased over 10 years, ending December 2004. After that, 310,000 people are expected to be removed out of poverty every year for the next 7 years. Simulations suggest that exports of garments from India could double after the quotas are removed. This could be increased if developed countries reduce their high tariffs in this sector. These gains are likely to be highest in the short-term, before China is freed of controls, because India is less competitive than China. India's competitiveness needs to be improved. The National Textiles policy of India has set very high targets on quality, exports, labour productivity and on timely delivery. Power costs and lack of stable supply are a major handicap for Indian textiles and garments which need to be addressed urgently. However, there is a trade-off between increased labour productivity and employment and so social safety nets need to be put in place. The large number of trade defence measures which developed countries apply in this sector casts serious doubts on whether there will be full trade liberalisation. Repeated antidumping investigations would lead to unemployment and closure of factories. Small firms face difficulty in defending anti-dumping cases because of the high costs. Regulating anti-dumping is therefore also an Indian negotiating goal.

Where to now?

This study suggests that agriculture, services and textiles liberalisation, if properly structured, could have a high potential for poverty alleviation. Even if India must reduce some of its own high tariffs, this could have favourable effects on poverty. However, poverty alleviation would be much higher if appropriate domestic measures accompanied the trade liberalisation.

The importance of developed countries' providing appropriate market access to India to ensure higher welfare gains cannot be overstressed. Negotiating through a group such as the G 20 (see paper *How developing countries can negotiate*) offers the possibility of differential liberalisation.

India is also interested in the potential for South-South trade, including possible arrangements among the G20. But because of its vulnerability to protectionist use of anti-dumping, it has a strong interest in strengthening the WTO.

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