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Global Linkages and Domestic Politics

Trade Reform and Institution Building in India in Comparative Perspective

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This article examines how the World Trade Organization (WTO) affects institutional development and policy responses in India. India is a country traditionally resistant to external pressures but in which participation in an international organization stimulated a transformation in trade policy processes and procedures and unleashed a new bureaucratic politics, institutional innovation, and activation of policy–expert linkages. The author argues that we go beyond zero-sum assumptions in understanding the relationship between globalization and national state institutions. Key rules of international organizations increase transaction and sovereignty costs for states, which may catalyze new domestic capacities and create the impetus for new governance mechanisms. The author demonstrates this argument with an analysis of India's engagement with the WTO and with illustrative evidence of the interaction of China, Brazil, Japan, and United States with the WTO. The evidence is drawn from 18-month fieldwork in India, Washington, D.C., and Geneva; a newspaper database; and reliance on 100 interviews.

Keywords: *globalization; international organizations; India; bureaucratic politics; trade reform; WTO*

Until the 1990s, trade policies of developing countries were mostly bilateral. Most countries married their export-enhancing instruments to their domestic industrial strategies. International trade commitments were limited to tariff reductions in commodities, and an elaborate system of exceptions allowed most countries to design individually tailored compliance schedules. The transformation of the General Agreement on Tariffs and Trades (GATT) into the World Trade Organization (WTO) in 1995 radically altered this picture. The rules of the game became multilateral in scope and effect. Agreements and rules now affect all members in a widely encompassing way. Compliance pressures are intense with few escape routes available.[1] An expanding reach seeks to cover services, investment, intellectual property rights, and immigration issues—until recently the preserve of national governments.

These developments raise the following question: Are national states becoming obsolete and their authority undermined because of the growing importance of such powerful global institutions?[2] In this article, I argue and demonstrate that the answer to both questions is no. Globalization of trade rules, in fact, creates pressures to strengthen national state agencies and trade policy processes.[3] What are the mechanisms of this paradoxical impact? I analyze two mechanisms in this article: *transaction costs* and *sovereignty costs*. High transaction costs and the technical demands of compliance with WTO rules and agreements, in fact, demand institutional reform of national institutions. Simultaneously, sovereignty costs lead states to redefine their role in international organizations and in the global order more generally. Some governments have reasserted their authority by deploying innovative instruments of national policy to safeguard their domestic agendas. Both together—transaction costs and sovereignty costs—stimulate domestic institutional change with distinctive features such as policy–expert linkages and state–society consultations. This article, thus, finds that the trend toward global trade integration and trade liberalization creates pressures and imperatives to reform national political institutions; international trade regimes unleash both tariff reform and institutional reform.[4] It is interesting that similar processes of institutional development are evident across diverse countries such as India, United States, Japan, Brazil, and China.

Debates on globalization remain divided between contending positions. Most argue that states reduce their room to maneuver in an increasingly globalizing world (Cerny, 1990, 1995; Keohane & Milner, 1996, p. 18). In contrast, some scholars argue that globalization strengthens national regulatory policies, leads to a race to the top, and encourages "trading up."[5] The mechanisms of impact are market adaptation, mobilization of societal pressures, and policy change.[6] In this view, globalization changes the demand

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for liberalization as it affects societal and market actors, their preferences, and social cleavages. The theory of the impact of internationalization on domestic change has been dominated by a theory of politics where domestic private interests and interest groups are the prime movers (Frieden & Rogowski, 1996). Scholars interested in compliance focus on state actors and their behavior without exploring the impact on underlying state institutions, which may directly affect compliance effectiveness. Simmons suggests that one challenge for theories of compliance is to distinguish when compliance reflects state preferences or alters those preferences (Simmons & Hopkins, 2005).[7] A focus on state action and behavior is undistinguishable from state actors' preferences; in contrast, a focus on changes in the underlying state institutions can tell us the ways in which international institutions might alter the institutional capacities of state actors as well as their interests.

Scholars who do focus on domestic political institutions and their variable responses to global constraints (Keohane & Milner, 1996) fail to attend to how domestic institutions themselves may change in interaction with international rules of the game and changing global incentives.[8] International institutions, more than market flows, interact with political institutions, rulers, and state agencies and by so doing transform the institutional context of domestic responses. Paradoxically, global institutions, by the virtue of their interaction with domestic state institutions, empower the state as the negotiating actor vis-à-vis its society.[9] Thus, we need to ask, how does globalization affect the supply of domestic institutions supporting liberalization? I suggest that internationalization, under some conditions, leads to domestic institutional change as it affects the domestic supply of responses and the domestic reregulation of global forces.

Studies of international organizations, currently enjoying a revival, have looked at questions of compliance (Simmons, 2000; Simmons & Hopkins, 2005), institutional choice (Koremenos, Lipson, & Snidal, 2001), and the impact of international organizations on structural and systemic variables such as democratization (Pevehouse, 2002; see Martin & Simmons, 1998, for a review of the literature on international organizations). But we do not know enough about how international institutions shape domestic politics and the mechanisms through which state compliance is ensured in diverse institutional institutions (GATT vs. the WTO) and across different types of countries over time (large developing countries such as India or Brazil vs. small countries). One contribution of this article is to demonstrate the role of international organizations as a principal in not only shaping state behavior[10] but also the design of the state.

To assess these theoretical insights, this article explores the impact of the WTO, an international organization regulating trade, on India's trade policy and state and institutional structures. Plausibly, a study of institutional and policy changes in one country can allow us to assess the distinctions outlined above more carefully. Rapid change in India's trade policy and trade institutions in the late 1990s cannot be adequately explained by domestic variables, as a mere reflection of state preferences, as many of these variables were in the direction of slower trade liberalization. State bureaucrats, for example, had successfully resisted internal administrative reform for decades, yet subsequent to the coming into being of the WTO, key reforms were introduced in its trade policy–making apparatus (around 1999). Between 1995 and 1998, compliance with WTO commitments was slow to start in most countries, and in India, interest groups succeeded in slowing trade liberalization by reversing the lowering of tariffs. Interviews suggest that most sectors lobbied for slower trade liberalization in this period. Yet after 1999, the WTO stimulated significant reform of the institutional basis of trade policy, despite internal resistance and insularity of the Indian bureaucracy. I also present some illustrative evidence on a few other selected cases (Brazil, China, Japan, and the United States).

