The Role of Research on Trade Policy Changes in India: Experience of UNCTAD India Programme

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A key challenge for trade negotiators and trade policy makers in formulating the country’s negotiating strategy in multilateral and bilateral trade negotiations lies in identifying and reconciling the diverse range of interests of stakeholders. To illustrate, lowering of customs duty on raw materials is likely to be supported by down-stream user industry which would benefit from cheaper raw materials. On the other hand, domestic producers of raw materials would oppose reducing tariff on these products as they might lose market share or experience price suppression/ price depression on account of cheaper imports. Thus, the same measure – lowering of customs tariff in this case - would affect different segments of the stakeholders differently. This is likely to result in different segments of the stakeholders seeking to influence trade policy in different directions, often conflicting with each other.

While the above example of divergent impact on stakeholders of reduction in customs tariff can be viewed as being simplistic, there is hardly any subject in international trade negotiations which does not involve a clash of interests in the domestic economy. This requires a comprehensive examination of issues so that various interests involved are properly weighed, and a balanced position is worked out in the best interest of the country as a whole. There may also be a need of weighing the short-term and long-term interests of the domestic economy. Keeping various complexities in mind, comprehensive and detailed examination of trade issues has to be undertaken, based on economic and social considerations, keeping in view the differing interests and linkages with different aspects of the economy as also with the overall macroeconomic factors. This calls for serious research and also wide consultation with different wings of government, various interest groups and economic operators before a particular trade policy option can be decided.

While the crucial role of research in influencing trade policy is universally recognized, few specific instances, particularly in developing countries, can be cited in which research led to changes in trade policy. Existing literature on the role of research on trade policy changes in the developing world focus on two aspects- (i) why there exists a need for research by developing countries when significant amount of research is being done by the developed world; and (ii) have there been occasions when research by developing countries have influenced trade policies.

Regarding the first issue, a paper by Arvind Panagariya (1999) highlights the need for research by developing countries in the context of the WTO negotiations. The author argues that given the far-reaching implications of the decisions made under the auspices of the WTO, the need for conducting research on a continuous basis and developing long-term strategies is extremely important. Developed country members of WTO such as the United States and the European Union take this research very seriously and by the time they are ready to place a subject on the WTO agenda, they have conducted numerous studies on it.
According to him not only is this the case, developed countries also promote research in multilateral organizations on the impact negotiations would have on developing countries.

Panagariya points out that developing countries heavily depend on the World Bank for research on WTO related issues that concern them. He argues that this dependence might be risky since at crucial moments during the negotiations, these institutions promote the ethos that the interests of developed and developing countries are in harmony. While this may be true to some extent in matters such as trade liberalization, when it comes to issues such as the Agreement on Trade Related Intellectual Property Rights (TRIPS) and the social and environmental clauses in the WTO, the interests of the two sets of countries are in direct conflict. He concludes that it is absolutely essential for developing countries to be able to critically examine the research disseminated by such institutions and also supplement this by research done by them.

In a similar vein Kennedy, Stewart and Thang (2003) argue that what developing countries lack is not skilled and tenacious negotiators but the capacity to analyze and understand their own interests in trade negotiations. According to them poor countries suffer a knowledge deficit. They have not developed the aggregations of scholars, interest groups, nongovernmental organizations, and professional public servants that work to generate the hard facts and policy prescriptions informing policy-making in the rich countries. Hence the authors point out that the best and urgent course for developing countries is to correct their knowledge deficit with timely, policy-relevant research. They try to substantiate their argument with the help of three examples of where research might influence or might have influenced policy.

The first example they cite is that of CARICOM research on the benefits of cartels in some situations in small economies. According to the authors this research might be useful for CARICOM negotiators when they address competition questions at the WTO. They also cite the example of the research being carried out by SADC countries on the links between trade development and poverty reduction. They point out that armed with the right research, the SADC governments can align their trade policy and negotiating positions with their own development programs. The final example cited by them is of Vietnam, which is in the process of negotiating its accession to the WTO. According to the authors, research by the country has helped this process. On the basis of these examples, they conclude that if trade liberalization is to serve the real interests of the poor people in developing countries the hard facts of those interests will have to be understood more thoroughly and shared more widely and this is possible only through proper research by the countries concerned.

Bhattacharya (2004) also argues that in the current multilateral trading system along with good negotiation skills it is also essential for less developing countries to have thoughtful planning and preparation based on good research and analysis to be successful in the negotiations. Substantiating this argument he cites the example of how Bangladesh was able to identify through research the necessity of preference on the movement of service suppliers under mode 4 of the GATS. As a result Bangladesh emphasized this issue during the WTO

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1 A $5 million trust fund was created at the World Bank by UK with the principal objective to do research on the implications of the round for developing countries and to help them prepare for the negotiations.
Ministerial Conference in Cancun and succeeded in achieving recognition of this aspect in the final draft of the Ministerial Declaration.

On the aspect regarding whether research has actually had an impact on trade policy changes, a paper by Devarajan and Robinson (2002) discuss how research supported by CGE modeling impacted the way NAFTA evolved. From the start of NAFTA negotiations CGE models were used both in the negotiating process and in the political debate regarding approval of the final debate. Many single country, multi country models and industrial and sectoral studies were developed to analyse the potential effects of NAFTA. The authors highlight how the CGE models played a significant role in raising the concerns of Mexico regarding agricultural liberalization and increased sensitivity on both the US and Mexican sides, which led to the final NAFTA agreement providing fifteen years for implementation of the provisions regarding agriculture.

An excellent example of how research can influence trade policy is that of LATN. Research by LATN on export promotion policies identified ‘margins for manoeuvre’ within the agreements signed as part of the Uruguay round which has subsequently helped the Latin American countries. A research paper by LATN also helped Argentina to resolve the dispute regarding competitive imports from Brazil in the footwear sector.

