Chapter 1 Introduction

Historically trade provided mankind’s best meeting place bringing culture, materials and people together. In primitive societies religious events - cult rituals, or rites of passage such as marriage – brought people together in a comparable way but the participants were predominantly linked by customs or kinship (World, 2009). Agricultural produce and everyday household items were the early traded goods which were exchanged through the process of barter but these goods made only short journeys to and from local markets. Trade pattern changed as human civilisation evolved when entrepreneurs and middlemen were willing to take risk and people were willing to accept delay. The early relics from Harppan sites provides evidence of an established port in Lothal from where sea trading existed way back during 3000-1000BC. Trade was reported slow and dangerous so only imperishable items like spices, textiles, ornaments of silver and gold, copper, bronze or iron were the preferred items. During the earlier period the maritime cost of trade was not a concern since trade was a part of the exploration and patronised by the kings and lords to possess new materials which were not available in the locality (Maisels, 1993). Mercantilism and increased trade prosperity became the main stream of global thought helping people and communities to increase their state power. 1 As human civilisation evolved specialisation in labour took place, trade became closely linked to the realist pessimistic view of human nature in politics which was centred on the struggle for power over men and whatever its ultimate aim may be, power became its immediate goal.

---

1 Spain Benefited from the supply of gold and silver bullion from the Americas, their call for bullion as the main road to national wealth; Netherlands emerged as the leading country in Europe mainly because of overseas trading empire and trade surplus as the road to prosperity.
and the modes of acquiring, maintaining and demonstrating it determined the technique of political action (Morgenthau, 1985). International trade has transformed from different paradigms from the mercantilism to the neoliberal to the neo-Marxist posturing. There were very few thinkers in the ancient period to evaluate the gains and the loss from trade however, ancient Greek philosophers had a dual view of trade they recognised the benefits of international exchange combined with a concern that certain domestic industries (or labourers, or culture) would be harmed by foreign competition. Depending upon the weights put on the overall gains from trade or on the losses of those harmed by imports, different view point emerged at different conclusions about the desirability of having free trade. However, most economists from Adam Smith to Samuelson have likened free trade to technological progress: although some narrow interests may be harmed, the overall benefits to society are substantial. Still, as evidenced by the intense debates over trade today, the tensions inherent in this dual view of trade have never been overcome (Irwin, 2001).

**The turnaround: international trade and development**

With institutionalisation of trade and the involvement of World Trade Organisation (WTO) trade was often referred to as a powerful catalyst to human development. It was strongly felt that under the right conditions international trade could generate powerful impetus for accelerated progress towards Millennium Development Goals (MDGs). However, human development potential is diminished by combination of unfair rules and structural inequalities within and between countries (UNDP, 2005). There is no denying the fact that trade promotes growth through a myriad of channels [including] increased specialisation, efficient resource allocation according to comparative advantage, diffusion of international knowledge through trade, and heightened domestic competition as a result of international co-operation. (Sachs & Warner, 1995). Trade has even helped creating
common values and identities among people from different states as well as paved way for peaceful, co-operative relations by making war increasingly costly and thus more unlikely (Duetsch, 1957). International trade and growth formed a self-reinforcing relationship, in that higher growth spurred larger volume of trade flows. The need for planned trade was advocated through policy tools and intervention. While the decision to alter policies to further integration is a policy change that harness trade as an ‘engine of growth’, (Robertson, 1940) trade also serve as the ‘handmaiden’ of growth once policies support freer interchange of goods and services. (Kravis, 1970). The differentiated impact of countries in the integration process pushed forward the counter hypothesis that an increase in the growth of output is neither necessary nor a sufficient condition for improvement (Rodriguez & Rodrik, 1999). The behaviouristic approach supported by studies seem to suggest that growth cannot be synonymous to improvement while it will tend to provoke trade, regardless of the effects of trade on growth, but the correlation is a complex one which changes over time, and more particularly over different states of the world; in some situations a relaxation of trade restrictions may boost economic growth while in other situations the same move might undermine expansionary policies already being pursued by governments which are then forced to deflate in face of trade deficits - deficits which may in any case themselves represent a deflationary loss of demand from the economy, without necessarily providing a reciprocal reflationary effect in the corresponding surplus country, since this country may react by deliberately avoiding such an effect, via monetary policy (Kitson & Michie, 1995). Opening up of the economy for international trade invariably necessitates adjustment

