

GROUPE D'ECONOMIE  
MONDIALE



SCIENCES PO

## Séminaire de recherche du GEM

The Groupe d'Economie Mondiale invites you to attend its next Research Seminar:

### **“Putting Development Back Into the Doha Agenda: Poverty Impacts of a WTO Agreement”**

*Thomas W. Hertel, Purdue University & The World Bank*

*Joaquim Bento de Souza Ferreira Filho, Universidade de São Paulo*

*Guido Porto, The World Bank*

*Anne-Sophie Robilliard, IRD & DIAL*

*Nabil Annabi, Université Laval*

**11 March 2005, 2.30pm – 5.30pm**

**Room 26, 2<sup>nd</sup> Floor, 27 rue Saint-Guillaume, 75007 Paris**

Métro Saint-Germain des Prés (Line 4) or Rue du Bac (Line 12)

**Overview:** This seminar reports on the findings from a forthcoming book based on a major international research project investigating the poverty impacts of a potential Doha Development Agenda. It combines in a novel way the results from several strands of research. Firstly, it draws on an intensive analysis of the DDA Framework Agreement, with particularly close attention paid to potential reforms in agriculture. The scenarios are built up using newly available tariff line data and their implications for world markets are established using a global modeling framework. These world trade impacts, in turn, form the basis for thirteen country case studies of the national poverty impacts of these DDA scenarios. The focus countries include: Bangladesh (2 studies), Brazil, Cameroon, China (2 studies), Indonesia, Mexico, Mozambique, Philippines, Russia, Vietnam and Zambia.

*A detailed programme and abstracts of individual papers follow.*

*Please confirm your attendance by email to [gem@sciences-po.fr](mailto:gem@sciences-po.fr)*



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Poverty Impacts of a WTO Agreement**

11 March 2005, 2.30 – 5.30pm

Room 26, 2<sup>nd</sup> Floor, 27 rue Saint-Guillaume

**2.30 – 2.40pm: Overview of the Project**

*Thomas W. Hertel, Purdue University and The World Bank*

**2.40 – 3.00pm: The Doha Round, Poverty and Regional Inequality in Brazil**

*Joaquim Bento de Souza Ferreira Filho, Universidade de São Paulo*

**3.00 – 3.15pm: Discussion**

**3.15 – 3.35pm: Social Impact of a WTO Agreement in Indonesia**

*Anne-Sophie Robilliard, Institut de Recherche pour le Développement (IRD) and DIAL*

**3.35 – 3.50pm: Discussion**

**3.50 – 4.10pm: Coffee break**

**4.10 – 4.30pm: The Doha Round, Cotton Sector Dynamics & Poverty Trends in Zambia**

*Guido Porto, The World Bank*

**4.30 – 4.45pm: Discussion**

**4.45 – 5.05pm: Implications of the Doha Development Agenda for Poverty in Bangladesh**

*Nabil Annabi, Université Laval*

**5.05 – 5.20pm: Discussion**

**5.20 – 5.30pm: Conclusions**

*Thomas W. Hertel, Purdue University and The World Bank*

## **Putting Development Back Into the Doha Agenda: Poverty Impacts of a WTO Agreement**

*Thomas W. Hertel and L. Alan Winters, Editors*

### Main findings:

- The liberalization targets under the DDA have to be quite ambitious if the round is to have a measurable impact on world markets and hence poverty.
- Assuming an ambitious DDA, including, among other things, a tiered formula for developed country agriculture, with marginal tariff cuts of 45, 70 and 75 percent, we find the near-term poverty impacts to be mixed; some countries experience small poverty rises and others more substantial poverty declines. On balance, we find that poverty is reduced under this DDA, and this reduction is more pronounced in the longer run.
- Key determinants of the national poverty impacts include: the incomplete transmission of world prices to rural households, barriers to the mobility of workers between sectors of the economy, as well as the incidence of national tax instruments used to replace lost tariff revenue.
- In order to have a significant near term impact on poverty, complementary domestic reforms are required to enable households to take advantage of market opportunities made available through the DDA.
- Sustained long term poverty reductions depend on stimulating economic growth. Here, the impact of the DDA on productivity is critical. In order to fully realize this potential, trade reforms need to be far reaching and should include reducing barriers to services trade and investment in addition to merchandise tariffs.

## **The Doha Round, Poverty and Regional Inequality in Brazil**

*Joaquim Bento de Souza Ferreira Filho, Universidade de São Paulo and Mark Horridge, Monash University*

This paper addresses the potential effects of the Doha round of trade negotiations upon poverty and income distribution in Brazil, using an applied general equilibrium (AGE) and micro-simulation model of Brazil tailored for income distribution and poverty analysis. The model has also a regional breakdown, allowing the assessment of the associated issue of regional inequality.

In the model, the Representative Household hypothesis was replaced by a very detailed representation of households. The model distinguishes 10 different labour types, and has 270 different household expenditure patterns. Income can originate from 41 different production activities (which produce 52 commodities), located in 27 different regions inside the country. The AGE model communicates to a micro-simulation model that has 112,055 Brazilian households and 263,938 adults.

Economic activity in Brazil, a large country, is spread unevenly across the territory. Manufacturing industries are concentrated in the South-East region, while agriculture, although more evenly distributed geographically, is the main source of income of the Center-West states. Poverty, on the other hand, is a pervasive phenomenon in the country, which has one of the worse income distributions in the world. The poorest states in Brazil (defined based on the share of population below the poverty line) are concentrated in the North-Eastern states.