Yet another paper on how research might have an influence on trade policies of Argentina is a survey analysis by Valeria Iglesias (2004). The study analyses the impact by surveying policy makers in the two main ministries associated with the country’s foreign trade decision making and also distinguished senior and semi senior researchers in the field of foreign trade. A finding of the study was that the introduction of the Global Trade Analysis Project Approach (GTAP) was an advancement. The researchers also were of the opinion that the influence of research on policy was highest for those policies where the scope for major changes is limited whereas according to them major trade decisions are fundamentally political decisions taken at the highest level of the executive branch. The survey basically finds that in Argentina local research has not had much influence on the trade liberalization process. The study puts forth a few factors on how research might be able to influence policy. These are relevance of the subject in the political agenda, inclusion of policy proposals, and use of appropriate methodological approaches as well as objectivity of research.

The Global Development Network has been exploring the link between research and policy on the basis of an analysis of case studies. One of the case studies looked at was that of the Trade and Industrial Policy Secretariat (TIPS) which was set up as a clearing house for policy relevant and academically credible research, with the South African Department of Trade and Industry as its main client. It has been argued that though the impact of research by TIPS on policy making is still insufficient, there have been two main areas in which the impact has been felt. The first is in the area of policy formulation. For example DTI has been under pressure to obtain information on South Africa’s trade with different partners as an input into negotiations on potential free trade areas. It has been argued that TIPS has

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laboured to respond to this need, using its extensive database on trade. The other area where TIPS has had an influence is that in influencing policy deliberations by expanding the frontiers of debate, especially those regarding trade and industrial policy in South Africa. It has been argued that the success that TIPS has in influencing policy is mainly due to the fact that the institution is directly accountable to one department in government, as opposed to a broader policy responsive approach. In the context of TIPS, another important point highlight is that although research may be commissioned at the behest of policy makers, there is no guarantee that it will be effectively used.3

Linkages between research-policy-implementation are very complex in a democratic set-up like India.4 Despite the complexities involved, there is substantial evidence to indicate that research undertaken by the UNCTAD India Programme on ‘Strategies and Preparedness for Trade and Globalisation in India’ (Project) has been successful in influencing trade policy and the policy making process. This Project is a joint initiative of UNCTAD-DFID and Ministry of Commerce and Industry, Government of India, and is aimed at trade related capacity building. It seeks to assist India’s trade negotiators in improving their understanding of pro-poor aspects of trade negotiations and is helping create deep and sustained human and institutional capacity within the stakeholders for analyzing issues relating to trade and globalization. Apart from undertaking trade-related research requested by the government, the Project also supports research by its partners on specific issues having strong pro-poor impact. In order to inform stakeholders of developments relating to trade negotiations, the Project organizes regular stakeholder consultations. This has become an important mechanism for evaluating different negotiating options and building consensus among stakeholders. Wide dissemination of research and trade related information in local Indian languages, is another important activity under the Project. Overall, the Project has sought to create linkages between policy makers, stakeholders and researchers so that pro-poor concerns inform trade policy making. The experience gained by the Project, illustrated in this paper through specific research initiatives, provides important lessons on the role and relevance of research in trade policy changes.

The remaining part of the paper is organised as follows: In the second section the paper looks at the role of research in significantly influencing India’s negotiating position on trade facilitation at the WTO. The third section discusses how research undertaken by the Project in the context of FTA negotiations was not only able to influence India’s negotiating approach, but also helped introduce important changes in the process of trade policy formulation. In the fourth section the paper examines the research initiative relating to super regional cumulation and seek to identify reasons why there was no uptake of this research in the policy process. In the last section, based on these three research episodes, the paper attempts to weave a coherent framework of certain dimensions and factors which might determine when research might be able to influence trade policy making. As a word of caution, the framework would need to be tested out for further refinement. Further, political context issues have not been examined in this paper.

3 GDN, Policy and Research in South Africa
4 Das, Tarun, The Impact of research on policymaking: the case of labor market and external sector reforms in India, GDN’s Bridging Brief Series (2006)
RESEARCH ON TRADE FACILITATION PROBLEMS OF INDIAN EXPORTERS: REASONS FOR SUCCESS OF RESEARCH IN INFLUENCING APPROACH TO NEGOTIATIONS

Introduction

As part of the Doha Work Programme of the WTO, countries are actively engaged in negotiating rules on trade facilitation covering aspects like goods in transit; fees and formalities connected with import and export; and transparency of trade regulations and appeal procedures. India’s position on trade facilitation issues has shown significant shift in emphasis from inward-looking defensive approach to outward oriented approach directed towards addressing the problems faced by its exporters in important foreign markets. Research undertaken by the UNCTAD India Programme (Project) was crucial in bringing about this shift. This section starts with looking at India’s approach to trade facilitation negotiations during the initial phase, till about December 2004. Thereafter, the research on trade facilitation problems of Indian exporters supported by the Project is described in brief. Subsequently, this section looks at how the research findings were disseminated among the stakeholders. Based on the feedback from the stakeholders, the recommendations of the research were translated into specific negotiating proposals. This section concludes by looking at this experience from the view of identifying the underlying factors when research can influence and change a country’s overall approach to negotiations on an issue.

WTO trade facilitation negotiations: India’s approach in the initial phase till about December 2004

At the Doha Ministerial Conference in 2001 and subsequently at the Cancun Ministerial Conference in 2003, India had strongly opposed initiating negotiations on trade facilitation. The statement at the Cancun Ministerial Conference by India’s Minister for Commerce and Industry that “multilateral rules, binding in nature, in respect of trade facilitation .. would entail high costs for developing countries”\(^5\) provides the basic underpinning of India’s opposition to trade facilitation negotiations. This position was consistently articulated in various meeting of WTO’s Council for Trade in Goods, the relevant body for discussions on trade facilitation issues till August 2004.

In the meetings of Council for Trade in Goods, while India recognised the benefits of trade facilitation, nonetheless it still believed that trade facilitation measures were best left to Members for autonomous implementation, as that would be in tune with their own needs and priorities.\(^6\) India felt that it was in the developing countries' interests to progress slowly on

\(^5\) Speech of Mr. Arun Jaitley, India’s Minister for Commerce and Industry, at the Cancun Ministerial Meeting of WTO, WT/MIN(03)/ST/7

\(^6\) This paragraph is based mostly on the minutes of the meeting of WTO’s Council for Trade in Goods held on 12-13 June 2003 and contained in WTO document G/C/M/70 dated 19 August 2003.
this issue in order to be able to balance cost and benefits of trade facilitation according to their ability, technological and institutional infrastructure. Further, as number of issues which were trade facilitating in nature, but arising from existing agreements, remained to be resolved, India was wary of getting into new areas. It seriously believed that developing countries in particular would require a flexible approach when harmonising their national systems with international guidelines, as opposed to a set of binding obligations. India believed that progressive trade facilitation and integration was a better option than one which lead to a loss of policy autonomy and caused additional institutional burdens for developing countries. Implementation costs were also a very important factor for consideration.

