Chapter 6

Conclusion and Policy Suggestion

Trade remains a powerful handmaiden of prosperity. In Kerala trade in spices had brought about significant changes in the lives of people. It brought people closer as Adam Smith claimed. The two most important events in the world history were the simultaneous voyages to America by Columbus and to India by Vasco da Gama with common desire to find routes to the spices. The spices helped the communities in Kerala to gain wealth and position in the world map. Spices production system adapted to the growing needs of the world. Global production too witnessed tremendous change; markets are now governed under the framework of international agreements. International agreements have helped bring common understanding of multiple stakes that exists in the global arena. This brought about consumers, producers, traders and countries together. The common mandate which it tried to address was the uncertainties in trading, harmonise the trading processes.

Agriculture remained distinct by virtue of its limitation and was the worst affected since the production system is fairly inelastic to global environment changes. Pursuing agricultural trade liberalisation on the pure premise of comparative advantage has displaced and caused immense misery to the people. The theory propounded by Jagdish Bhagwati (1971) in his “generalized theory of distortions” turned true. There is an asymmetry in trade relations wherein power axis is tilted in favour of few developed countries. The argument in Chapter 2 embodies these aspects in the historical perspective. There exists high level of distortions which can only be

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65 Free trade cease to be an optimal policy if any or all distortionary situations exist.
countervailed through a combination of domestic taxes and subsidies as illustrated in Chapter 3. The option left with the poor and developing countries are very limited since the safeguards are complex making it difficult to impose. Domestic policy environment is similarly skewed; the farming systems are relatively disadvantaged (see Chapter 4). Preparedness and adjustments remains the key to sustainable development.

The current research was initiated to understand the linkage between international agreements and domestic policy formulation. It tried to answer the following question:

1) How far did the existing safety systems in trade agreements and trade policies provide adequate protection to agricultural producers?
2) How effective are the current agricultural policies to support key development issues in agriculture trade?; and
3) How far can trade safety nets provide adequate flexibility in their policy space?

The present research work addressed the three research question in the following manner:

# How far did the existing safety systems in trade agreements and trade policies provide adequate protection to agricultural producers?

The international political economy is replete with instances wherein liberalism was forced embedded into the policy framework of the developing countries. They were obliged to accede to the market access ambition of developed countries. Protection Safeguards too were instituted but the conditions were framed in a way that made their use very difficult. Reciprocal access was denied since non-trade
barriers still existed. This aspect was lucidly explained in Chapter 1 and 2. The agricultural trade was out from any international agreement since countries like USA wanted to protect their powerful domestic lobby. US strategic interest did not allow any foreign competition till their corporate lobby were in a position to supply internationally with the help of domestic support. But US companies were finding it difficult to compete with EU companies who had a better edge due to subsidies and NTBs. Through the WTO the developed countries were able to strategically enforce trade governance forcing developing countries to open market and adopt intellectual property rights. As illustrated in Chapter 3 the developing countries failed to understand the nuances of negotiations and rule based trading. They were unfairly forced to compete with domestic support and export subsidies. The cotton farmers in Africa were ruined and so were many farmers forced to leave their land or commit suicide. The chapter discussed all the interventions including the Special Safeguards Measures and how few countries alone had the privilege to impose duties. The developed countries used the peace clause which granted them the immunity from any penal action.

The existing trade intervention that exist with the countries like India are Safeguards under Article XIX and anti-dumping duties and countervailing duties. These provisions can be used temporarily but the member countries have to prove the causal link. They can be challenged in the dispute settlement system. Indian agriculture is very diverse and farming has a multifunctional role, which makes instruments like safeguards, anti-dumping and countervailing duties difficult and ineffective to impose. It is difficult to impose as India may find cost involved to prove the case inappropriate as they have a

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66 NTB like SPS and TBTs
67 Due restraint clause of the Agreement on Agriculture disallowed countries from taking any action against violators during the implementation period.
budgetary constraint. Agriculture in India is not business or commercial farming. Agriculture operation are carried out on limited land with limited resources. Ineffective since agriculture operation are very seasonal and the stakeholders like the small and marginal and landless labourers are not in a good financial position to pursue injury or lobby with the commerce ministry to institute corrective measure. They are already in distress working below their optimal wage\(^{68}\), any reduction in tariffs or competitive pricing will push them out of operation or to the edge of committing suicide. Most farmers are low-skilled and do not have other income sources to bank on.

