

Trade Policy Making in India

Need for A Separate Department of International Trade and Trade Diplomacy

1. The Issue

1.1 The Department-Related Parliamentary Standing Committee on Commerce in its 35th Report on "India and the WTO" (December 1998) recommended that "In view of complexities likely to visit both international trade and international trade negotiations during the next few years, the Government should considerably strengthen its infrastructure for undertaking global trade negotiations. The standing Committee recommended the establishment of a separate Department of International Trade and Trade Diplomacy under the umbrella of Ministry of Commerce with a substantial contingent of professionally competent personnel on its staff. This department must maintain continuous liaison with the other ministries including the Ministry of External Affairs and the Ministry of Finance, the Planning Commission as well as with State Governments on matters, which call for a coordinated approach on the part of all concerned. This Department should also maintain the closest association with the semi-official organisation of experts and wise men."¹

1.2 Seven years later, the imperative for a separate Department of International Trade and Trade Diplomacy within the apparatus of the Government of India was iterated by a submission made by Consumer Unity & Trust Society (CUTS) before the Department-Related Parliamentary Standing Committee on Commerce and its report on "India and the Sixth Ministerial" (December 2005) contained the minutes of the 9th meeting (of the Committee), which stated: "The Committee heard the views of the representative of the Consumer Unity & Trust Society on WTO related issues. He favoured creating an appropriate domestic trade policy framework. He was also of the view that trade policy formulation and implementation must be handled by specialists, rather than by the transferable generalists. He was of the view that certain basic procedural changes were required with regard to Parliament's role in this vital area. There should be a consensus on domestic and international trade policy issues. There was also a need to revamp the policy formulation and implementation system. He stresses the need to reinforce the role of State Governments in India's international trade policy."²

¹ The Report of this Committee is available at the Rajya Sabha Secretariat, New Delhi.

² The Report of this Committee is available at the Rajya Sabha Secretariat, New Delhi. Pradeep S. Mehta, Secretary General of CUTS deposed before this Committee at its 9th Meeting held on 4th February 2005 as a witness. Many senior officials (such as Secretary, Additional Secretary, Joint Secretary) of Department of Commerce, Ministry of Commerce and Industry, Government of India deposed before the Committee at this 9th Meeting as witnesses.

2. It's Time for A Change³

2.1 There are two reasons why India struggles with trade policy making in a broad sense. The first is that the ministry that negotiates international trade agreements – the Ministry of Commerce and Industry – is firmly embedded in the domestic political culture, which accords little importance to the principles of free trade within the domestic context. This is a development model to which both the federal and state governments largely subscribe, and which political parties, most NGOs and major business associations all share, to some degree or the other.

2.2 Secondly, India's political culture is strikingly insular, in marked contrast to her foreign policy. Political attention is directed resolutely inward for the most part, and, if anything, this process has become more pronounced over the years with the rise to political power of formerly disadvantaged castes, classes and communities, and the steady fragmentation of the structure of political parties combined with the growing influence of federal units.

2.3 Thus, reforms are required. There are four broad areas in which the principal lessons of the past few years have yet to be learnt or applied. They are as follows:

- The level at which the vast range of issues relating to the role of trade (both international and domestic) in economic development needs to be considered, along with questions of procedures, and who or what controls the policy and implementation process
- The need to integrate diplomatic networks with trade policy requirements, and to connect these more fully to key international networks
- The need to address the inappropriate ways in which trade and industry associations are organised, and the consequent need to restructure these organisations to reflect the importance of the multilateral process
- The need to develop the capacity of independent institutions to provide detailed evaluations across the policy spectrum

3. Imperative for A Separate Department

3.1 At present, trade policy making in India is mainly confined to the domain of the Trade Policy Division of Department of Commerce, Ministry of Commerce and Industry, Government of India. Several other departments, ministries and bodies are involved with the process of trade policy making in India. While the Trade Policy Division of Department of Commerce is doing reasonably well in respect of trade policy making and much better than before, the above-mentioned wisdom of the Parliament and the need for reforms can truly be obtained if there is a separate Department of International Trade and Trade Diplomacy within the Ministry of Commerce and Industry, Government of India. The need is

³ This section is based on *Trade Policy Making in India – The reality below the water line*, Julius Sen, CUTS #0415, 2004.

further enhanced in view of the increasing non-multilateral trade agreements being pursued by India, and the lack of coherence within the existing set up which has also lead to inverted duty structures.

3.2 The overall objective should be that this Department speaks for the system of trade policy making and its implementation as a whole, as broadly understood, with the confidence and assurance that a deep comprehensive consultative procedure alone can bring.

3.3 Credible and sustainable trade policy outcomes require an efficient delivery mechanism. This can be achieved by considering the following main objectives of a good trade policy making and implementation:

- There should be a clear and precise definition of national interests in policy formulation and implementation, with a strong sense of how trade policy fits into the overall strategy for national economic development.
- Effective negotiating capacity with a good appreciation of the dynamics of interaction between policy making at bilateral, regional and international levels should be developed.
- There should be a mechanism for a dynamic evaluation (for instance as per the criteria of sustainability impact assessment of trade agreements – economic, political, social and environmental sustainability – *ex-ante* as well as *ex-post* analyses) of the effectiveness of the implementation of trade policy at the domestic level as well as in the context of international commercial diplomacy.