In short, India’s position on trade facilitation negotiations appeared to be characterized by inward-oriented policy with concerns on loss of policy space and implementation costs arising out of multilateral rules in this area. India’s approach also indicated a marked absence of viewing trade facilitation negotiations as a vehicle for addressing some of the problems faced by Indian exporters in foreign markets.

**Brief description of the study on trade facilitation problems of Indian exporters**

At the request of the Ministry of Commerce and Industry, Government of India, the Project supported research for identifying trade facilitation problems faced by Indian exporters in selected destination countries. Prior to the research, the Government did not have a clear idea of the specific needs and priorities of its exporters in the context of trade facilitation negotiations. While certain anecdotal evidence was available, there was no comprehensive information base regarding trade facilitation problems faced by India’s exporters in foreign markets.

The research on trade facilitation problems of Indian exporters was undertaken during January – June 2005. It included an extensive literature survey, a primary survey of 278 Indian exporters from a list of selected products/sectors in 13 cities and also a visit to two European Union ports for a first-hand observation of trade procedures. Discussions were also held with 22 apex bodies dealing with export development, 47 trade intermediaries (logistics companies), and SME clusters in different cities. Through interviews with key players, 11 case studies of actual problems faced by Indian exporters were analysed in detail. In order to ensure that the study remained relevant for purposes of WTO negotiations, India’s key negotiator on trade facilitation was closely involved with the research. The overall endeavour was that the research should lead to a realistic reflection of problems faced by Indian exporters and not merely remain theoretical in orientation and analysis.

The research findings were finalised after obtaining the feedback of the government. Based on the issues identified in the study, it was suggested that negotiating proposals could be made on following issues:

- Uniform application of procedures by sub national authorities, and use of common minimum standards
• Adherence to similar procedures for disseminating trade alerts and taking remedial measures/rectifications
• Introduction of normative tariffs/ceilings for charges levied by private operators providing services for import/export clearances
• Creation of trade enquiry points at the sector level.
• Establishment of procedures with internationally approved agencies for confirmatory tests in the case of detention.

Disseminating and validating the results of the study on trade facilitation

In order to validate the results of the study on trade facilitation, the main findings of research were disseminated as background material and discussed at great length in a national level stakeholder consultation seminar organised jointly by the Project, Ministry of Commerce and Industry and Customs authorities. The latter would have the ultimate responsibility of implementing those results of trade facilitation negotiations, which might require changes in domestic infrastructure and related procedures.

In order to obtain the views of a diverse range of stakeholders, a wide cross section of stakeholders was invited to participate in the national seminar held on 18 August 2005. These included representatives of industry and trade, freight forwarders and custom house association, export promotion bodies, academia and experts connected with this field. This ensured wide dissemination and validation of the findings of the research along with an endorsement of the need to make negotiating proposals on certain identified issues. Further, the national seminar also sought to weigh the costs that might arise from and benefits likely to accrue to Indian exporters from WTO rules on trade facilitation.

During the national seminar, the generally held view was that the WTO negotiations on trade facilitation presents an opportunity for India to consolidate its ongoing domestic reform programme by accepting certain commitments in areas in which it is already undertaking reforms. It also provides India an opportunity to align with international best practices. However, caution needs to be exercised to ensure that commitments made by India are not too onerous to implement, as it has limitations of human and financial resources. Revenue and security concerns would need to be given foremost consideration by the Government before commitments are undertaken. This would essentially require India to strike a right balance between a substantial reduction in transaction costs resulting from possible multilateral disciplines on trade facilitation and resource constraints in implementing the disciplines.

The national seminar broadly endorsed the issues identified by the study for making suitable negotiating proposals on trade facilitation. This indicated that the study had focussed on the appropriate problems faced by Indian exporters in foreign markets.

Translating the results of the research into negotiating proposals
The Project research team worked closely with the Ministry of Commerce and Industry for developing and finalising India’s negotiating proposals on issues identified in the research. This ensured that the legal language of India’s negotiating proposals appropriately reflected some possible solutions to the problems faced by the exporters, as identified by the study.

Based on the findings of the study, India made certain negotiating proposals on trade facilitation. The proposals on GATT Article X regarding rapid alerts, detention, test procedures and appeal mechanism are contained in WTO document TN/TF/W/78 dated 9 February 2006. The proposals on GATT Article VIII regarding uniform border procedures in members of a customs union are contained in WTO document TN/TF/W/77 dated 9 February 2006. These proposals were discussed by WTO’s Negotiating Group on Trade Facilitation on 15-16 February 2006.

Views of WTO members on the process leading up to preparation of India’s proposals

While there is no independent evaluation of the extent to which research on trade facilitation supported by the Project influenced India’s overall negotiating approach in this area, it is instructive to be aware of the views expressed by India and other WTO Member countries when the negotiating proposals were discussed at the WTO. While introducing the proposals on trade facilitation, India placed on record its appreciation and thanked UNCTAD India Programme, which had supported the study and conducted a seminar to discuss the findings.

In their initial response, many member countries of the WTO appreciated India’s proposals and the efforts made to identify the needs and priorities of exporters through the use of a survey-based research. Many countries also commended India for the process leading up to the preparation of the papers through direct interaction and feedback from their exporters which have resulted in a realistic reflection of problems experienced. Some countries stated that the proposals were based as much on ground reality as on legality. Further, the factual examples derived from the research and presented in the Indian proposals would assist Members to better understand when one could effectively negotiate on trade facilitation beyond the provisions already contained in other GATT provisions. Some members found the proposals to be very comprehensive and concrete. Overall, the views expressed by different WTO Members indicated that India had done a lot of homework in consulting its traders. These views point to the success of research in not only directly influencing India’s negotiating approach, but also in forming the basis of negotiating proposals.