This article's implications for the autonomy of the nation-state in the face of globalization pressures are, thus, counterintuitive. At a prima facie level, India's participation in the WTO subjects it to international discipline, which it did not have to face before. At a deeper level, however, state negotiating strategies to the WTO regime matter. Even more important, the specific rules of the game of the WTO—interlinkage of issues and the technical nature of the issues, among others—stimulate reform of the state and institutional change. Thus, participation in an international institution established to implement globalization might unintentionally enhance nation-state capacity to delay and modify globalization and to redirect it toward its own ends. The specific rules of the game of the WTO are not unimportant to this dynamic story: Institutional design matters. Certain features of the WTO provide the enabling conditions for the unintended increase in domestic state capacity to take place. The evidence presented here leads to the conclusion that we need to think more carefully about how international institutions work and how they affect domestic politics. Thus, international organizations and India's participation in them were the crucial actors shaping policy and institutional change of the late 1990s.

The first section of the article justifies the choice of India as a case study for prevailing theories on globalization and trade. The second section opens the black box of international organizations of trade (GATT and WTO) and highlights how rules of the game may affect domestic states. The empirical evidence on India is presented in the next section, and the fourth section presents some comparative evidence on China, Brazil, the United States, and Japan.

Why a Study of India? India as a Case Study for Theories of International Trade

Understanding India's trajectory of trade independence and interdependence may be crucial to theories of international trade and of globalization. It is the world's most populous, long-standing democracy but one that has embraced trade integration only recently (in the 1990s). It was, as late as 1991-1992, a closed economy with high tariff walls, strict rules for trade flows, and low trade volumes. Its trade policy was inward looking and characterized by "export pessimism" (Bhagwati & Srinivasan, 1984; Narayana, 2001). This tendency toward export pessimism was strengthened by its long-established democratic institutions, which encouraged strong interest-group coalitions to resist trade liberalization. In 1991, on the eve of liberalization of the Indian economy, India's commerce minister, the Harvard-trained Dr. Subramanian Swamy, said, "India does not need GATT because of its large size" ("Swamy Says," 1991). The national government strictly regulated the inflow and outflow of goods, services, and products and focused its political energies on the domestic market and domestic production capacities. Within a decade, by 2005, Indian tariff rates had come down to 15% from a high of 128%, and a significant directional turnaround was evident in its trade policy. Currently, India seeks to export its products and services aggressively and engages multilateral trade institutions (WTO) actively. When and how closed nations become trading nations are important questions for international trade theory. Are international institutions able to change and shape domestic policy and politics in such closed nations, or must they watch from the sidelines? Given its self-reliant history, countries such as India are tough and therefore useful ("least likely") cases for analyzing the impact of international forces and international organizations and transformations in that relationship. Uncovering the mechanisms though which global institutions shape domestic politics in a country like India could be invaluable for understanding the logic of global changes sought by international bodies.[11]

Assessing Unintended Effects and Opening the Black Box of International Organizations

"Do international organizations really do what their creators intend them to do?" (Barnett & Finnemore, 1999, p. 699). Barnett and Finnemore (1999) suggest that international organizations have unintended and unanticipated consequences. What is the source of these unintended effects? In contrast to Barnett and Finnemore, who focus on the culture of international organizations, I open the black box of international organizations and explicate the mechanisms through which they may shape domestic politics. In my argument, two mechanisms emerge as crucial—transaction costs and sovereignty costs—and their effects run against the grain of conventional theorizing in international relations. These two mechanisms catalyze institutional innovation, reform, and development of domestic state institutions, leading to significant change in domestic state structures. Rules of the game of the WTO thus shape state choices but, strikingly, stimulate significant policy reform and changes within the state and its relationship with research community, civil society, and interest groups.[12]

Transaction Costs

International relations theory concludes that international institutions facilitate state compliance by reducing transaction costs associated with trade (Goldstein, 1998, p. 137; Martin, 1992, pp. 56-57). Yet although international organizations reduce transaction costs for state-to-state cooperation, and for hegemons within the institution (Martin, 1992, pp. 55-58), their impact on domestic states might be the reverse. Building on the insights of the neoinstitutional theory, I propose that we think of global regimes or global rules as incomplete contracts. An incomplete contract is one where one can never specify or anticipate every contingency or possibility, and this creates transaction costs (Hart, 1995).[13] Transactions costs can be of different types, including information costs, contracting costs, agency costs, and enforcement costs. In this article, I focus attention on informational costs, which may arise out of a lack of information about preferences of target actors, the complexity of compliance commitments, and the technical nature of the agreements. By this criterion, the WTO (as well as some environmental agreements) have higher informational transaction costs, as they are more complex and technical than other agreements or organizations.[14] Connecting back to the idea of unintended contracts, this article argues that global regimes have paradoxical effects on account of their incomplete contractual nature and unpredictable transaction costs.[15]

It is important to clarify the logic of this causal mechanism from the perspective of domestic actors. For state actors, these higher transaction costs imply two somewhat different logics: one a *functional* logic and the other a more political *strategic* logic. Initially, governments don't know or have imperfect information about the functional requirements of compliance. Compliance demands more information about the interests and preferences of groups and the potential costs of compliance. These in turn require, by a functional imperative, enhancement and reorganization of institutions to seek information about preferences as well as technical knowledge (which may be legal, economic, or sector specific) about compliance requirements. This partly stimulates the significant institutional reform under way in many countries after 1995, when the WTO came into effect (see below). Equally important, as member states learn how the global regime works, they also begin to perceive a strategic advantage of high transaction costs as they begin to anticipate the effects of these costs. Thus, in subsequent international negotiations, domestic administrative reform, they find, allows them to defend and articulate their national interests better, leading to stronger negotiation and strategic capacity.

The WTO is a complex agreement in a number of ways. Governed by such salient principles as the "most-favored-nation" treatment, tariff concessions, and "single undertaking principle," which must apply to the general agreements as well as each specific agreement and be legally defensible, the compliance commitments are nontransparent and complex. Its rules and regulations are written in a long, highly technical document filled with legal and economic language that is difficult to understand and as difficult to implement.[16] Institutionally, a number of agreements nest within each other and are interlinked to each other, creating another layer of complexity.[17] In addition, global trade regimes require varied but significant changes in domestic laws, creating higher sovereignty costs. Before explicating the logic from the domestic actors' perspective, let me outline what sovereignty costs are.