Poverty and income distribution indices are computed over the entire sample of households and persons, before and after the policy shocks. Model results shows that even important trade policy shocks, such as those applied in this study, do not generate dramatic changes in the structure of poverty and income distribution in the Brazilian economy. The simulated effects on poverty and income distribution are positive, but rather small. They are, however, concentrated in the poorest households.

The study also suggests that the beneficial effects would arise from the income earning changes, and not from the fall in the consumption bundle prices. This result is highly correlated to the Agriculture and agricultural-related industries, which have their activity levels increased in all simulations. The bulk of the effects can be attributed to the liberalization by other countries, rather than to changes in Brazil's tariff structure.

The study emphasizes the need to approach poverty by the household (rather the personal) dimension, by tracking changes in the labour market from individual workers to households. In the PNAD 2001 data used here, the head-of-household income accounts for about 65 percent of aggregated household income in Brazil. Using head-of-household income as a proxy for household income may poorly predict the effect of policy changes.

## **Social Impact of a WTO Agreement in Indonesia**

*Anne-Sophie Robilliard, Institut de Recherche pour le Développement (IRD) and DIAL and Sherman Robinson, University of Sussex*

Indonesia has experienced rapid growth and the expansion of the formal financial sector during the last quarter of the 20th century. Although this tendency was reversed by the shock of the financial crisis that spread throughout Asia in 1997 and 1998, macroeconomic stability has since then been restored, and poverty has been reduced to pre-crisis levels. Poverty reduction remains nevertheless a critical challenge for Indonesia with over 110 million people (53 percent of the population) living on less than \$2 per day.

The objective of this study is to help identify ways in which the Doha Development Agenda might contribute to further poverty reduction in Indonesia. In order to provide a good technical basis for answering this question, we use an approach combining a Computable General Equilibrium (CGE) with a micro-simulation model. This framework is designed to capture important channels through which macroeconomic shocks affect household incomes. It will allow making recommendations on specific trade reform options as well as on complementary development policy reforms.

The framework presented in this study allows generating detailed poverty outcomes of trade shocks. Given the magnitude of the shocks examined here and the structural features of the Indonesian economy, only the full liberalization scenarios generate significant poverty changes. Their impact is examined under alternative specifications of the functioning of labor markets. These assumptions generate quite different results but both conclude that the impact of the full liberalization on poverty would be positive, with efficiency gains dominating the adverse food price changes that could hurt the poorest households. Two alternative tax replacement schemes are examined. While the direct tax replacement appears to be more desirable in terms of efficiency gains and translates into higher poverty reduction, political and practical considerations could lead the Government of Indonesia to choose a replacement scheme through the adjustment of VAT rates across non exempt sectors.

Although the poverty reduction in terms of the number of people lifted out of poverty might appear impressive, the overall impact of trade liberalization is quite modest. One should also keep in mind that these results are likely to underestimate the cost of temporary unemployment endured by displaced workers in some sectors. The reallocation could be all the more harmful since unemployment benefits are not available for most Indonesian workers.

## **The Doha Round, Cotton Sector Dynamics and Poverty Trends in Zambia**

*Jorge Balat and Guido Porto, The World Bank*

The Zambian cotton sector has gone through significant reforms during the 1990s. After a long period of parastatal control, a process of liberalization in cotton production and marketing began in 1994. These reforms were expected to benefit agricultural farmers. In Zambia, these are rural, often vulnerable, smallholders. This paper investigates the connection between the dynamics of the cotton sector and the dynamics of poverty and evaluates to what extent cotton can work as a vehicle for poverty alleviation. We find that cotton can indeed act as an effective mechanism for increased household welfare. We find income gains associated with cotton production as well as positive impacts on the long-run nutritional status of Zambian children. The impacts, however, are relatively small.

## **Implications of the Doha Development Agenda for Poverty in Bangladesh**

*Nabil Annabi, John Cockburn and Bernard Decaluwé of Université Laval; Bazlul Khondker and Selim Raihan of University of Dhaka*

We examine the impacts of WTO agreements and domestic trade policy reforms on production, welfare and poverty in Bangladesh. A sequential dynamic computable general equilibrium (CGE) model, which takes into account accumulation effects, is used allowing for long run analysis. The study is based on 2000 SAM of Bangladesh including fifteen production sectors, four factors of production (skilled and unskilled labour, agricultural and non-agricultural capital) and nine household groups (five in rural areas and four in urban areas) based on the year 2000 household survey. To examine the link between the macro effects and micro effects in terms of poverty we use the representative household approach with actual intra-group income distributions.

The study presents six simulations for which the major findings are: (1) the Doha scenarios have negative implications for the overall macro economy, household welfare and poverty in Bangladesh. Terms of trade deteriorate and consumer prices, particularly food prices, increase more than nominal incomes, especially among poor households; (2) Free world trade has similar, but larger, impacts; (3) Domestic trade liberalisation induces an expansion of agricultural and light manufacturing sectors, favourable changes in the domestic terms of trade. Although the short run welfare and poverty impacts are negative, these turn positive in the long run when capital has adjusted through new investments. Rising unskilled wage rates make the poorest household the biggest winners in terms of welfare and poverty reduction; (4) Domestic liberalisation effects far outweigh those of free world trade when these scenarios are combined; (5) Remittances constitute a powerful poverty-reducing tool given their greater importance in the income of the poor.