Changes in India’s approach to trade facilitation negotiations brought about by research

The proposals based on the research undertaken by the Project represent a significant shift in India’s overall approach to trade facilitation negotiations. During the initial phase of discussions and negotiations on trade facilitation, India’s approach appeared to be marked by concerns on financial, human and infrastructural deficiencies for implementation of commitments. However, research undertaken by the Project provided technical information to the government for approaching the negotiations from the point of view of its traders’ and
exporters' interests - marking a significant shift from its earlier inward looking approach. In the absence of research undertaken by the Project, it is likely that India’s inward looking orientation in trade facilitation negotiations would have continued.

The shift in India’s approach in trade facilitation negotiations, from inward oriented concerns on human and infrastructural cost of implementing new obligations to addressing the problems of its traders did not go unnoticed by WTO members. In fact, one member specifically welcomed India’s approach as reflected in the proposals and stated that ‘it was good that India was increasingly approaching the negotiations from the point of view of its traders’ and exporters’ interests. That was the right spirit in which to approach that exercise’.

**Reasons for success of research in influencing and changing India’s approach to trade facilitation negotiations**

Given the significant impact of the research on trade facilitation problems faced by India’s exporters, on India’s approach to WTO’s trade facilitation negotiations, it may be useful to examine the underlying reasons for success. At least ten reasons could be attributed to this.

First, the research on trade facilitation problems of India’s exporters was undertaken specifically at the request of India’s Department of Commerce. The demand for research was from the agency which was likely to use the results of the research for deciding policy changes. In case the research had been undertaken at the request of some other agency, there would have been reduced certainty of results being used by the government.

Second, the demand for research was made as there was no comprehensive information on trade facilitation problems of Indian exporters. Thus, an information gap existed within the government for deciding its negotiating approach. This was crucial to results of the research being picked up as an important input for determining the approach to trade facilitation negotiations. If government already had adequate credible information on trade facilitation problems faced by Indian exporters, its enthusiasm to pick the results of research for negotiating proposals would have been reduced.

Third, the demand for research was in the context of WTO negotiations. During these negotiations, countries typically seek to secure results which balance their offensive and defensive interests. Prior to the research, India’s approach to trade facilitation negotiations was overwhelmingly defensive in orientation, with a marked absence of offensive interest. The research provided the trade negotiators with specific information which could be utilised to pursue certain offensive interests and bring an overall balance in India’s negotiating approach. In case India had already identified certain other offensive interests in trade facilitation, this may have reduced the need for picking up the results of the research for changing India’s overall approach to trade facilitation negotiations.

Fourth, the research covered a wide variety of stakeholders in different geographical locations of the country. Thus, problems identified by the research were not specific to certain product categories, industry segments or geographical regions. They were fairly representative of the problems faced by the exporters and could be taken as articulation of
interests of broad-based stakeholders. Apart from enhancing the credibility of the research, adequately representative nature of the study facilitated acceptance of its results. In case the problems were not representative of difficulties faced by exporters across different segments, the research could have been viewed to be driven by narrow lobbies. This could have made it difficult for the government to give credibility to the research findings.

Fifth, the research used extensive survey as the methodology for identifying problems of Indian exporters. As a result, the problems identified were based on the actual experience of exporters and other stakeholders. Thus these were practical problems borne out of real life situations and not problems derived from mere theoretical considerations. As stakeholders were seriously interested in these problems being addressed through trade facilitation negotiations, they actively participated in the research and the subsequent national seminar in which the research findings were discussed. If the problems had been identified outside the context of real life experience, there may not have been adequate interest and pressure from the stakeholders for addressing these through WTO negotiations.

Sixth, one of the key negotiators of India on issues relating to trade facilitation was closely involved in the study. This ensured that problems identified by the research were those which could be addressed in the context of WTO negotiations. In case the research was not adequately guided by an expert knowledgeable on WTO negotiations, it is possible that the problems identified could have been those not capable of being addressed through the negotiations. In such a situation even if the problems identified had been representative and realistic, it would not have been picked up by the government for modifying its negotiating approach.

Seventh, during the national seminar, results of the research were discussed in considerable detail and endorsed by a very broad range of stakeholders. This would have put considerable pressure on the government to take follow-up action based on the recommendations of the research.

Eighth, in order to pursue the offensive agenda arising from the results of the study government would be required to be adequately prepared to implement commitments that might arise out of eventual obligations under the WTO. Keeping this in view, Customs authorities, who would be responsible for implementing the eventual obligations, were requested to participate in the national seminar. This provided a unique opportunity for all concerned to get exposed to potential benefits from trade facilitation negotiations, which was otherwise viewed mainly as imposing costs on the government. The strong endorsement of results of the research encouraged the Customs authorities to take a more balanced view of trade facilitation negotiations, instead of viewing it only from the perspective of defensive interests. This created a facilitative environment whereby the negotiating proposals based on the research was not blocked by the Customs authorities.

Ninth, the research was supported by UNCTAD India Programme, which was viewed as an impartial and honest broker. Further, the organisation which undertook the actual research was selected through an open and transparent process. This ensured that its technical credibility to undertake the research was not questioned. Research by organisations not
viewed as being technically competent, would have raised doubts about the credibility of the results. This could reduce the possibility of results of the research being picked for modifying current policy or negotiating approach.

Tenth, identification of trade facilitation problems and possible solutions may not have been enough to ensure that the findings of the research are picked by the government. UNCTAD India Programme did not stop at disseminating the research findings and organising the national seminar. It actively assisted the Department of Commerce in drafting the negotiating proposals based on the recommendations of the research. This helped in assuring that the negotiating proposals faithfully reflect the concerns of Indian exporters as identified in the study.