Sovereignty Costs

In an incomplete contract framework, power or authority relations usually play little role. Yet as Hart (1995, p. 4) notes briefly, the incomplete character of a contract should make authority relations among the contracting parties key to the completion and implementation of the contract. Precisely because many possibilities cannot be predicted ex ante, who has power matters in the ex post implementation of a contract or an agreement.[18] Analogously, from a realist perspective in international relations, who has power to enforce compliance of international agreements and commitments matters a great deal. Boundaries of sovereignty and power thus become important. I define sovereignty costs as the extent of changes demanded by global rules in national laws and regulations, which may be defended by specific sanctions and punishment in case of noncompliance. International organizations vary widely in how much change in national laws they demand or expect. The WTO has more power than the GATT or the World Bank or the International Monetary Fund (IMF). Yet counterintuitively, this makes the negotiating dynamic between the international regime and domestic actors even more salient and unpredictable, as domestic actors face higher domestic trade-offs in implementing its rules and commitments. So the important question is the effect of high sovereignty costs on state–international organization interactions and for compliance. High sovereignty costs may, under some conditions, catalyze stronger domestic responses than is necessary with lower sovereignty costs.

How can we expect member states to respond? As the WTO became more intrusive and demanded significant changes in domestic laws, domestic leaders in many countries were stimulated to alter institutions within the state and to deploy domestic institutions to bargain for greater autonomy vis-à-vis global pressures. Thus, high sovereignty costs may impose domestic burdens, which catalyze subtler institutional transformations in many states. The exercise of sovereignty is transformed as a result, changing the way in which member states negotiate and implement national regulations, but institutional development also releases new ways of regulating the domestic economy and modifying the government's international commitments.

GATT was an agreement between contracting nation-states, whereas the WTO is an organization with equal legal and institutional standing to the World Bank and the IMF.[19] Although the legacies of GATT's origins and history do shape the nature and institutions underlying the WTO, the differences in organizational structure, rules of the game, and informal norms far outweigh similarities.[20]

The WTO's long arm into domestic sovereignty differentiates it from GATT and even the World Bank and IMF. The principle of single undertaking further obligates each country to all the agreements.[21] As the trade minister of one large developing country said,

> GATT disciplines have been concerned mainly with commercial policy instruments and have left the contracting parties free to design their domestic economic policies. The infinite complexity of the exercise of the last four years [Uruguay Round, 1990 to 1994] has been due to the fact that there has been a [Sic] *relentless and vigorous attempts to move the negotiations upstream into the realm of domestic economic policymaking* [italics added].[22]

This movement into domestic policy space was a result of two transformations in the scope of global trade negotiations: the extension of global trade rules from commodities to services and intellectual property and the mandatory nature of commitments made in the Uruguay Round. Trade rules came to affect not only traditional goods but the new intangible goods, services, and knowledge and information goods. This meant that the Uruguay Round and the resultant WTO reached out to other organizations—the World Intellectual Property Organization and the International Labour Organization—and took over authority and jurisdiction over their policy domains.

Combined with its encompassing character, the WTO is unique in its monitoring, enforcement, and sanctioning capacity. Rather than coercion, the WTO uses nondiscretionary rules, legal jurisdiction, and norm diffusion to achieve compliance; this has been referred to as “legal framing” (Davis, 2004). Key instruments aid the organization to achieve these goals: contractual obligations, regular and frequent ministerial-level meetings,[23] trade policy monitoring,[24] an elaborate and effective dispute settlement mechanism,[25] training, and, if all else fails, multilaterally authorized trade sanctions. These instruments ensure greater compliance with WTO agreements; governments and interest groups are able to delay but not deny domestic legal and institutional changes. Even in closed and resistant economies, trade liberalization and global integration proceeds more expeditiously than under GATT or under bilateral pressure or under the aegis of the World Bank and IMF. As an illustration, the trade policy review mechanism ensures adherence by WTO members to rules, disciplines, and commitments made under the WTO agreements. Although the purpose is not enforcement but transparency, it has the effect of ensuring compliance. Thus, both directly and indirectly, the WTO imposes high sovereignty costs on states.

WTO’s Impact on State Institutions in India[26]

India’s domestic policies and institutions have strong staying power; policies, processes, and institutions change at a glacial pace in India’s embedded democracy. Yet in the 1990s, remarkable change is evident in India’s interactions with the external world as well as in its trade policy. Part of this change can certainly be attributed to changing preferences of domestic state actors, which started to change slowly in 1985 and then more decisively in 1991-1992.[27] Yet changing policy preferences in the early 1990s transformed domestic laws and policies without transforming the

Table 1
Timing and Extent of Change in India

Source	1985	1991	1999
Domestic level	Half-hearted liberalization	Policy change	Policy and institutional change
International level	Limited change: Pre-Soviet Union collapse	Change: After Soviet Union collapse	Significant change: Post–World Trade Organization[a]

a. India lost two crucial World Trade Organization cases in 1997-1998, one on the Agreement on Trade-Related Aspects of Intellectual Property Rights and the other on quantitative restrictions. Thus, we can date the onset of sovereignty burdens from 1997-1998.

institutional basis of India's relationship with the external world. Moreover, a protectionist phase between 1996 and 1998 seemed to reverse some of the directional shifts of the early 1990s. It was only in the late 1990s—starting in 1998 and 1999—that we begin to see sustained institutional change and radical reorientation of institutions as well as radical changes in the extent of India's external integration. As Table 1 highlights, this timing of institutional and procedural change in the extent of external integration (post-1999) cannot be fully explained by a change in state preferences, which had occurred much earlier (1991), or as a result of transformations in domestic institutions, which had not changed at all. Rather, in my argument, international factors—more specifically, the institutional structure of the global trade regime—shaped the changes in India's internal trade regime that started in the late 1990s. India initiated radical reforms in 1991 after the collapse of the Soviet Union, yet external integration was left incomplete. In 1997, India lost two WTO cases, one on the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and another that required India to phase out its quantitative restrictions. It is at this time that sovereignty costs become rigorous with few escape routes available and transaction costs of compliance are unleashed.

It was only after 1998 or so that the size of the state department dealing with trade increased, the power and status of the Ministry of Commerce were enhanced, new institutions of compliance were created, the policy processes related to trade were radically reformed, and policy–expert networks were activated. In addition, the state reformed its public interface and began informing the public about trade policy and India's commitments. Together, these changes amounted to significant development of state institutions and creation of new policy procedures and practices.

