Procurement Reforms and Cost-Benefit Analysis of GPA Accession: India

Dr Sangeeta Khorana, Management & Business
Sujitha Subramanian, Law
Aberystwyth University

Presentation at the Public Procurement Seminar Series
Nottingham, 3rd Feb 2011

Outline

• Background
• Case study: India
  • Recent reforms
  • Cost-benefit analysis of accession to GPA
• The way forward

Background

• Government procurement under the GATT/WTO
• Special provisions for developing countries – but still lack of interest (Article V)
• Rationale:
  • Enhance market access
  • Foster international competitiveness
  • Lower costs - Efficiency in public spending, b/savings
  • Economy wide positive spill-over effects
Current state
- But in reality discrimination against international suppliers
- Existing literature:
  - Part of overall industrial development policy and tool to implement strategic trade policy (Baldwin, 1984)
  - Remedy national disparities (Uttley & Hartley, 1994)
  - Lack of structures (Warrillow, 1995)
  - Promote secondary policies (Arrowsmith, 2003)
  - National security/non economic concerns (Bajari & Tadelis, 2001; Evenett & Hoekman, 2005)

Case study
- India specific focus
  - Recent changes in the Indian procurement system (GFR 2005)
  - Cost-benefit analysis of India’s accession to the GPA

<table>
<thead>
<tr>
<th>Government procurements</th>
<th>State governments</th>
<th>Indian Railways</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedure for tenders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy for preferential treatment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Settlement of disputes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Other steps: e-tendering, address corruption institutionally
The Indian PP market

- Total value of Indian central government procurements: 4.5% of GDP in 2009-2010, increased since 2000-01 (Khorana, 2002, 2010)
- Large market and stable economic indicators
- Reluctant to join the GPA??

Cost-benefit analysis of accession

<table>
<thead>
<tr>
<th>Affected parties</th>
<th>Benefits in the event of signing up to the GPA</th>
<th>Costs in the event of signing up to the GPA</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>• Increased market access (?)</td>
<td>• Competitive disadvantage to access foreign markets</td>
</tr>
<tr>
<td></td>
<td>• Enhance competitiveness of domestic firms (?)</td>
<td>• Threat to small &amp; medium firms</td>
</tr>
<tr>
<td>Other member countries</td>
<td>• Increased transparency in public procurements (open tenders, Integrity Pact)</td>
<td>• Reduced ability to promote secondary policies</td>
</tr>
<tr>
<td></td>
<td>• Growing PP market</td>
<td>• Transaction costs</td>
</tr>
<tr>
<td></td>
<td>• Increasing growth rate</td>
<td>• Sovereignty (?)</td>
</tr>
</tbody>
</table>

- Increased market access (??)
- Enhance competitiveness of domestic firms (?)
- Competitive disadvantage to access foreign markets
- Threat to small & medium firms
- Reduced ability to promote secondary policies
- Transaction costs
- Sovereignty (?)
- Small size of the GPA market as % of the GDP wrt other countries
- Lack of a cohesive legal framework (no feedback to unsuccessful bidders, DS procedure, Competition policy)
- High corruption

The way forward

- GP ‘market’ approach is a stumbling block – possibly ‘sectoral’ approach (?) - need of an improved understanding of India’s domestic concerns
- Maximise the use of S&D treatment provisions
- Limit the application of WTO dispute settlement mechanisms
- Delayed kick-in of certain GPA provisions, e.g. domestic review procedures
- Technical assistance and capacity-building
Comments and questions!