The countries earlier had tried to protect their strategic interest like production as well as supply through ICAs. Individual country governments used these forums to push price stability to the higher side. The private sector was becoming more important and government involvement in agriculture was diminishing. Governments had lesser power to control supplies, and a diminished willingness to attempt control. The ICAs appeared anachronistic and international meetings, in which diplomats deployed non-commercial arguments about price and export levels, seemed irrelevant in the face of the imperatives of competing in largely liberalised markets.

The trade policies formulated need to be justified in plain terms the benefits it would bring. The rationale behind lowering of agricultural tariffs does not clarify the intended benefits. It does not clearly elucidate the real gains. It does not indicate who the real beneficiaries will be. By lowering the tariffs on agricultural commodities may lower the prices in short-term but it does not guarantee a continuous supply of product which invariably depends on the production system. There is a disconnect in the existing trade policy in addressing the continuous welfare gains with clear beneficiaries and benefits.

\(^{68}\) Most of the labour is implicit
In the global debate on international trade policy, effort is being made to reform through the Doha agenda initiated by the developing countries. The need for the Doha round itself vindicates the present state that safety systems in trade agreements and trade policies failed to provide adequate protection to agricultural producers. The current study highlighted these drawbacks in Chapter 3 justified “strategic” interventions to counter persisting distortions in agricultural markets. It was found that interventions are needed, which need to be combined with sound distributive policies for safeguarding the livelihoods of farmers. Agriculture has remained a sensitive sector, be it advanced or developing countries. Their contribution to food security, livelihood security and rural development had been the central pillar of the Doha Development round of negotiations. The earlier failures hinged on the disagreement on subsidies and the legitimate policy space members wanted in their trade policy. The Agreement on Agriculture (AoA) succeeded in the UR on the precincts that it would usher in a new era of distortion free trade. And it would enable better participation of developing countries, their increased prosperity and welfare; on the contrary it failed. Lower market barriers were expected to absorb “shocks” (arising, say, from unexpected production shortfalls) and instil price stability in global farm trade. However, the price volatility remained high which made tax reforms a necessity to make up for lost tariff revenues and social safety nets to compensate displaced workers. Most developing economies did not have the capacity to effectively adjust to the new environment. Cheap agriculture imports resulted in, for instance, a drop in spices prices destabilising rates of profit, rent, wages, dividend and profit, etc., adding pressure on the factors of production to move out to relatively more attractive areas thereby disturbing, for instance, the spices production. The production system is not well prepared and not in a situation to

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69 World Trade Organisation: The Doha Round started in the year 2001
adjust to the current level of competition. The volatility in demand from short to medium term distorts the supply decision with very limited coping strategies affecting farmers livelihood. The interventionist’s policies of the governments are either curtailed or withdrawn and developing countries are demanding reforms and introduction of effective safety nets like Special Products and Special Safeguard Mechanisms.

# How effective are the current agricultural policies in supporting key development issues in agriculture trade?

An effective agricultural policy guarantees protection of livelihood income sources. It will allow sustained growth in value realisation and contribute in overcoming structural risks from weather, markets and institutions. An effective agricultural policy will take into the microeconomics and marcoeconomics of farming. In simple words the policy should guarantee farmers a decent income flow from farming which would cover the cost of living. The scheme on Minimum support price is envisaged on the principle that the price should cover all the cost plus his implicit managerial needs. Another key important development need in agriculture is to contribute to continuous supply which means the policy should incentivise the farming to keep farming what he is growing. However, the present agricultural policies fail to address these needs. Most markets are unregulated and the price support is either withdrawn or delayed. MSP Prices of wheat, rice and other commodities are declared only after the harvest starts. As elaborately covered in Chapter 2 and 3 the international political economy and the international agreements have failed considerably in upholding the interest of farming communities, especially the small and marginal farmers. Under these circumstances the domestic economy was exposed to the instabilities of the international economy. Even the domestic agricultural arena is in a bad shape. There existed sharp
inequity between the different sectors of the economy on account of faster decline of agriculture’s share in GDP and at the same time maintaining a high level of dependency. The specific policy endeavour to make agriculture cheaper restricted its policy space making available affordable food items and raw materials to manufacturing and services sector. Agricultural producers were purposively taxed and deprived of remunerative prices. The policy bias against agriculture in developing countries was reflected in the inadequate flow of investment to the sector. The structural rigidity in real agricultural prices was blamed on inelastic nature of demand for agricultural products. With implication that the shift in the supply of agricultural products over time associated with technical progress was larger than the shift in demand. There exists an anti-export, anti-agricultural prejudice of dependency doctrine that has stifled the agriculture to the state of vulnerability, fragility and dependence. Chapter 4 vividly describes these developments in light of the new policies introduced. The adverse terms of trade has made agriculture unviable and laden with risks. As already indicated in the earlier chapters agriculture has drastically changed in terms of interventions that currently exist. The national agricultural policies have failed and are not adequately addressing the market risks which arise from the international agreements which India is currently engaging. There is a greater presence of corporate entities in the market having better bargaining and capital advantage making small farming extremely vulnerable.