In the field of trade and commerce, the nodal agency responsible for negotiating at the international level is the Ministry of Commerce.[28] Simultaneous with the expansion of the WTO and its agreements to cover new issues, the Ministry of Commerce's workload, power, and status were enhanced. In the earlier regime, in addition to commerce, the external affairs ministry (MEA) and the finance ministry also dealt with foreign actors and organizations, including ones related to trade.[29] In the run-up to the Singapore ministerial meetings in December 1996, for example, both the Ministry of Commerce and MEA were responsible for joint preparation of India's position paper. In addition, the Ministry of Finance was also involved in achieving a consensus on India's negotiation strategy.[30] By 2004, although ministerial overlap continues to exist, the Ministry of Commerce is considered to be at par with these two ministries (MEA and Ministry of Finance) in dealing with external economic relations. Moreover, the Ministry of Commerce won a victory of sorts in dealing with the multilateral and trade agreements especially against the MEA, which had sought to involve itself in multilateral negotiations. In 1999, the Ministry of Finance and Ministry of Commerce clashed over administrative responsibility for antidumping. Yet, antidumping (the Directorate General of Anti-Dumping and Allied Duties; DGAD) continued to be the responsibility of the commerce ministry. Moreover, its prestige and status has definitely increased vis-à-vis the Department of Industry, whose regulatory power declined with liberalization in 1991.

This enhancement of power resulted from a greater need for coordination that WTO integration demanded. After the Uruguay Round, as a consequence of overlapping demands of negotiation, the Indian government brought top officials from three to five ministries together to coordinate policies and negotiation stances. This enabled the Indian trade ministry to gain voice and importance in negotiation even on issues of agricultural liberalization or textile-related negotiations. The Ministry of Commerce was given the status of the nodal ministry, as its role was to think of the whole negotiation in a holistic way, balance sectoral trade-offs, and coordinate trade policy across the various ministries.[31]

In the commerce ministry, the Trade Policy Division (TPD) was a small, inactive, and unimportant division in the 1970s and 1980s. Its main task was to "keep abreast of the developments in the international organizations like GATT, UNCTAD, ESCAP, etc." (Ministry of Commerce, 1977, p. 24), visualized as keeping track of multilateral and international trade organizations rather than using the forums to enhance India's export potential. By 2004, the size of the division to deal with multilateral issues has increased dramatically, as has the prestige of the positions these officials occupy. In the 1960s and 1970s, the majority of officials in the Ministry of Commerce were engaged in export promotion, regulation, and assistance for specific commodities; there was no officer of senior or midlevel rank designated for making and formulating trade policy. This reflected international realities and domestic imperatives: Trade policy was inward looking, and GATT discussions were not as intrusive and important. In 1996 at Geneva, where most of the deliberations took place, India had three diplomats (ambassador plus two) covering the WTO, when on any ordinary day there are about 10 formal and informal meetings, most of which have a direct bearing on India's interests (Subramaniam, 1996). India's Geneva-Capital ratio was also quite poor, which stood at 4 officers in Geneva to 5 at home; many other countries had a ratio of 1:2, that is, 2 officials in the capital giving and responding to every official in Geneva. The total number of officials dealing with multilateral trade issues in the capital, in Geneva, and in Washington, D.C., was 9 to 10 in 1995-1996.[32]

In a few years, by 2004, the Ministry of Commerce increased the number of officers, institutions, and staff to deal with the ever-expanding tasks of complying with WTO agreements. Around 1997-1998, the trade policy division was reconstituted and its role enhanced, and by the early 2000s, the number of officials devoted exclusively to trade policy and multilateral trade negotiations had increased significantly. Moreover, officials responsible for bilateral trade issues were increasingly handling issues emerging from the multilateral trade process. By 2004-2005, 36 to 38 officers were engaged in multilateral trade process, an increase of 400% in a short space of time.[33] Most crucially, from a sleepy and unimportant posting, positions in the TPD had acquired increased status, prestige, and importance. Many of the trade policy officials were required to have specialized knowledge about domestic trade policy and existing regulations, WTO agreements, economic trends, and negotiation strategies. Significantly, many officers in the TPD were no longer transferred but kept longer in their positions so that they were able to build specialized skills. The Geneva-Capital ratio became much better, leading to greater coordination and better policy and research support for the Geneva-based negotiators. Simultaneously, the government started to take larger delegations to ministerial discussions. As an example, in Cancun in 2004, India's delegation was among the largest it had sent for any of the four previous ministerial meetings.[34]

I asked a high-level official of the Ministry of Commerce the reasons for the above-demonstrated expansion in the state. He said, "The demands on us from WTO had increased manifold; they were watching us and monitoring us. Therefore, this expansion was much needed, in fact it came very late, only in 1999 or so."[35] Thus, the trade review mechanism of the WTO as well as its intrusive monitoring played a role in this transformation, as the government was forced to present an elaborate and legally sophisticated response to the WTO at regular intervals.[36] Thus, the size and specialization of state structure expanded in direct response to the onerous demands placed by the WTO rules and agreements.[37] Notably, an expansion of policy community and state structures was accompanied by a creation and institutionalization of policy–expert networks. In the space of a few years, the cognitive capacity of the state on international trade and WTO issues was enhanced.[38]

Interaction With Research and Expert Communities

As I walked into a civil servant's office, I noticed that his desk was piled with numerous research reports, books, and working papers rather than government files, which constituted only a small portion of his desk. Another desk in the room also was filled with a lot of reading material. He said to me during the interview,

> I am having to educate myself in economics, legal issues, and international trade issues. The amount of reading I have to do has gone up immeasurably since I became part of the trade policy division of the Government of India. I have to carry heavy books with me and seek help from textbooks! I feel like a student![39]

The WTO, in contrast to the GATT, is complex, technical, and quite esoteric. Its framework agreements, titled *The Legal Texts: The Results of the Uruguay Round of Multilateral Trade Negotiations*, is a book of 492 pages filled with a lot of difficult and legalistic agreements.[40] Another civil servant waved the thick book to me and said, "One reading is not enough to understand this text; one has to read it at least twice or three times to understand what it means. To evaluate its long-term implications, that's another level of complexity."[41]

Faced with the technical and complex nature of the WTO agreements, negotiations, and debates, the bureaucracy in India was forced to seek direct, regular, and systematic research help and input from think tanks, professors, research universities, and research institutions despite its inclination to keep negotiations secret and in-house. Research input began to be formally solicited, funded, and discussed as a precursor to evolving India's positions and negotiation strategy after 1999-2000. As a result, the interaction between the research, expert, and professional communities and state officials was started for the first time in the history of India's trade policy and has intensified immeasurably over time.

