

## **IMPACTS OF THE DOHA ROUND AND ECOWAS ON THE GUINEA-BISSAU ECONOMY: AN ANALYSIS WITH CGE MODEL**

Topic: Feedback Session 3a

Author: Jlio Vicente Cateia

Co-Authors: Mauricio Vaz Lobo Bittencourt, Terciane Sabadini Carvalho

Economic activity of Guinea-Bissau is fundamentally based on agricultural production, which accounts for more than 60% of its gross domestic product (GDP) and 90% of its exports. In the amount of 68% of the population over 15 years employed, 61% correspond to employment in the agricultural sector, 5.8% industrial, and 34.1% employment in the services sector.

Guinean government has adopted policies to promote the export of agricultural products, since customs revenues contribute significantly to the country's public finances. Customs revenues from exports contribute between 35% and 40% of total tax revenue generated since 2007.

However, trade in agricultural products depends heavily on how the world market works. However, until the 1990s, agricultural goods did not have their international trade regulated by the General Agreement on Tariffs and Trade (GATT). Agriculture became the focus of effective discussion only in the Doha Round in 2001. Thereafter discussions on the potential of tariff reduction agreements on welfare and on sustainable economic growth of nations highly dependent on the performance of the primary sector became more frequent.

Since the early 1960s, West African countries have started discussions on creating common market in which members decide to unify economic (monetary, fiscal, tariff, etc.) policies. This initiative resulted in the creation of the Economic Community of West African States (ECOWAS) in 1994.

Given the importance of the agricultural sector for the Guinean economy, this research seeks to deepen the understanding of how exports react to tariff reduction agreements. This analysis for a small economy appears little in the empirical trade literature. The studies on the effects of tariff variation on economic performance reveal some limitations, since they are usually carried out under the partial equilibrium perspective, without many concerns about the possible spillovers for the other sectors that an economic policy is capable of provoking. Empirical work in a general equilibrium perspective is done in large economies or with some diversification in the productive structure.

In addition, the claim that international tariff reduction agreements are capable of promoting the domestic development of poor countries has been common, but, to our knowledge, no studies have been found for the purpose of analyzing the sensitivity of the sectors of this small economies, where agriculture is the main economic activity, to price shocks. The achievement of the our study through the application of a computable general equilibrium model can help to fill these theoretical and empirical gaps.

Understanding how the country's exports respond to tariff shocks can especially serve to guide the government in the elaboration of more consistent economic policies precisely in those sectors that have comparative advantages.

In view of this, the our paper begins with the following questions: How do the Doha Round and ECOWAS influence the volume of exports of agricultural products from Guinea-Bissau? Do these tariff reduction agreements together with domestic promoting agricultural production policy have any redistributive effect capable of promoting growth and poverty reduction? What are the mechanisms through which international trade affects the trajectory of income and investment of the sectors?

This study seeks to answer these and other questions with triple basic goals, namely: (i) to analyze the tariff reduction proposal formalized in the Doha agreement on the Guinean agricultural sector; (ii) to study the impact of ECOWAS on the Guinean economy; (iii) to contribute to the analysis of trade liberalization and development implications, particularly discussing the effects on poverty reduction and welfare improvement of trade tariff reductions and agricultural production incentive policies. This analysis will be based on the Guinea-Bissau economy-based computable general equilibrium (CGE) model with GAMS/GEMPACK based on the 2007 social accounting matrix (SAM). There are two

simulation scenarios: a baseline scenario is taken with reference to the policies existing and another one is summed up considering the Doha agreement and the creation of ECOWAS. It is assumed that such agreements may have the potential to provide a stable trajectory economic growth of Guinea-Bissau because, by encouraging agricultural exports, they may also represent an opportunity for greater external and domestic investments in sectors of the economy, and particularly in the agricultural sector, contributing to the reduction of poverty. In particular, in addition to its potential to increase domestic employment and boost regional trade, ECOWAS can benefit the population as it raises domestic wages as a result of improved wages throughout the region.