Overall, the research on trade facilitation problems of Indian exporters succeeded in influencing India’s approach to trade facilitation negotiations as this was not a one-off activity. Research was of high quality based on realistic reflection of concerns of stakeholders and was embedded within the entire process of determining India’s overall approach to trade facilitation negotiations.
RESEARCH TO SUPPORT INDIA IN FTA NEGOTIATIONS: ROLE PLAYED BY RESEARCH-BASED KNOWLEDGE INPUTS IN POLICY MAKING PROCESS

Introduction

In keeping with increasing trends worldwide towards free trade agreements between countries, since 2002, India has started actively engaging with other countries in free trade agreement (FTA) negotiations. These negotiations call for a careful examination of competitiveness of domestic production vis-à-vis imports from the FTA partner country so that reduction/elimination of customs tariffs can be suitably calibrated and phased-in. It would be reasonable to expect that a country would base its overall approach in FTA negotiations on detailed research. This section looks at how research undertaken by the Project in the context of FTA negotiations with country X has introduced significant changes in internal policy processes of the Department of Commerce.

This section begins with examining the relevance of research in trade policy making by first looking at certain problems which India experienced after entering into PTA/FTA with Sri Lanka and Nepal. These experiences are important as there might not have been adequate research to back India’s negotiating approach while finalising these agreements. Thereafter, the research undertaken by the Project for assisting the Department of Commerce in identifying the list of sensitive products to be kept outside the scope of tariff elimination is briefly described. Subsequently, this section looks at the communication strategy between researchers and stakeholders. This was crucial to results of research being clearly understood, as GTAP was being used for the first time in India in the context of trade negotiations. Finally, the role played by research in bringing about systemic improvements in the process of trade policy making is examined.

Relevance of research in policy making process: Consequences of basing trade policy on inadequate research

India’s experience of surge in imports from Sri Lanka and Nepal provides a useful context for examining the relevance of research in policy making process in India. Since 1990s, India has allowed duty-free imports of primary products from Nepal. However, alcoholic liquors/beverages, perfumes and cosmetics, cigarettes and tobacco were excluded from the zero duty access regime. It is not entirely clear whether the excluded products were chosen after any detailed study. However, from 1999 onwards Indian domestic industry started complaining about adverse impact on account of surge in imports of certain products like acrylic yarn, zinc oxide, copper products and vanaspati. In order to address the concerns of its domestic industry, during 2000-01 India had to expend considerable resources and diplomatic capital for renegotiating the agreement with Nepal.
Trade between India and Sri Lanka is regulated by India-Sri Lanka Free Trade Agreement (ISFTA) signed in December 1998 and operational with effect from March 2000. Under this Agreement, both countries are committed to the elimination of tariffs in a phased manner. India has already completed its commitment of reducing its duty to zero in March 2005, except for 429 items appearing in the negative list. The basis on which the negative list of 429 products was arrived at is not clear. Certain segments of the Indian domestic industry have raised serious concerns on adverse impact on them on account of preferential imports from Sri Lanka. In certain cases their apprehensions appear to be well grounded and supported by facts.

The two episodes mentioned above highlight the point that inadequate research on the likely impact of tariff concessions on trade, output and employment can result in trade policy decisions which can be modified only at considerable diplomatic cost. Experience gained through these two episodes have brought to fore the need for undertaking detailed research before entering into PTA/FTA commitments. With these experiences in mind, the Department of Commerce requested the Project to undertake detailed research and suggest a list of products which could be kept outside the scope of tariff reduction/elimination in FTA negotiations with country X.

**Research on possible list of sensitive products undertaken by the Project**

At the request of the Department of Commerce, during 2004-05, the Project undertook research for assisting the Government in identifying the segments of the industry that would be vulnerable as a result of the tariff preferences which India might grant to country X under an FTA. This was a major challenge as the Government and the industry had limited experience in making an assessment of the impact of FTAs on the basis of economic factors. While the Government was desirous of extending tariff preference to country X, there was also a need to provide adequate protection to those industry segments which might be adversely affected through reduced employment, reduced unit value realisation etc., on account of imports from country X. Another issue sought to be addressed was balancing the interests of large input manufacturers and those of down-stream users who were predominantly poor and small scale producers.

Using GTAP, a widely accepted CGE modelling tool, the Project estimated the possible effects of tariff cuts on exports, imports, production and employment on a broad range of sectors. This was complemented by a detailed six-digit level price sensitivity analysis for identifying the sensitive list. The findings of the research were widely disseminated and refined after discussions in 22 consultative meetings held with 15 industry segments all over India. As a result of the research, government was provided with technical inputs for preparing its list of sensitive products in FTA negotiations with country X.

While FTA negotiations with country X remain to be completed and the list of sensitive products being negotiated is not in public domain, it is understood that the Department of Commerce has picked up the research undertaken by the Project and relied substantially on it for negotiating the sensitive products.
Communication between researchers and stakeholders

As the research on sensitive products undertaken by the Project involved the use of sophisticated tools like GTAP, it was considered necessary to explain the methodology and findings to a broad range of stakeholders, likely to be affected by the FTA between India and country X. Close interaction with the stakeholders was particularly relevant because GTAP was being used for the first time for determining trade policy and negotiating approach in India. Further, as research based on econometric modelling was theoretical in orientation, it was considered necessary to interact extensively with the stakeholders in order to validate the results of the research with their actual experience. Thus dissemination of results of the research and communication with the stakeholders for explaining the results became an integral part of the research.

Through advertisements in newspapers, stakeholders were invited to participate in meetings organised by the Project for discussing the results of the research base on econometric analysis. In order to ensure that the participation was broad-based, the meetings with stakeholders were held in different parts of India. The methodology followed in the research and its results were conveyed to the stakeholders in a format which was easy to comprehend, but without compromising accuracy. This was done prior to each stakeholder meeting.

During the stakeholder meetings, the research methodology and the underlying assumptions were explained in considerable detail. In order to ensure that results of the research did not diverge significantly from the experience of the stakeholders, they were encouraged to provide their feedback in a prescribed format. Based on their feedback, certain aspects of the methodology were refined, leading to minor changes in the list of sensitive products. More importantly, the stakeholders were able to clearly see how their feedback was being incorporated into the research, thereby directly influencing its results. This had the added advantage of blending theoretical research with trade experience of stakeholders, resulting in final findings closely reflecting reality. Overall, this research was able to successfully demonstrate how the list of sensitive products can be prepared on the basis of economic considerations and balancing conflicting interests. This has also reduced the possibility of the list being decided based on the lobbying power of big domestic players.