In the mid- to late 1990s, the government usually relied on in-house research; the Indian Economic Service officers in many economic ministries provided the logistics and research support for such analysis. Starting from 1999-2000, the government not only began to tap the research resources of government think tanks such as the Indian Institute of Foreign Trade (IIFT) and Research and Information System for Developing Countries, which were the designated bodies for research support on WTO issues, but also began to interact closely with independent, specialized research institutes. For example, institutions such as the International Council of International Economic Relations (ICRIER), the Madras Institute of Development Studies, and the National Law School in Bangalore were asked to do research and present their findings to the government. The Ministry of Agriculture also sought some research work from the Centre for Management in Agriculture and the Indian Institute of Management, Ahmedabad. They prepared a report titled "Impact of WTO Agreements on Indian Agriculture" for the Ministry of Agriculture.[42] In a short space of 3 to 5 years, separate government funds began to be allocated for research. In 2002-2003, 11 separate new studies were commissioned at the cost of around Rs. 80 lakh. A separate committee, procedures, and budget head were created for the purpose of funding research studies amounting to 1 crore by 2004-2005 (Government of India, 2005, p. 29). In 2003, the government set up a WTO center within the IIFT and allocated significant budgetary resources for research purposes.

Involvement of experts and research analysis into policy making became more formal, regular, and important from 1999-2000 onward. An additional secretary in charge of the WTO in the Ministry of Commerce said,

> We seek research input *before* [italics added] we finalize our positions; thus research is indispensable to our negotiating strategy. It's not that we have made up our minds. The WTO process is too complex for that to happen; we need the research input in a crucial way.[43]

Currently, the research report or paper prepared by the research institution is submitted to an expert group dealing with the relevant issue, which is constituted by numerous experts, government officials, and industry actors.[44] This expert group uses the research paper to think about the impact on India and the possible strategic options for India. This paper is also submitted to the interministerial consultation process between different ministries concerned with the issue. For example, for an agreement on agriculture, the Ministry of Commerce, the Ministry of Agriculture, and the Ministry of Finance have overlapping consultations and dialogue.[45] An international observer, after looking at the services discussions and the research input into the policy process, was clearly impressed. He said, "India has clearly adopted a state-of-the-art process to incorporate research findings on the services negotiations. The sectoral studies conducted by ICRIER are very sophisticated and the expert groups process of the Government of India is clearly impressive."[46]

This activation of knowledge–policy networks and emphasis on research were catalyzed not only at the central level but also across India's provincial states and among local institutions. Across India's regional states, expert and research communities and business actors provided the impetus for WTO-compliant policies and institutions. In Gujarat, the intellectual property rights compliance pressures stimulated experts and scholar-activists to start an interesting debate on the importance of ensuring property rights in indigenous knowledge areas; this combined with cash-crop farmers using genetically modified seeds (Bt cotton) led the state government to launch a serious review of WTO agreements and set up a "WTO cell."[47] In Andhra Pradesh, a vibrant pharmaceutical industry combined with a business association (Confederation of Indian Industry) led the state to set up institutions to help the process of intellectual property creation; in both these cases, state, expert, and business actors sought to deploy WTO-created opportunities to modify their market potential in a globalized arena.

Bureaucratic Politics and Interagency Coordination and Consultations

Trade politics in the 1990s unleashed bureaucratic politics in a distinct way.[48] In a parliamentary bureaucratic system such as India, various departments—referred to as ministries—have independent and significant power. Ideological predispositions across departments vary as do the dense relationships of ministries with their industry constituents. Until recently, the various economic ministries existed in a fragmented back-to-back structure where coordination was nonexistent and turf protection of each ministry the norm. Compliance pressures of the WTO disturbed this intrastate equilibrium in a distinct way. In the pre-WTO days, conflict between departmental ministries did not need to be settled; each ministry could go its separate way (Shourie, 2004). However, compliance with the structure of WTO agreements, with its single-undertaking principle, meant that India's negotiators had to come up with a consistent negotiation strategy and position across sectoral agreements as well as balance the needs of different sectors. Deal making across sectors also required a discussion and debate about the exact trade-offs across sectoral agreements. These pressures created the necessity for enhanced mediation, consultation, and coordination across sectoral and line ministries.[49] In 1999, for the first time, a formal interministerial group at both the political, ministerial level and the bureaucratic level started meeting to discuss WTO-related issues. On May 14, 1999, the government constituted a nine-member permanent interdepartmental group on the WTO under the chairmanship of Commerce Secretary P. P. Prabhu.[50] The purpose of the group was better coordination:

> The group would ensure effective preparation on WTO issues, devise a communication strategy for wider discussion and building up of a national consensus on India's negotiating position, and deal with all WTO-related aspects of India's interface with foreign countries to optimize India's negotiating leverage, and decision-making in the WTO. ("Secy-Level Group," 1999)

This group included secretaries of commerce, agriculture, external affairs (economic relations), finance, industry, law, and textiles, besides the secretary to the prime minister, the prime minister's office, and the director general of the Council of Scientific and Industrial Research ("Secy-Level Group," 1999). In addition, informal and formal consultations across sectoral ministries became common, regular, and necessary. The agriculture minister and minister of commerce began to meet together especially before key meetings, preceded by meetings between the secretaries of the two ministries. This was true for Cancun and for the post-Cancun discussions. In June 2004, the two ministers met "to fine tune the country's strategy for deliberations at the G-20 and the non-core group of five countries, including the US, EU and Australia, meet on the sidelines of the UNCTAD XI ministerial" ("India Readies," 2004). At times, the conflict needed the mediation of the prime minister. For example, in August 2003, as a prelude to the Cancun meetings, the prime minister himself had to step in to mediate the fight between the Ministry of Agriculture and Ministry of Commerce and "asked Agriculture Minister Rajnath Singh to make peace with Commerce Minister Arun Jaitley" ("Vajpayee Steps In," 2003).

