

Lobbying for Trade Protection

An Empirical Investigation of Indian Manufacturing

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The structure of trade protection in India has seemingly strong underlying political economy determinants. This motivates a study of the extent of political organization and lobbying by special interest groups for trade policy influence. However, it is complex to assess the explicit lobbying behaviour in the Indian context. There is much evidence on the use of lobbying in trade policy in developed countries but relatively few empirical studies for developing countries owing to lack of sufficient data on political activities. Studies capturing such trade policy influence in India have also been relatively scarce. Previous estimations for India include [Cadot, Grether and Olarrega \(2007\)](#) and [Bown and Tovar \(2011\)](#). Examining activities associated to lobbying and political activity is problematic owing to the fact that these are most often not reported. Lobbying by itself has been a controversial word and there is yet to emerge complete acceptance for lobbying as a means to improve conditions for industry on lines of [Bhagwati \(1980\)](#).

Firms and industries seek trade policies that favour their interests. One way to achieve this is to lobby the government using their available resources. Lobbying is when interest groups attempt to influence government policies by gaining influence over policy makers as in Protection for Sale (PFS) by [Grossman and Helpman \(1994, GH henceforth\)](#). The economic rent from protection by way of tariff and non-tariff measures is the impetus for the lobby groups to organize politically for trade policy influence ([Olson, 1965](#)). The contest for such rents is essentially a redistributive activity. A profit-maximizing firm will lobby the government if the expected benefits from lobbying outweigh the costs to lobby ([Mitra 1999](#)). The success of these groups in turn depends on their ability to organise and lobby for protection ([Baldwin, 1984](#)).

Following a preliminary analysis into lobbying behaviour in India, an identification of interest groups into fully organized and completely unorganized as in GH seems rather arbitrary. Also, lobbying can take several forms in a developing country like India where political contributions are heavily

restricted. This suggests the need for a continuous measure to capture trade policy influence. This thesis adopts the Protection for Sale (PFS) framework of [GH](#) to study lobbying in the Indian context. Organized interest groups can seek to improve conditions for industry by communicating concerns to policymakers through constructive dialogue.

Trade policy-making in India was undertaken primarily within the government until economic liberalisation in the 1990s. Advocacy by business and industry was only on the margin also in part owing to high public ownership of industry. Industries occasionally reacted to policy decisions and only lobbied for specific benefits. The dramatic changes in economic policy in 1991 fundamentally altered the effect on India's industry that significantly modified business strategies, lobbying and their relationship with the government. Trade policies and negotiation decisions since have been the subject of strong political arguments. In more recent times these are governed by influential domestic producer interests effectively determining negotiating positions through lobbying pressures ([Narlikar, Amrita 2006](#)). It is observed that the Indian political system consists of considerable division of authority according to issue areas. The Ministry of Commerce & Industry (MOCI) deals with trade policy and trade negotiations. We believe that the trade policy process in terms of lobbying the MOCI by industry has important implications for the [GH](#) hypothesis and can help explain the residuals from the estimation for the PFS setup. There evolved a duality in business and industry dealings with the government in India. At the collective level, this consisted of organised industry associations, while at the individual level, this developed into direct lobbying to achieve particular benefits. Industry associations, especially the new Confederation of Indian Industries (CII), started sponsoring and participating in general policy debates ([Kochanek 1996](#)). In the 2000s industry and association began to play more significant roles such that “lobbying” slowly came to parlance in Indian mindsets ([Sagar & Madan 2009](#)). This was accompanied by rising government responsiveness in industry association meetings. In recent times trade consultations between relevant ministries and various industry stakeholders have been rising. Apex industry bodies such as the Confederation of Indian Industry (CII), the Federation of Indian Chambers of Commerce and Industry (FICCI), and the Associated Chambers of Commerce and Industry of India (ASSOCHAM) have improved awareness of trade negotiations engaging with the Ministry of Commerce in regular consultations ([Narlikar, Amrita 2006](#)). Trade associations can provide a common lobbying organization that can handle the concerns of industries in a more effective manner than if the industries lobbied themselves ([Olson, 1965](#)).

This paper explores lobbying activities in detail deriving from lobbying in the Indian context. The choice on lobbying strategies is an unexplored area for Indian trade and industry that is now studied within the traditional GH. Lobbying services are included as resources spent to lobby the government. This is in terms of membership to an association and the opportunity to lobby directly. This paper argues that firm-level heterogeneity helps explain the effects of lobbying on trade protection across industries. Within sector variation in lobbying is studied using firm-level decision to lobby. The theoretical underpinning derives from substantial intra-industry variation in firm behaviour within the GH political economy framework. Firms lobbying through associations would involve cooperation of firms within industries. The association acts as the enforcement mechanism. Trade associations however lobby for all industries and the differences arise in terms of number of firms being members in each industry. In addition to this means of lobbying, some firms can choose to directly lobby for its industry. This would potentially be coordinated at the level of the industry.

To the best of my knowledge, this is one of the few papers that directly document stylized facts on lobby formation across firms and industries for India. The empirical evidence uses a novel data set from 1990-2007 that combines industry-level data from All India Survey of Industries (ASI) for 98 four-digit sectors at the National industrial Classification (NIC) of India and firm-level data on 2286 Indian manufacturing firms collected by the World Bank Enterprise Survey (WBES). The findings suggest that firms with greater opportunity to lobby directly are less likely to be members of trade associations. Lobbying strategies with similar structure differ from lobbying strategies that are formulated differently in their influence on trade policy. Higher lobbying efforts are associated with higher import penetration that implies intense lobbying for positive influence on tariff protection.

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