Role played by research in the process of policy making

Apart from providing the Department of Commerce with a list of sensitive products for India’s FTA negotiations with country X, this research has helped bring about significant institutional changes in the manner and extent of background preparation done by the Department of Commerce and other stakeholders prior to concluding free trade agreements with partner countries. Realising the important role which extensive research can play in assisting the Government in deciding its approach in FTA negotiations, Department of Commerce has now started commissioning detailed research on the likely impact of entering into FTAs with different countries. In addition, following important and concrete systemic
improvements have emerged, within the Government and outside, in the process of trade policy formulation in respect of FTA negotiations:

- Development of a mechanism for identifying the products which would require protection from adverse effects of India-country X FTA. This model can be used for undertaking research on likely effects of other FTAs in which India might be engaged. In fact, the Project has successfully applied this model for undertaking similar research in respect of certain other FTA negotiations of India.
- Development of a mechanism for resolving situations of conflict of interest between different stakeholders. To illustrate, downstream users of industrial raw materials would support lowering customs tariffs on these inputs. On the other hand, domestic producers of industrial raw materials would oppose lowering of customs tariffs. Based on factors such as employment, fragmented nature of industries, conditions of competition in different industry segments, possible impact of tariff reduction on livelihood of poor segments of the economy, etc., the model developed and used by the Project in its FTA research found wide acceptability among diverse segments of stakeholders. Absence of such a mechanism would have disadvantaged the small scale producers as this process may otherwise have been lobby driven.
- Equipping different segments and sectors of the Indian industry with appropriate analytical tools for assessing the likely impact of India-country X FTA. This enabled the stakeholders to articulate their concerns based on economic considerations, which could be taken into consideration by the Department of Commerce while finalising its approach to the list of sensitive products. Different segments of stakeholders have progressively increased their use of the analytical tools for determining their overall interests and concerns in respect of other FTA engagements of India. Not only has this enabled stakeholders to project and promote their interests more effectively, it has also provided an assurance to the Department of Commerce that its negotiating position is grounded on a realistic assessment of interests by diverse and representative group of stakeholders.
- Providing the Government with technical inputs for explaining to certain industry segments why their request for protection in the context of FTA negotiations was not justified. This enhanced transparency in decision making by the Government.
RESEARCH ON SUPER REGIONAL CUMULATION: RESEARCH NOT PICKED UP BY THE POLICY MAKERS

Introduction

Having examined two episodes in which research by the Project was picked up by policy makers for substantially determining India’s negotiating approach in certain international trade negotiations, we now turn to one specific instance in which research by the project has so far not been picked up by the government for informing its decision making process. This example provides us an opportunity to validate the factors identified as being key to research influencing and changing trade policy. This section starts with a brief description of research undertaken by the Project on the issue of super regional cumulation in the context of Generalised System of Preferences (GSP) and provides a description of dissemination of results. Thereafter, the factors stated to be the key for research influencing trade policy, are examined in the context of GSP research.

Brief description of research undertaken by the Project on super regional cumulation

Lack of cumulation is often stated to have affected the beneficiaries of GSP schemes and has resulted in low utilization of such schemes. The EU GSP Scheme allows for regional cumulation as inputs imported into a beneficiary country from other members of the concerned regional group, such as SAARC or ASEAN, and used in the manufacture of the product exported to the EU are treated as if they originated in the country of further manufacture. While revising its GSP scheme in 2005, the EU indicated that it would now consider SAARC and ASEAN as one single group for purposes of cumulating origin in respect of inputs imported from the other region, provided a request from all SAARC and ASEAN countries was received.

In November 2004, SAARC Committee on Economic Cooperation decided that SAARC member states would convey their views on super regional cumulation by February 2005. In order to assist the government in taking an informed decision on this issue, in *** 2005, Department of Commerce requested the Project to undertake research for assessing the possible impact on India of super regional cumulation of SAARC and ASEAN under EU GSP scheme. Project completed the research on super regional cumulation and submitted the report to the Department of Commerce in May 2005.

According to research undertaken by the Project, India would stand to gain if super regional cumulation between ASEAN and SAARC is introduced by the EU. Gains were projected in terms of increase in total exports to the EU, increase in exports of sectors of significance to India, limited adverse impact in terms of marginal decline in exports to EU in two sectors, increase in India’s exports of final goods to the EU and increase in India’s total exports to ASEAN. Out of the total increase in India’s exports to the EU, almost 25% was contributed by textile and clothing sector. Further, it was found that gains on account of super regional
cumulation may mitigate the adverse impact on India if graduation in certain sectors of export significance to it.

Although more than one year has elapsed after submission of the research findings to the Department of Commerce, no feedback has been received on it from the government. It also appears that little discussion on super regional cumulation has taken place in the SAARC Committee on Economic Cooperation.

**Dissemination of results of super regional cumulation results**

All research undertaken at the request of the Department of Commerce can be disseminated only if the government decides to do so. In the specific case of super regional cumulation, the Department of Commerce has not yet disseminated the results of research. Thus the findings remain mostly theoretical, without validation by stakeholders. However, in the context of another activity under the Project, feedback on the findings became available from stakeholders in the textiles and clothing sector. Certain influential stakeholders have questioned whether customs duty is the most important factor in determining exports in textiles and clothing sector. According to these stakeholders, price and customs duty are not the main critical factors for determining India’s exports if textiles and clothing. Consequently, EU GSP scheme is practically irrelevant to India’s exports in this sector. While no consensus exists on the role prices and customs duty play in determining India’s exports in this sector, the views articulated by these significant stakeholders does point to some disconnect between results of theoretical research by the Project regarding textiles and clothing sector contributing significantly to India’s increased exports to the EU on account of super regional cumulation and practical experience and assessment by certain segments of stakeholders. To this extent, some of the theoretical findings of the research cannot be said to have been validated and endorsed by a broad range of stakeholders.

**Possible reasons for absence of uptake by government of research on super regional cumulation**

Several reasons could be ascribed to the absence of uptake by the government of research on super regional cumulation. Some of the reasons appear to validate the circumstances suggested in section 2 when research does appear to influence and modify trade policy.

