



**A critical review of the Trade Sustainability  
Impact Assessment for the Free Trade Agreement  
between the EU and the Republic of India from a  
gender perspective**

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A critical review of the Trade Sustainability Impact Assessment for the Free Trade Agreement between the EU and the Republic of India from a gender perspective

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## Introduction

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This briefing is a review of the Trade Sustainability Impact Assessment (TSIA) of the Free Trade Agreement currently under negotiation between the European Union (EU) and the Republic of India (EU-India FTA).

In June 2007, negotiations for a broad-based bilateral trade and investment agreement between the EU and India were launched. Since then, seven full rounds of negotiations took place; nonetheless a conclusion of the negotiations cannot be expected before 2010. The eighth round of negotiations is likely to be held in October 2008 in India.

During the course of these trade negotiations, the European Commission commissioned ECORYS, an external consultancy company based in the Netherlands, to conduct a Trade Sustainability Impact Assessment (TSIA). The final report -a joint study by ECORYS Netherlands, CUTS, India and CENTAD, India- was published on 18 May 2009.<sup>1</sup>

## Aim of the TSIA

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*The TSIA seeks to identify economic, social and environmental impacts of a trade agreement. The purpose of an SIA is to integrate sustainability into trade policy by informing negotiators of the possible social, environmental and economic consequences of a trade agreement.<sup>2</sup>*

As such, the EU-India TSIA investigates the potential economic, social and environmental impacts under three different FTA scenarios with varying depths of liberalisation ranging from a limited FTA, an extended (deep) FTA and an extended (broad) FTA plus. In the three scenarios the authors distinguish between short and long run effects.

### Trade liberalisation scenarios

	Description	Food	Non-food	Services	Trade facilitation
Scenario 1	Limited FTA Agreement	90 % bilateral tariff reductions	90% bilateral tariff reductions	25 % bilateral services reduction	1 % of the value of trade
Scenario 2	Broad FTA Agreement	97 % bilateral tariff reduction	97% bilateral tariff reductions	75 % bilateral services reduction	2 % of the value of trade
Scenario 3	Broad Plus FTA Agreement	97 % bilateral tariff reduction	97% bilateral tariff reductions	75 % bilateral services reduction	2% of the value of trade plus an additional 1% reduction on certain sectors.

Source: TSIA, 58-59.

## Structure of the TSIA

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The 479 pages study starts with an overview of the situation between the EU and India in terms of economic, social and environmental issues and trends in order to set the backdrop against which the negotiations are taking place.

Next to the overall results and analysis it includes an in-depth analysis of following five sectors: Grains (including rice); motor vehicles and automotives; textiles & clothing; financial and banking services; other business services (including management consulting, accountancy, call centres and IT services). Additionally, five horizontal issues were analysed in detail: Trade facilitation; investment conditions; technical regulations for industrial products; sanitary and phyto-sanitary measures (SPS); intellectual property rights (IPR).

Finally, the report includes a set of policy recommendations which seek to enhance the positive and mitigate the negative potential effects of the FTA.

## **Methodology**

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The TSIA is mainly based on a Computational General Equilibrium (CGE) model; a common tool to estimate how economies react to trade policy changes. A CGE model creates a simulation of the working of actual economies through a series of equations that establish the relationship between economic variables. The reliability of findings from CGE models is constrained by data limitations and the necessity to simplify economic realities in order to make the models computable. (Southcentre, 3). As we will see from below, the mechanistic use of economic modelling and textbook assumptions of perfect markets has huge limitations in giving a real understanding of the complex impact of trade liberalisation on women's livelihoods, empowerment and gender equality.

The analysis on Foreign Direct Investment (FDI) in the service sector is supplemented by a Gravity analysis.

The quantitative analysis is complemented by qualitative analysis and assessment methods including Causal Chain Analysis (CCA) and stakeholder consultation. The European Commission sees the engagement of civil society (which includes both, business representatives as well as NGOs) in the TSIA process as one of the main avenues to involve civil society in a dialogue on trade policy and trade policy issues: *"Stakeholder input and consultation in both the EU and India is important for ensuring the quality, credibility and legitimacy of the SIA process."* (TSIA, 47). But given the current format, impact and terms of engagement in relation to the Civil Society Dialogue, NGOs are very critical of this process; some organisation actually consider the dialogue with the Commission on trade policies a *'complete failure'*.<sup>3</sup>

In the framework of the EU-India TSIA, civil society in the EU and India was invited for feedback on the various stages of the report.<sup>4</sup> For various reasons including the announcement of dates for meetings on short notice and tight deadlines for commenting only few NGOs in the EU and even fewer in India were able to participate in the SIA. Also negative experience gained over the years by engaging in the SIA process<sup>5</sup> as well as a more general 'fatigue' to engage with DG Trade mentioned above led to the growing concern that *"the SIA tool is but a cosmetic exercise to defend EU trade policies rather than a real attempt to formulate sustainable trade policies"*<sup>6</sup> and consequently, to disengagement from the process.