Thus, international negotiations stimulated overlap across fragmented ministries, urging the need to make government policy consistent across ministries, sectors, and issue areas. This need also created more frequent conflict and disputes across ministries. These conflicts and differences demanded greater interaction, meetings, and joint forums for mediation of differences. Thus, in addition to enhancement of existing organizations and the creation of new institutions, new practices and procedures were necessitated as a result of compliance pressures.

Creating New Institutions of Compliance and Protection

Existing institutions were reorganized to deal with WTO compliance; in addition, different institutions with new capacities were needed. In 1997-1998, three new institutional frameworks came into being to deal with the expanding tasks associated with negotiation and preparation. These were the Intellectual Property Rights Administration, the Antidumping Administration, and a new Tariff Commission. On April 13, 1998, DGAD was constituted within the Department of Commerce to "initiate inquiries and give necessary relief and protection to domestic producers against dumping of goods and articles from other parts of the world" (Government of India, 2002, p. 45). On September 2, 1997, an independent Tariff Commission was reestablished, "keeping in view the commitments of government in the WTO and complexities in tariff and tariff related matters which may have very vital impact on domestic industry as well as on the economy of the country" (Ministry of Industry, 1997). In 1997, the prime minister and cabinet directed the Ministry of Industry and other ministries to modernize the patent administration and sanctioned Rs. 65 crore for that purpose. Thus, WTO compliance pressures and dilemmas stimulated the creation of and reformation of state institutions rather than their withdrawal.

Reforming and Enhancing the Intellectual Property Rights Administration[51]

The demands of compliance with TRIPS created interest groups in favor of knowledge protection and pressures to reform the management of intellectual property in India. Many important members of the scientific community—led by the director of the Council of Scientific and Industrial Research, R. A. Mashelkar; Professor C. N. R. Rao;[52] and Dr. M. S. S. Swaminathan—began to lobby for a strong system of patent protection (Chandrashekar & Venu, 1997). The scientific community in the mid-1990s began to argue that compliance with TRIPS will "allow the scientific community to truly capitalize on their intellect" (Chandrashekar & Venu, 1997).[53] Simultaneously, India lost the TRIPS case at the WTO dispute settlement board, and the government was forced to signal a reform of its patent administration. In June and July 1997, the scientific community effectively lobbied the then government and especially the prime minister, I. K. Gujral, to reform the governance of science and knowledge so that "technology could be used as an instrument of growth."[54] On June 13, 1997, the government appointed a Science Advisory Committee to the cabinet (SACC) consisting of 36 members: scientists, technocrats, and industrialists. This committee's recommendations led the prime minister to "direct the setting up of an all-encompassing patents office to tackle issues relating to intellectual property rights and patents" ("PM Directs," 1997; also see "Gujral Directs," 1997). The modernization of the patent offices was to offer services almost at par with similar setups in Europe, computerize the data collection, and increase the fees charged for the patent applications; all this was to speed up the processing of patent applications (Ahmed, 1997). The SACC plea for modernization received support from the prime minister himself (Ahmed, 1997). In October 1997, the prime minister sanctioned Rs. 65 crore to modernize the patent offices.[55] Again in 1999, the government chalked out plans to hire more patent examiners, and Rs. 70 lakh was earmarked for modernizing the patent offices.

Comparative Reflections

Can we observe similar patterns of institutional development stimulated by participation in WTO in other countries? In very different countries—Japan, China, Brazil, and the United States—WTO compliance pressures have catalyzed the state administrations in similar ways. In Japan, for example, during the Uruguay Round, top officials from five ministries came together to coordinate policies (Davis, 2004, p. 157); consultation across competing ministries was clearly in evidence. An interesting similarity to India is that the power and status of the trade ministry increased as a result of participation in the Uruguay Round (see Davis, 2004, p. 57). In the United States as well, institutional enhancement was quite dramatic. The Office of the United States Trade Representative (USTR) increased its office staff to deal with the increasing complexity of the trade negotiations; the increase was most significant in the period from 1989 to 1996, as the GATT transformed itself into the WTO. From the Tokyo to the Uruguay rounds (1979-1980 to 1993-1994), the number of positions in the USTR increased from 11 to 24, a 118% increase. From 1973 to 2004, the USTR had expanded by as much as 420%, from a small office of 5 people in 1973 to 26 officers in 2004.[56]

China joined the WTO in 2001 after a long, protracted accession process. Given its recent entry into the WTO process, we are likely to find the least amount of institutional change in China. Moreover, China's institutional structure may be considered most resistant to change. Strikingly, China's state structure faced parallel institutional dilemmas in the process of WTO accession. During the process of accession negotiations, China established a highly powerful internal coordinating group headed by then State Counselor Madame Wu Yi. This interagency, ad hoc decision-making body was called the Central WTO Work Leading Group, composed of not only relevant ministries and commissions under the State Council but also relevant bodies under the Communist Party of China Central Committee and the National People's Congress. In addition, China's state agencies underwent significant reorganization and implemented the creation of new institutions. In 2003, the State Economic and Trade Commission was dismantled, and its former functions of industrial injury investigation in the trade remedy process and domestic trade policy making were shifted to the newly established Ministry of Commerce, headed first by Mr. Lu Fuyuan and now by Mr. Bo Xilai, a former governor of Liaoning Province.[57] Within the Ministry of Commerce, some new departments were created, such as the Department of WTO Affairs, the Bureau of Fair Trade for Imports and Exports, and the Department of IT and E-Commerce (Huang, 2005).

Brazil, in the 1970s and 1980s, similar to India, married an import-substitution industrialization regime with sectoral-specific protectionist trade policies. In Brazil, traditionally, trade had been shared between three ministries and the Central Bank in Brazil. As Brazil began to participate in regional agreements and the WTO, the number of ministries and government agencies that became involved widened considerably; WTO expansion of issues to new issues and overlap between agreements demanded this change. A scholar of Brazil's trade policy notes,

> A number of government ministries and agencies that had never had an interfacing issue with those negotiated in trade agreements suddenly were called to participate, inform the discussion and take a position on matters which were, in addition, no longer "trade-related" in the old conception of the term. (Marconini, 2005)

Simultaneously, very similar to India, coordination and ascendance of a nodal ministry became more urgent. In 1995, the Câmara de Comércio Exterior (board of foreign trade) was created with a view to correcting the perceived lack of coordination among ministries and agencies involved in trade policy. Although many believe that institutional coordination still has not been satisfactorily resolved, the imperative of coordination was directly felt. In November 2003, President Lula found it necessary to call in the different ministries involved in trade policy and inform them that trade negotiations and matters directly related to them were to be headed by the Ministry of External Relations; this brought the ministry back to the center of trade policy making in Brazil (Marconini, 2005).