While strong external stimulus in the form of WTO/FTA negotiations existed in the episodes in which results of research were used to bring about significant policy changes, no strong external push exists which would require the government to take a clear position on the issue of super regional cumulation. Although SAARC countries have decided to discuss the issue of super regional cumulation, this does not appear to be a matter of priority for them at this juncture. This may, in part, explain why the research on super regional cumulation has so far not been used by the Department of Commerce, although the research was undertaken at its request.

At the operational level, there has been a change of personnel within the Department of Commerce. As a result of this change, it is not certain whether the officer now in charge at
the operational level is committed to the research or even understands the results. It is apprehended that the results of the research may not have been conveyed to the key officials within the government. Key decision makers may not have access to the research.

Implementing the results of research would ultimately require not only the SAARC countries but also the ASEAN countries to understand the effects of super regional cumulation and perceive benefits from it. On its own, India may not have the authority to convince other SAARC and ASEAN countries for making a joint request to the EU to implement super regional cumulation.

Although the research on super regional cumulation points to certain benefits for India, as the research has so far not been widely disseminated, some of the stakeholders who might benefit from it are not aware of gains to be made due to super regional cumulation. As a result, there is no pressure on the government from the stakeholders to take action on this issue.

As the research has so far not been widely disseminated, its findings remain based primarily on theoretical considerations. With the exception of textiles and clothing sector, no attempt could be made to validate the findings. Thus, it is not certain whether the findings accord closely with reality arising out of practical experience of exporters and other stakeholders in different sectors. Government may not feel encouraged to take decisions on trade policy options based on such theoretical research.

Based on the limited validation of the research by some stakeholders in textiles and clothing sector, the results do not appear to be endorsed by all segments of this sector. Some of the stakeholders have even gone to the extent of questioning the relevance of GSP for India’s exports. In the absence of general endorsement by the stakeholders who are projected to benefit from super regional cumulation, there may be reduced incentive for the government to follow-up on the research.
SYNTHESISING THE EXPERIENCE OF THE THREE EPISODES: FIVE DIMENSION FRAMEWORK

In this concluding section the paper tries to synthesise the separate strands of lessons learnt in the three policy episodes discussed in previous sections into a coherent framework of ideas suggesting the circumstances when research can succeed in influencing the process of trade policy making and also the trade policy itself. This framework should not be taken as a conclusion, but should be viewed as ideas for further research and testing. Further, the paper has not looked at how political context issues might mediate between research and trade policy making.

In our view there exist five different dimensions outside the political context, which might determine whether research can influence either the process of trade policy making or the policy itself. These are (i) Problem Dimension; (ii) Research Institution Dimension; (iii) Research Dimension; (iv) Communication and Outreach Dimension; and (v) User Dimension. Each of these five dimensions determines the relationship between research and trade policy change. Further, within each of these dimension the paper has tried to identify certain factors which might facilitate research to influence trade policy.

(i) Problem Dimension

The Problem Dimension seeks to capture different factors which have a bearing on initiation of the research, locating the trigger and stimulus for research, nature of problem being addressed and timing of the research request. Overall, the underlying factors in this dimension provide the context in which demand for research is made.

In the context of trade policy, although the demand for research may be made by the department of the government responsible for trade negotiations and trade policy formulation, the specific trigger for research may lie elsewhere. Various situations can be envisaged where different set of actors could trigger the demand for research. An emergent situation for dealing with new issues in the context of international negotiations may create an overwhelming demand for research, as was the experience in the case of trade facilitation and FTA episodes. At times, certain segments of stakeholders may themselves demand that research on certain trade related issues be undertaken. Finally, the trigger for research may lie outside the context of trade negotiations, as was the case with the super regional cumulation research.

How effective a particular trigger would be in determining the role of research in trade policy formulation would depend on two elements. First, what is the extent of pressure exerted by the trigger on the government for initiating research. Clearly, the need to take informed decisions in the context of bilateral or multilateral trade negotiations can be a powerful trigger for research and its subsequent uptake in policy formulation. Second, what are the possible costs to the government if the pressure created by the trigger is ignored or underplayed. Costs could arise in terms of lost opportunity for seeking concessions in the
negotiations or taking positions which do not adequately protect large segments of stakeholders. Unlike the episodes related to FTA and trade facilitation, where uninformed decision making can lead to considerable costs, in the super regional cumulation episode there may be minimal costs if the trigger for research is ignored.

The nature of the problem being addressed by research may also determine the link between research and its influence on policy. For example, the need for balancing conflicting interests may motivate government to request for research and its subsequent uptake. Governments may find it easier to resist pressures from different lobby groups, if their decisions can be explained on the basis of technically sound research, as was the case in the FTA episode. As shown in the trade facilitation research, uptake can take place if large segments of stakeholders are affected by the research problem.

Finally, the timing of the request for research can play a crucial role in determining whether the research influences trade policy. In the two episodes of FTA and trade facilitation, research was requested at a time which was decisive in the negotiating process. On the other hand, in the case of super cumulation research, it would appear that deliberation among the SAARC countries have not yet reached a stage when Indian government would be required to have a formal position on the research problem. This appears to have been a crucial factor for there being no uptake of the research for determining the policy approach.

(ii) Research Institution Dimension

The Research Institution Dimension seeks to capture certain features of the organisation undertaking or supporting the research which could be crucial determinants of whether research influences trade policy or the process leading up to the formulation of trade policy. The underlying features are important in ensuring credibility of research.

The organisation undertaking or supporting the research can be viewed as a connector between the government and other stakeholders. The organisation must have a track record of adopting a professional approach to research. For the research to be effective in influencing trade policy, the organisation undertaking the research should be viewed by both, the government and other stakeholders, as being technically competent in the problem area. The manner in which queries of stakeholders are addressed by the researchers is important in establishing the technical credentials of the research organisation.