## **Gender and social inequalities in the TSIA**

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A core group of indicators has been selected to identify the potential impact that trade liberalisation and changes in trade rules might have on sustainability. These sustainability indicators are sub-divided by

core indicators and specific indicators (second-tier indicators). As one can see from the table below, gender equality is confined to the social indicators in terms of gender equality in employment and employment opportunities, gender equality in education, social protection, and social dialogue. Indicators for measuring social inequalities, discrimination and violence related to class, caste, ethnicity, migration, age, etc. are missing altogether. But especially for a country like India it is impossible to assess social equality and social protection without talking throughout about *dalits*, *adivasi* and Muslims (Wichterich).

#### ***Economic sustainability indicators***

<b>Economic core indicators</b>	<b>Specific indicators</b>
Real Income	GDP per capita, Net value added, consumer effects, effect on prices, variety of goods and services
Investment	Total Investment, Public Investment, Business Investment, FDI
Trade	Balance of trade in goods and services, Volume of trade in goods and services, Terms of trade

#### ***Social sustainability indicators***

<b>Social core indicators</b>	<b>Specific indicators</b>
Poverty	People living under poverty line, GINI index, regional effects.
Health	Life expectancy, Mortality rates (maternal, child), Access to health services, sanitation, nutritional levels.
Education	Primary, secondary and tertiary enrolment rates, literacy rates.
Labour issues (incl. Employment and decent work)	Unemployment, Productivity and quality of work, Rights at work, Employment opportunities, wage effects, self-employment
Equality	Gender equality in employment and employment opportunities, gender equality in education, social protection, social dialogue.

#### ***Environmental sustainability indicators***

<b>Economic core indicators</b>	<b>Specific indicators</b>
Atmosphere	CO2 emissions, air quality, quantity of dangerous chemicals in atmosphere (dangerous to ozone layer or to humans).
Land	Land use in agriculture, forest, desertification, urbanization, natural resource stocks.
Biodiversity	Number of species, protected areas, ecosystem
Environmental quality	Waste management, energy resources
Fresh and waste water	Quantity of water use, Access to safe drinking water, Water quality, Quantity of waste water, Cleaning of waste water, Water supply.

Source: TSIA, 23-24.

The definition of indicators reflects thus a notion of sustainability integrated into SIAs that fails to capture the importance of social justice, gender equality and women's empowerment as key elements of sustainable development. Accordingly, the study suggests following basic findings in relation to the impact on gender equality focussing mainly on women's employment and income: *Female workers in India are expected to benefit relatively more from the substantive increase in employment in the wearing apparel sector, as the share of female employment is relatively high in this sector. Male workers are expected to benefit relatively more from the economic boost expected in the services sector that is expected to create relatively more skilled than unskilled employment opportunities. (...) Increased FDI and outsourcing activities in the financial services and other business services sectors are expected to create relatively more skilled than unskilled employment opportunities, favouring the former [men].* (TSIA 277).

Obviously, to a limited extent gender was included in the analysis; however, by no means this can be considered as applying a holistic sustainability analysis. Such an analysis must move beyond simply identifying the impact of trade liberalisation on male/female employment and income. Instead, the impact changes in trade-related measures on gender *and other categories of social exclusion* should be developed not only in relation to the social, but also in relation to the economic sector. Singling out gender as a sole category of social exclusion and isolating it from other social identities is overly simplistic and distorts complex realities; gender intersects with other social categories of inequality. (Wichterich). Taking into account the intersection of identities, inequalities and oppression thus encourages a broader conception of sustainable development but also of poverty, which transcends material deprivation based on income and consumption measures, and involves an analysis of social relations, decision making power and entitlements.

Being aware of modelling constraints and data limitations, the use of case studies might have proved worth to address some of the shortcomings of doing a comprehensive analysis. Also accounting for the unpaid domestic reproductive and care work and recognising gender patterns and intensities of time use in the agricultural sector should be integrated into trade policy evaluation. The use of the UNDP human development reports and more specifically, their gender development index (Karadenizli 2001, 4) would improve the deficiencies at least to a certain extent.