Agriculture-based livelihoods in poor rural areas typically face a set of endogenous and exogenous constraints which tend to increase their vulnerability to adverse shocks which, in turn, reinforce the particular constraints faced by poor rural households and individuals. A core feature of the livelihoods of poor rural people is their varying commitment to and partial integration into markets when safeguards are not instituted when engaging international
trade agreements. The conditions are accentuated on account of poor infrastructure, services and communications and absence of a well-developed and diversified monetary economy. The main characteristic of rural countryside is their livelihood diversity, and even in times extreme poverty they are more resilient to vulnerability and shocks. Since their traditional social relations and reciprocal arrangements within the community represent an important natural social safety nets. However, with increased risk and instability in economic engagement with international economy, poor farmers are locked into exploitative relations or serve to exclude some from access to household or communal resources, thereby perpetuating or exacerbating inequality and increasing relational poverty.

The reforms in agricultural markets have made the markets exposed to the international supply chain and globalisation. There is a gradual dismantling of the support mechanism and the role is being more evasively played by the traders and agribusiness companies. Even the current agricultural policy framework is structured in the context of higher investments, better technologies. It looks into market based growth encountering natural resource managerial techniques. However, it does not envisage safety nets like livelihood security, food security in the context of faster integration of Indian economy with the international economy. The NAP lacks the prioritisation, and people’s participation in the management of markets. It does not adequately address the organisation of production and marketing activities. It considerably falls behind expectation since it does not indicate how it plans to carry out the policies that will enable competitive global liberalization which has thrown new and formidable challenges. The failure in domestic policies comes from the lack of safety nets to overcome shocks arising from agribusiness procurement and managerial efficiency.
# How far can trade safety nets provide adequate flexibility in their policy space?

In the present study we examined the constraints, opportunities and vulnerabilities experienced by farming and agricultural production system and their responses to shocks. The case study validated the first two questions. The survey clearly revealed that the farmers are worried about the volatility in the international prices. The study clearly found that the present framework inadequately addresses the challenge from international competition and agreements. Illustrating through the case study in black pepper and cardamom it was shown that the trade safety nets can be implanted in the agricultural policies. The illustration of a livelihood band which would cover the running cost of the farmers can be estimated. This band can be regularly calibrated on a weekly trend basis. And their trend deviation can be discounted to the farmers. This can be ideally transferred to their bank account or to their credit account. The fund can also be linked to their credit card or Kissan card. This mechanism is more dynamic as compared to the price stabilisation scheme which the ministry has come with in the case of plantation crops. The study even suggested its usefulness to the customs department while calibrating the duties on safeguards. The trade safety net will be a temporary scheme since it would help the farmer only during periods of stress and volatility when prices fall below trend. If the price goes above the trend line and above a threshold limit then it could be taxed in the market and contribute to the corpus to stabilise in the future. The fifth chapter illustrated the development mechanism of safety net which can be further modified to protect the production system of cardamom and spices and other crops like rubber, arecanut, paddy, coconut. The lack of trade safety net system accentuates the climatic seasonality and consequent seasonality of investment, labour demands, production, and prices creates fundamental problems when markets are poorly
developed. Meanwhile, the seasonal volatility of markets increases the uncertainty of decision-making with regard to production and consumption and may upset the subsequent production, livelihood and push small farmers and landless labourers to poverty. Since shortfalls force them into distress sales of productive assets or to seek wage labour and neglect their own fields at critical times during the production cycle. The coping strategies’ like the present safety nets include the various responses and strategies adopted by rural livelihoods to reduce exposure to and minimise the impact of risks. These typically include risk management strategies (such as livelihood diversification and income skewing, i.e. pursuing low risk but low return activities) and risk coping strategies (such as self-insurance through savings and informal communal risk-sharing arrangements. A distinction can also be made between ex-ante and ex-post strategies to reflect the direct and indirect or behavioural effects that risk and uncertainty have on livelihoods and livelihood decisions. The distress sales and distress-driven hiring out of labour leaves an irrecoverable loss of productive resources to the crop production system. It locks farming community to poverty or low-level subsistence traps from which they are unable to escape in the short to medium term or without external transfers. In addition to and often associated with such micro-level poverty traps are meso-level ‘under-investment traps’ caused and sustained by a vicious circle involving the supply chain investment failures discussed above as a result of mutually reinforcing effects of low levels of economic activity, high transport and communication costs, high transaction risks and costs, weak contractual enforcement institutions and high physical and market risks. By ushering in livelihood support through the safety net can overcome all these difficulties.
Need to Expand Policy options