Thus, compliance with the WTO trade regime created a similar dilemma of coordination, augmentation of institutional capacity, across many countries, catalyzing some amount of institutional development and intrabureaucratic politics in each case. Although the form of institutional development has varied across countries, the WTO regime unleashed similar institutional imperatives across different systems, and responses in the large, middle-income, developing countries have been, to a large extent, similar.

Conclusion

Although we know a lot about global economic forces and their impact on domestic politics, we don't know whether global institutions confirm or deny the types of effects stimulated or expected by global market forces. Global trade flows are expected to align the cleavages and preferences of a society in a certain way (Rogowski, 1989). How would GATT and the WTO affect that impact: to reinforce its direction or mitigate its effect? Changing preferences of distributional and societal groups are by themselves not enough; the impact of global regimes on preferences of state actors and on the institutional power of some state and societal actors is as important to assess. Moreover, international institutions may change not only the power of reformers but also the intrinsic capacity of the state to respond to internationalization; this change in institutional capacity may further global integration in some policy domains while providing the resources to challenge and modify globalization in other policy arenas. Thus, an independent analysis of how international trade rules affect states and political institutions is needed for both empirical and theoretical reasons.

I have argued here that global trade rules and regimes exert a powerful effect on states, bureaucratic politics, and political institutions. These effects may, under some international and domestic conditions, stimulate institutional reform and transformation of domestic political institutions. International institutions and their obligations create transactions costs for states, which may respond by creating domestic institutions to minimize those costs. Most interesting, bureaucratic politics is unleashed in a distinct way as shifts in the locus of governance stimulate changes within states. Thus, institutional reform and state enhancement may be accompanied by increased conflict and institutional coordination within the state.

The framework outlined in this article presents two mechanisms and their counterintuitive effects: transaction costs and sovereignty costs. High or low transaction costs combined with the extent of monitoring and enforcement ability of the relevant global institution—sovereignty costs—create particular incentives for institutional reform within countries. This insight leads me to build an interactive framework where the importance of examining variation across international organizations in interaction with domestic capacities and strategies is highlighted.

Most crucial, globalization encapsulates different dimensions. International trade flows and changes in international prices do not exhaust global pressures but are mediated and refracted by global institutions. Counterintuitively, the effect of global rules may contradict the stimulus predicted by global markets. Most current understandings of global institution treat them as a black box; rather, we must tease out the separate effects of different modes of globalization (markets versus organizations) open the global organizations, and analyze microinstitutions within. This will allow us to build a complex theory of globalization and its impact. Moreover, because international regimes are by their nature incomplete and thereby embody transaction costs of implementation, they also make crucial the political and power relations between the relevant international organization and domestic actors. Then, the idea of the extent of sovereignty costs entailed by the relevant international organization becomes crucial. When transaction costs are low and sovereignty costs minimal (World Bank or GATT, for example), domestic responses toward compliance are determining. A more political and interesting dynamic is unleashed when global institutions entail high transaction costs, and domestic states, concerned with strategic and distributional consequences, may undertake institutional reform, in turn, transforming boundaries of their authority and power. High transaction costs and strong sovereignty costs stimulate domestic reform and institutional reform that may, paradoxically, over time, enhance the domestic capacity to respond to global pressures. Convergent pressures represented by global regimes create the conditions for more divergent responses as the imminent threat of institutional annihilation drives institutional change and innovation. Domestic political actors and institutions are key to these dynamic interactions. Globalization works through its effect on political actors and their strategies (Kahler & Lake, 2003, p. 3), but what is less understood and as this article has shown, by changing the institutional and political settings in which actors and organizations act.

Notes

1. The least developing countries continue to have some safety valves and exceptions.

2. For important works that address this question, see Caporaso (1989), Cerny (1990, 1995), Berger and Dore (1996), Keohane and Milner (1996), Garrett (1998), Vogel (1995), Sassen (1996, 2002), Vogel and Kagan (2004), and Hall and Soskice (2001).

3. Mattli (2003) finds similar evidence of complementariness between globalization and nation states in the field of standardization.

4. Rodrik (2002) conceptualizes trade reform as institutional reform.

5. See Garrett (1998), Vogel (1995), Vogel and Kagan (2004), and Young (2003). Also see Paul, Ikenberry, and Hall (2003); Weiss (2003); and Sassen (2002).

6. Young outlines these three mechanisms in a study of genetic-modification technology (2003).

7. For a review of the literature on compliance, see Simmons (1998). Also see Downs, Rocke, and Barsoom (1996).

8. For arguments that privilege the role of domestic institutions, see Garrett and Lange (1996); Rogowski (1999); and Weingast, Goldstein, and Bailey (1997).

9. This article focuses on state institutions; I analyze state–society interactions in Sinha (in press).

10. See Finnemore (1993, p. 566).

11. India's active participation in G-20, the Five Interested Parties talks, and the July 2004 talks on the Doha Round also suggest the need for reassessing India's relationship with the global trade regime.

12. In this article, I focus on state institutions and the shape of bureaucratic politics; I analyze the impact on civil society in Sinha (in press).

13. The notion of transaction costs was first introduced by Coase (1937) and has spawned a rich and elaborate literature in economics. Transaction costs may be defined as the cost of implementing and enforcing a contract, or the cost of using the price mechanism (Coase, 1937, pp. 390-392).

14. This resonates with Krasner (1983); Koremenos (2001, 2002); and Koremenos, Lipson, and Snidal (2001), all of whom urge attention to how institutions are designed rather than whether international institutions matter. Simmons and Martin (2002) also focus on the mechanisms of impact of international organizations.

15. I would argue that despite some continuities between the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO), the transaction and sovereignty costs entailed by the two organizations differ significantly.

16. The WTO charter is a 10-page document with four important annexes, which contain all the agreements. Annex 1 contains the mandatory multilateral agreements on goods, services, and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS); Annex 2 outlines the dispute settlement understanding; and Annex 3 outlines the trade policy review mechanism.