## **Main findings and conclusions of the study**

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The final TSIA report suggests following six key results based mainly on the results of the CGE modelling:

- The extended FTA brings India and the EU by far the most benefits in terms of economic, social and environmental gains (welfare, production, trade, wages, health & productivity, employment and poverty).
- In the short-run, the most beneficial scenario could potentially be the most costly in terms of regulatory approximation, investments in new and upgraded standards and production methods and sector re-allocations (e.g. SPS standards in meat and animal fats, certifications and border cost reductions)
- The overall effects are expected to be (small but) positive for the EU and positive for India. However, the gains and losses differ among sectors and within the sectors, people are differently affected.
- Negative third country effects (e.g. for Bangladesh, Pakistan or Sri Lanka) as a consequence of the EU India FTA are found to be very small.

- The FTA leads to an overall reduction in poverty in India, both for urban and rural poverty levels. The more ambitious the FTA, the more poverty is reduced as income effects increasingly dominate price effects.
- In the more limited FTA, rural poverty levels in India fall faster than urban poverty levels. In the more ambitious FTA this result is reversed. (TSIA 15-16).

The study primarily highlights the expected positive economic impacts for both parties. Critical social and environmental impacts are acknowledged: *Even though the overall effects are (small but) positive for the EU and positive for India, it is clear that some sectors gain and some lose, and within the sectors, some people gain and some lose* (TSIA 16). *The social effects are ambiguous at points, and some of the environmental effects are ambiguous or negative.* (TSIA, 299). However, as a limited understanding of sustainable development underlies the study (see above), gender and social justice do not figure prominently in the analysis. Following this logic, the authors simply recommend matching the trade provisions with weak and inadequate mitigations and enhancement measures, instead of calling the negotiation proposals into question and/or adjust the proposals.

As such *the study falls short to bring the results together in a comprehensive way and use these meticulously for drawing its policy recommendations.* (Sengupta 3). The proposed broad and general policy recommendations do not necessarily follow clearly from the results of the study or the sector specific analysis. At least those conclusions, which are not supported by the limitations or results of the CGE model, should be substantiated or removed.

The study, for example, mentions that the expected gains of the FTA will be unevenly distributed and inequality will rise (TSIA 16). Despite this, the study still highlights the positive impact on poverty (mainly through income increase). However, given the nature of India's economic growth and the rising inequality that India is already facing as a result of its past economic policies, the distribution of economic gains, if any, is a critical issue. (Sengupta 4).

Similar deficiencies exist in relation to the issues of employment, unemployment, and the informal sector. If one of the reasons to conclude a free trade agreement is the prospect of job creation, further analysis is required to explore the pertinent question whether the FTA will bring about decent, sustainable employment or not. Despite of some serious methodological problem, such as the non-inclusion of the informal employment in the CGE modelling (TSIA 51), full employment and wage flexibility, the report suggests that unemployment in India will not go up significantly because of the inflow and outflow of workers across the different sectors. The authors propose as flanking policy measures to *Improve the flexibility of EU and Indian labour markets and aid short-term adjustment needs,(...) including providing skills retraining in the short-run and to refocusing, improving and increasing access to this training.* (TSIA 295). However this measure is mainly geared towards skilled workers with some degree of education and does not adequately take into account the fact that nearly 40 percent of the adult population is illiterate and the skill base in India is very low. An easy shift from a sector losing (Grains) to a sector gaining like services and some sectors of manufacturing like garments and textiles can not be expected. (Sengupta 4). Especially concerning is the expected negative employment impact in the agricultural sector, processed foods and beverages (TSIA 90; 64), which currently provides livelihoods to a high number of uneducated, unskilled workers, many of whom are women.

In addition, India does not have a social security net, unlike the EU, which can support and ease –at least to a certain extent- labour market adjustments. It is a weak point that the study does not include adjustment costs in the gains. It even does not provide estimates for adjustment costs caused by costs

related to labour displacement (unemployment benefits, retraining) and investment in land conversion (e.g. irrigation) or by tariff revenue loss.

In relation to the loss of revenues, the study suggests that for India the loss in tariff revenues is limited. It argues that for India the share of customs duties in India's total tax revenues has already decreased from 32% in 1995-6 to 18% in 2007-8. (TSIA 62). Instead for the Indian government revenues from services trade is becoming a much higher priority. However, especially in the context of the current economic and financial crisis the issue of generating revenues is important as it can provide for the urgently needed resources to fund critical development activities and boost the domestic economy.