Eventhough the safety nets are linked with the price mechanism, they can influence policies involved like the output price and market interventions, input subsidies and delivery systems, provision of agricultural credit, infrastructural development (transport, irrigation and market facilities), technical change (promoted through all these policies, together with research and extension), and (less universally) land reforms. Policies currently implemented both at a national levels (for example through pricing policies, market regulations and tariffs) and through programmes and projects focusing on particular geographical areas can also be termed as safety net. In some countries these policies were coordinated through ‘integrated rural development’ projects which attempted to coordinate health and educational service investments and provision with transport and multiple agricultural service investment and delivery activities. Even the rural employment guarantee programmes, has evolved as important safety nets during periods of vulnerabilities and instabilities.

Output price and market interventions

There are many conflicting interests in high and low prices with immediate benefits for producers and longer term indirect benefits to all stakeholders. Price spikes help to take advantage and recover the earlier loss but at the same time price trough helps to readjust the supply systems. At the same time reduced food price volatility offers benefits to all. These concerns have historically provided a strong rationale for interventions in agricultural markets in order to stabilise prices and offer guaranteed minimum prices to producers and maximum prices to buyers. Such systems however require the ability to intervene in the market to buy and store produce when prices are falling and to sell into the market during
times of scarcity and can therefore be costly and difficult to manage. The better marketing options like hedging and future trading can reduce risk considerably. Proponents of market based instruments tend to argue that these can operate efficiently and effectively at a large scale to stabilise markets, provided that private investors are assured that governments will not arbitrarily intervene in food markets. Others, however, contend that while such arguments may appear to provide technical solutions to market stabilisation problems, in fact they ignore the cycle of production and international trade the instability period can be very long and highly capital intensive and state intervention curbing speculation becomes very important to assuage the livelihood and rural development.

**Credit delivery and Insurance**

Within agricultural growth policies, credit subsidies and delivery systems have largely play a critical role in providing the trade safety since most production systems have a critical constraint to growth from a lack of cash to finance farm investments and variable inputs, which will help (ii) to accelerate the uptake of modern technology if the crop need to replanted, and (iii) to overcome barriers to smallholder access to seasonal finance resulting from a lack of collateral or information. Crop insurance schemes linked to the bank account can provide the solace to the farmer and overcome the distress in times of need. The present stabilisation scheme in plantation crops does not link with any bank account or insurance scheme thus their disbursal has been very poor.

**Market and Institutional Coordination**

With a view to overcome large fluctuation in international price the government has introduced the Modified Price Stabilisation Fund (MPSF) scheme for the plantation sector covering tea, coffee, rubber, tobacco and cardamom. The new scheme will be in force for five years
from April 1, 2013. However, there will be an evaluation of the performance of the scheme by an independent agency in the fourth year evaluate the scheme and to assess the need for extension. This scheme does not cover pepper. In crops and products which are internationally traded there is a strong need for coordination between institutions like the Spices Board, State Agricultural Departments for instituting the international safeguards like the SSM and lobbying for the strategic intervention prior to signing an agreement, negotiating or while implementing. For imposing additional duties like safeguards the institutions need to closely monitor the production and consumption cycles and the prices. Ideally the duties should be automatically clamped if the import value prices are lower than the trend. The institutions should be receptive to the livelihood band of the commodity and quick to respond to the instabilities. At the same time if price spike exist the institutional bodies should tax and impose commodity tax to maintain a corpus fund in times of crisis during the depression phase.