Another factor which helps determines the credibility of research is whether the research organisation is perceived as being trustworthy. A climate of trust between the research organisation, government and other stakeholders may get created if the research organisation adopts an independent non-partisan approach which is not seen as favouring or representing any sector or lobby group. Research funding, which is not dependent on any particular interest group, can be an important factor in the organisation being viewed as being trustworthy. The honest broker role of the research organisation becomes particularly crucial when research output is used by the government to mediate between different interest groups and balance conflicting interests, as was the case in FTA episode.
(iii) Research Dimension

The Research Dimension is perhaps the most important in determining whether research will influence trade policy. High quality, objective and relevant research produced in a timely manner is important in this context. This dimension subsumes those factors which finally affect the quality of research output and its timeliness.

*Rigour in the methodology* used in research can be a crucial factor in perception of the quality of research. The methodology used must lead to a *sound analysis* of the problem, producing *tangible data which can form the basis for trade policy change*, as was the case in the two successful episodes.

The *nature of evidence* used to support the findings is another crucial factor in determining the quality of research, as perceived by the stakeholders, and its acceptability. Evidence based predominantly on theoretical considerations, as was the case in super regional cumulation episode, reduces the possibility of research being accepted by the stakeholders. On the other hand, *evidence which is realistic* and based primarily on the actual experience of stakeholders, as was the case in the trade facilitation episode, can enhance the quality of research. *Theoretical evidence, which is modified in light of practical experience* of stakeholders, as was the case in FTA episode, may result in perception of high quality research.

Not only should the evidence be realistic, it must also be representative. Evidence drawn from a wide range of stakeholders in diverse geographical locations, across different segments and from different industry sectors, as was the case in trade facilitation episode, constitutes *representative evidence* which in turn improves the possibility or research uptake by the government. Evidence which is *endorsed by wide range of stakeholders*, as was the case in FTA and trade facilitation episodes, has the power to convince government to make relevant trade policy changes. Thus, *absence of contesting claims* from the same segment of stakeholders or sector becomes a crucial determinant of how research is perceived by the stakeholders. On the other hand, *lack of consensus on the evidence*, as witnessed in the textiles and clothing sector in the super regional cumulation episode, can raise questions on the quality of research.

New *ground-breaking research* defining the problem and suggesting appropriate course of action and *concrete solutions*, as was the case in trade facilitation episode, can contribute significantly to the overall quality of research. Research results, which are *relevant to trade negotiations*, as was the case with the two successful episodes, increase the possibility of its uptake by the government. Often distributional effects of bilateral / multilateral obligations may be ignored in the research, in favour of providing a global and holistic picture economy-wide picture. In the eyes of the government, this may reduce the appeal of the research as it may have to face political consequences of trade adjustment costs. On the other hand, research which *addresses distributional effects*, like the FTA episode, can be more acceptable to the government.
Academic and research organisations may be tempted to undertake research which meets very high standards, but at the cost of breaching the deadlines set by the government. If research has to achieve the objective of influencing trade policy, a balance would need to be struck between the quality of research on the one hand and need to adhere to timelines on the other. The research findings were made available in a timely manner to the government, which enabled subsequent uptake for modifying trade policy.

(iv) Communication and Outreach Dimension

The Communication and Outreach Dimension concerns itself with how the research is disseminated to the government and other stakeholders. Research which is more clearly communicated and more easily accessible to stakeholders has a higher possibility of uptake by government, than research which may be clearly understood only by academicians.

This dimension also determines how stakeholders interact with the researchers for influencing the final research outcome. An intermediate impact of a research can be negotiating proposals based on its findings. This dimension may also include how the negotiating proposal is prepared and conveyed to other countries.

For effective communication of results of research, researchers need to understand the expectations of policy makers from research. One possible way of ensuring that research remains aligned with this expectation is to closely involve key government functionaries in the research, as was done in the two successful episodes.

Research, by its very nature, may not lend itself to be easily understood by the government and stakeholders. In order to communicate, researchers have to first reach the relevant stakeholders, done in the Project mainly through the mass media. Research methodology and its findings can be disseminated to the stakeholders in the form of easy-to-understand briefs, as was done in the case of trade facilitation episode. Another useful way of communicating the research findings can be through face-to-face open meetings between the researchers and those likely to get affected by its results, as was done in the two successful episodes. These meetings serve multi purposes. It may be a relatively more efficient method of disseminating results of research and ensuring that the message is clearly understood. It may also serve the purpose of creating a feedback loop, whereby the views of stakeholders can be utilised to validate research findings and further refine the results, if required. Such feedback loop also gives the stakeholders the perception of influencing the research, builds consensus and may lead to ownership of results by stakeholder and enhancing its acceptability.

In case there is uptake by the government of research for purposes of making negotiating proposals, it may be useful to involve the researchers in the subsequent process of drafting of proposals. This ensures that the results of research and the concerns of stakeholders are reflected in the negotiating proposals, as was done in the case of trade facilitation episode.
(v) **User Dimension**

Ultimately, uptake of research for influencing trade policy changes depends on the users of the research – the government. The User Dimension encompasses those factors which are specific to the government and determine the chances of uptake of research.

*Continued interest of government,* not only at the stage of requesting the research, but also in subsequent stages, can assist in keeping the research relevant and also facilitating better understanding of the research by the government. This would also help in government assuming *ownership of the results,* particularly by those departments which may have to implement new obligations arising from trade negotiations. As demonstrated in the trade facilitation episode, endorsement by Customs authorities of the results of research improved the possibility of uptake for influencing trade policy.

*Presence of change agents* in the government with *willingness to use research results* and having the *authority to push results into policy action,* as seen in the trade facilitation episode, can be a determining factor in uptake for influencing policy.

**Conclusion**

According to Clay and Schaffer, ‘The whole life of policy is a chaos of purposes and accidents. It is not at all a matter of rational implementation of the so-called decisions through selected strategies.’ Notwithstanding this view, this paper is an attempt to bring some order into this chaos. Based on three policy episodes relating to research on trade facilitation, FTA negotiation and super regional cumulation, the study has identified five dimensions - Problem Dimension, Research Institution Dimension, Research Dimension, Communication and Outreach Dimension and User Dimension. These dimensions may determine whether results of research will be used by the government to influence its trade policy and policy making procedures. However, the five dimensions would need to be tested further for possible expansion of the list.

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