Further concerns in relation to the study (Sengupta and others) refer to

- The lack of including the issue of EU agricultural subsidies in the analysis: The impact of EU subsidies on Indian farmers is not very clear according to the study; however, the examination of the relationship between subsidy cuts and potential gains would be interesting as in its deepest liberalisation scenario the study considers subsidy cuts and finds the maximum benefits for India under this scenario).
- The lack to account for the global economic crisis: It is important to take into account the current global economic forecasts, including new data on expected trade and investment flows. An analysis should be done on the impact of the crisis on sectors that potentially would gain from FTA such as textiles. The study should tackle in a non-biased way the contentious issue of further financial and banking liberalisation.
- The pace of liberalisation: Even so the study points out to a need for phased liberalisation to enable sectoral and labour market adjustments, the envisions seven years period does not seem adequate to allow for the adjustments.
- The failure to address the question of reduced policy space, which is especially in relation to services and the India regulatory environment an important issue for development.

*In relation to gender and social inequality, the study suggests that special attention should be given for poverty aspects, rural development and gender issues. As preventative, mitigation and enhancement measures for ensuring and strengthening the pro-poor and pro-gender equality effects of the FTA, we suggest effective implementation of technical assistance support with respect to SPS measures and productivity enhancement in rural India, coupled with policies aimed at deeper penetration of the banking sector into the Indian rural areas (possible if regulatory burdens are reduced), as well as special attention to education and (re-training) for low skilled (female) workers, particularly in the services sectors. These inadequate and somehow simplistic measures aim at better integrating women in the labour market while ignoring the complex and often contradictory effects of trade liberalisation on women's access to employment, livelihoods and income.*

## Conclusions

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In sum, the **EU-India TSIA** study that is predominantly based on the CGE modelling -considered by the authors as the best way to explain the impacts of trade, is **focusing too much on the potential economic gains** of the FTA. The **economistic bias** prevents a multi-disciplinary and holistic research process. Indicators, notably on the impact of trade measures on natural resources, poor people, decent work, inequality, small producers and women<sup>7</sup>, case studies as well as the closer cooperation between economists and social scientists should be central pillars of impact assessments.

The TSIA has a clear **pro-liberalisation bias**: It limits the proposed policy measure to formulating **weak and inadequate enhancement, prevention and mitigation measures**, which are predominantly



addressed at EU partner countries which anyway have limited capacity and resources to respond to the adjustment costs. There is no openness to **question the adequacy of trade liberalisation** itself. But the examination of all potential policy options -including heterodox and feminist economic proposals- as alternative to the neoclassical approach is imperative to define an EU trade policy that truly contributes to sustainable development and gender and social justice.

Such an EU trade policy would also include taking into account the **asymmetries between the EU and India** in order to avoid deepening the existing gaps, especially with respect to products and sectors that are important to further a gender and social just sustainable development path. It would truly pay respect to women in their different roles as workers, producers and caretakers of their families and local communities and to the intersection of multiple identities, inequalities and oppression.

As shown, the implementation of EU-India TSIA is by no means adequate *to integrate sustainability into trade policy*.<sup>8</sup> The situation in India is so complex that more layered and nuanced approaches remain a must for addressing key policy issues. (Sengupta 3). The TSIA remains an insufficient tool to make EU trade policies compliant with sustainable development, gender and social and human and women's rights and to improve the transparency and participation in EU trade policy making.

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2 <http://ec.europa.eu/trade/issues/global/sia/faqs.htm>

3 S2b letter to Catherine Ashton, EU Commissioner for External Trade, July 2009

4 In Brussels, three public meetings were held on 5 June 2008; 6 November 2008; 29 January 2009. In India a TSIA Workshop took place in New Delhi on 23 June 2008.

Moreover nine individual interview were held.

5 In 1998 the European Commission committed itself to carry out SIAs of its trade policies. So far the Commission failed to adequately address the concerns that CSOs have repeatedly expressed in relation to the methodology, integrating SIA output in policy-making or on specific SIAs. (See: Statement of European Civil Society Organisations: EU TSIA).

6 [http://www.sia-acp.org/gcc/download/changing\\_the\\_balance\\_of\\_trade.pdf](http://www.sia-acp.org/gcc/download/changing_the_balance_of_trade.pdf)

7 For instance:

- On gender: data over trade and women's economic, social and political position in comparison to men's, theoretical analyses over the causal relationships, costs and benefits as well as direct and indirect relations between gender and trade, extended understanding of the existing links between gender and other indicators (economic, social, etc.);

- On decent work: indicators referring not only to the quantity but also to the quality of labour: job security, informal and unprotected work, gender gap in the labour market, child labour, youth employment, social protection, freedom of association, worker-employer relations, etc. □ On small producers: indicators about level of income and income security, sustainability of production (including economic sustainability), market access, etc.

- On natural resources: indicators on trade and the level of natural resources' exploitation, illegal logging, local vs. export-oriented fishing, food sovereignty (fish).

8 <http://ec.europa.eu/trade/issues/global/sia/faqs.htm>