17. Aggarwal (1998) suggests that nesting of specific agreements within the broader framework of principles helps to ensure a high degree of conformity and institutional strength of that international organization. Other authors who emphasize the importance of linkage in getting the Uruguay Round started are Croome (1995), Paemen and Bensch (1995), and Davis (2004).

18. Oliver Hart (1995) emphasizes that power and incompleteness of contracts go together (pp. 2-5) but does not elaborate on its implications. In political science, none of the theories that use neoinstitutional economics as a basis for understanding international organizations emphasizes the role of power and authority relations in this way.

19. GATT was signed in 1947; the WTO came into being on January 1, 1995, as the outcome of the Uruguay Round of trade negotiations. Finlayson and Zacher (1983) note, “The GATT, however, was never intended to be the basis of postwar international trade order and was not even conceived of as an international organization” (p. 274). Also see Dam (1977) and Jackson (1969) for similar conclusions. Also see Krasner (1983).

20. An international organization can be conceptualized and operationalized in terms of different levels of formality: as a formal organization, as a regime, and as an ordering principle (Thompson & Snidal, 2000).

21. The Marrakesh statement stated, “The Representatives agree that the WTO agreement shall be open for acceptance as a whole, by signature or otherwise” (WTO, 2002, p. 2). Also, Article II states, “The agreements and associated legal instruments included in Annexes 1, 2, and 3 . . . are integral parts of the agreement, binding on all members” (WTO, 2002, p. 4).

22. Statement of Dr. Subramanian Swamy, union minister of commerce, law, and justice, to the plenary ministerial session of the Uruguay Round in 1994.

23. Under GATT, high-level meetings were few and far between; the WTO regulations mandate meetings to be held every two years with additional meetings—what are called mini-ministerial meetings—in the interim. This regularity of ministerial-level meetings gives WTO deliberations a political salience and power rare among international organizations.

24. See WTO (2002, pp. 380-382).

25. See WTO (2002, pp. 354-379).

26. This section relies on 18 months’ primary fieldwork conducted in India, Geneva, and Washington, D.C. This generated a huge newspaper database for the period from 1990 to 2004 from eight prominent newspapers published in India, government documents and reports not used before in any study, and detailed interviews with both retired and current members of the Indian government and its trade policy departments in New Delhi, Geneva, and Washington, D.C.

27. In 1985, the prime minister, Rajiv Gandhi, initiated greater opening, technological upgradation, and limited liberalization. In July 1991, the government of Narasimha Rao initiated a paradigm shift in India’s economic policy orientation.

28. In India, treaties and the country’s international commitments are negotiated, according to one commentator, by “executive fiat.” Given its cabinet structure, policies are made and treaties negotiated by departmental ministries that are accountable to the parliament. Parliament does not make policy but oversees and evaluates policies framed by the bureaucratic officials.

29. In a closed economy (1950s to 1991), the Ministry of Commerce was also considered an unimportant ministry; the Ministry of Finance and the Ministry of Industry were considered more important.

30. See “Stand on WTO Meet” (1996). This article noted that differences between the Ministry of External Affairs and the Ministry of Commerce cropped up in the finalization of the draft strategy note.

31. From an interview with a Ministry of Commerce official, New Delhi, April 16, 2003; an interview with a Ministry of Textile official, New Delhi, April 23, 2003; an interview with a Ministry of Agriculture official, New Delhi, June 2003; and an interview with a retired Ministry of Commerce official, Bangalore, June 2002.

32. From author's calculations based on detailed fieldwork and interviews.

33. From author's calculations based on detailed fieldwork and interviews.

34. The delegation consisted of more than 50 members from various ministries, including agriculture, textiles, and the department of industrial policy ("Indian delegation," 2003).

35. From an interview, New Delhi, December 2003.

36. From an interview with a Ministry of Commerce official, New Delhi, February 16, 2003, and an interview with a retired Ministry of Commerce official, New Delhi, December 23, 2001.

37. Institutional development also took place at the provincial–regional level, with many states setting up WTO cells and WTO-related policies: Gujarat, Andhra Pradesh, Karnataka, Kerala, and Tamil Nadu have set up WTO cells or committees to study and manage the threats that arise from their participation in the WTO agreements.

38. This is not to suggest that the government responses at the international level are adequate, as the complexity at the international level has simultaneously increased.

39. From an interview, July 2003.

40. In terms of agreements, it comprises 29 individual legal texts and 28 additional ministerial declarations combined, with approx 26,000 pages of computer printouts with each country's schedule of tariff concessions and commitments (Blackhurst, 1998, p. 32).

41. From an interview, New Delhi, December 2003.

42. I give more details on the expanding policy–expert linkages elsewhere.

43. From an interview, New Delhi, July 13, 2004.

44. Currently there are expert groups on services, agriculture, and tariff negotiations.

45. These interministerial consultations are both formal—before a formal international meeting—and informal—on a day-to-day basis as the officials finalize their negotiation positions and strategies.

46. Geza Feketekuty, *India-US Cooperation on WTO: Will IT Provide the Bridge*. Presentation given April 4, 2005, U.S. Chamber of Commerce, Washington, D.C.

47. Professor Anil K. Gupta of Indian Institute of Management, Ahmedabad, and the chairman of the WTO committee established by the Gujarat government, spearheaded a campaign that pushed for passing a law for intellectual property rights protection for indigenous knowledge.

48. For analysis of trade policy that focuses on competing pressures within states and bureaucracies, see I. M. Destler (1995) for the United States, and for Japan, L. Schoppa (1997).

49. Earlier, conflict was handled at the cabinet level only when it had become serious.

50. Earlier, a temporary committee of secretaries would meet to discuss overlapping issues that required coordination.

51. For reasons of space, I focus only on the patent administration here. I elaborate on other new institutions elsewhere.

52. He is a notable material scientist.

53. Also see Subramanian (1997).

54. R. A. Mashelkar, director-general of the Council of Scientific and Industrial Research, at a press conference on June 9, 1997, Dharamsala, Himachal Pradesh. M. S. Swaminathan, an eminent agricultural scientist, also seemed to support stronger legal protection for plant varieties exclusive to the country.

55. In 1997, India had only 37 patent examiners.

56. Based on author calculations from a U.S. government manual (http://www.gpoaccess.gov/gmanual/) and Lewis (1990).

57. From an interview, Washington, D.C., September 1, 2005.

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