**Need for special safety features**

Developing countries base their development concerns on the imperatives of meeting the objectives of food security and safeguarding livelihoods. There are two ways countries can counter the challenges arising in agriculture (1) regulating trade and (2) domestic policies that can support the production system. Domestically they can counter the adverse impact of trade through counter veiling payments through subsidies or by strategic protection by generating revenue by taxing the imports. By reducing the pace of opening countries will be able to alter managerial decision and the resources for meeting these development concerns.

The twin instruments like the Special Products and Special Safeguard Mechanisms have been hailed as an historic development
paving way for non-trade concerns of food security, livelihood security and rural development. And these are being emphasised as a “strategic” interventions essential for the realization of development objectives. Under this mechanism developing countries have proposed that the SPs would receive higher tariff protection given their critical importance in realizing the objectives of food security and livelihoods, besides rural development. Higher tariffs on SPs would help the developing countries in several ways, which can be best understood using the logic provided by the generalized theory of interventions and the strategic trade theory explained above. The immediate impact of granting higher tariff protection to SPs would be a rise in local prices of those products. This causes redistribution of income from consumers of these products (presumably mostly urban consumers) to domestic producers (presumably small farmers). It will contribute in adjustment of domestic production without causing misery to farmers. Measure like price stabilisation scheme and subsidies require budgetary expenditures which many times are unsustainable. Under those circumstances maintaining high bound duties through SP and SSM will be better safety nets. It will desist developed countries and firms to dump subsidized products in other countries market. The low levels of tariffs maintained by the developing countries allowed proliferation of dumping of agricultural commodities. Higher tariff protection to SPs would benefit the producers since they can realize higher value for their products than would have been the case if they had to compete with cheap imports.

An important consequence of protecting SPs could be the diversion of resources into agriculture, a sector that has been grossly neglected by most developing countries and providing the safety net. It is necessary to retain enough policy space for “strategic” interventions that seek to address development concerns as important as food security and rural employment and livelihood. Such policy space may include ability to set import tariffs on selected agricultural products,
as an affordable way to counterbalance direct or indirect (and possibly “strategic”) support provided mainly by developed countries to their own agriculture sector. This is also a policy that may encourage allocation of resources to rural areas, where most of poor still live. Ideally safety nets should not be confused with protectionism since agriculture in India is not a large scale industrial production it is predominated by small and marginal holdings and face the adverse terms of trade and the policy bias from industry.

The safety net as envisaged in Chapter 5 can cover all grower members without paying any entry fee. The respective commodity boards would certify the landholding details of the growers. A Price Spectrum Band (PSB) could be determined as calculated from the trend deviation. This PSB will be linked with the livelihood band which would appreciate 2 percentage or the percentage linked with cost of living. If the domestic price is within the trend or above it will be categorised as normal or boom and if it fall below a distress. The can be calibrated regularly per week starting two months prior to the harvest and four months after the harvest. No compensation will be paid in a normal or boom year. Only during distress years, eligible member growers would be compensated to the tune of amount which is lower than the livelihood plus the trend deviation. These recipients to the price band can be provided credit and interest advantage linked to insurance.

The study clearly suggested that increased integration of the Indian economy with the global economy by way of WTO and with the regional trade agreement has introduced more challenges to the domestic agricultural producers. The volatility in the domestic prices has increased tremendously and farmers face the dual problem of low returns and high risk. Safety systems are further complicated in the context of multiple rules and trade policy framework with many FTA. The case study on pepper and cardamom further suggests that
depending only on international trade is not sustainable and better domestic policy support by way of timely transfer payments and government interventions like the safety nets like the price band spectrum and disbursals are needed. The study suggests strengthening of a specialized mechanism of trade safety nets which is essential to curb the growing unfavourable terms of trade and immiserisation in the agricultural production system.