---

2 The deflationary effect of deficit countries losing purchasing power while the surplus country deliberately curtails the equivalent boost to demand, with trade imbalances thus causing deflation overall, is not just a logical possibility but rather is an accurate description of what was West Germany pursuing its mercantalist policies combined with tight monetary policies, on which see (Robinson, 1966), discussed further in (Michie, 1995).
and many a line of economic activity would find going very tough. Many a times the shocks arising from these engagements are synonymous to losing one’s flexibility to perform normal economic activity. Availability of cheap imports further puts pressure on the prices besides threatening to snatch a share of domestic market. This result in drop in product prices which gets immediately transferred to rates of profit, rent, wages, and dividend, etc., adding pressure on the factors of production to move out to relatively more attractive areas (K.N.Harilal, 2010). Many studies relating growth and international trade ignore these aspect and postulate in the macroeconomic context that there exists a high import propensity which may constrain the growth of a domestic economy, but that variations in trade performance in an increasingly integrated world economy may lead to persistent divergences in growth, with success in international trade becoming cumulative as increasing demand for net exports allows countries (or more specifically, the firms and industries within them) to exploit economies of scale and scope, improving their competitiveness and leading to further improvements in their trade performance, while weaker trading nations may fail to maintain balance of payments equilibrium at a high level of economic activity, with deflationary policies then pursued in an attempt to maintain external balance. The combined impact of poor trade performance and domestic deflation is likely to lead to a cumulative deterioration in relative economic growth as countries fail to exploit the increasing returns associated with a high level of economic activity. It was these twin processes of virtuous cycles of growth and vicious cycles of decline that were clearly identified by, amongst others, (Myrdal, 1957) and (Kaldor, 1972) who illustrated that the benefits of trade may not be evenly spread and that the trading system must take account of the initial conditions of its members. Most advanced countries with effective transfer payment system were able to mitigate the shocks arising from integration and were able to control deflationary impacts using the trade defence mechanisms.
During the institutionalising phase of international trade GATT and WTO effectively incorporated these concerns allowing countries in difficulty with some means of adjustment but developing countries were not able to understand the nuances of trade while at the same time many developed countries opportunistically took undue advantage aggravating the situation through subsidies and dispute settlement. This reinforces the idea that more effective instruments like safeguards and safety systems need to be developed which can help the lesser developed countries to counter the fall-outs from faster integration and open trade. Consequently many countries came up with the idea of Food Security Box and other forms of flexibilities like special safeguards, special products etc. in the concurrent WTO negotiations at the multilateral level and even in certain free trade agreements.

**Global Trade Politics and stakeholders**

Before going into the aspects of adjustments and flexibilities a closer understanding of the global trade politics and the stakeholders is very important. In the era global politics which is dominated by a relatively small set of states, institutions and businesses supportive of market-led solutions to the world’s problems some key countries play a pivotal role in pushing for reforms for their strategic interests. Some key states are the United States, the European Union (in both its aggregated and disaggregated modes), Japan and arguably Canada. These are complimented by the key institutions like the World Bank, the IMF and the WTO underpinned by the military might of the United States, the NATO alliance and host regional and bilateral security arrangement amongst the major powers. Among all these players what drives them is business which are too numerous –

---

3 There is no doubt of course other countries – including Australia and India and now even China also exercise power and influence in global politics but how much power is exercised and over what duration and which issues is another matter (Narlikar, 2003).
and far-flung to be individually named but appear regularly in the Fortune 500 and on the membership rosters of peak business associations such as international chambers of commerce, the World Economic Forum, and the European Round Table as well as their national equivalents which play a key role in international trade policy making (Kelly & Grant, 2005). Now with regional identities like India, Brazil and China emerging new regional business players too have evolved over time influencing the regional policy making.

The specific goals of these actors are many and varied and are often cross-cutting and contradictory. Nevertheless they share a vision of peaceful, stable and prosperous world, and are in broad agreement as to how this might be brought about: that is through promotion of ‘liberalism’ in both its political and economic forms on a global scale. Despite the apparent weakening of its appeal over recent years, liberalism remained the dominant ideological force in the global political and economic forms on a global scale. The GATT regime had enabled (predominantly developed countries) to balance their multilateral trade commitments with embedded liberal objectives (Ruggie, 1982). Liberalism remained the dominant ideological force in the global political economy. It continues to be intolerant of social, economic and political systems that do not conform to the particular template. This ‘template’ labeled as ‘good governance’ requires the adoption or creation of social, economic and political institutions and processes reflective of the best practice established in advanced industrial states. A system of benchmarking evolved to chart the progress towards this goal and involves inputs from states, international organisations, non-governmental organisations, and even private bond-rating agencies (Wilkinson & Hughes, 2002). Inducements come – often simultaneously – in the forms of ‘carrots’ such as humanitarian assistance, aid, grants, investments, market access amongst others and ‘sticks’ including
military force, election monitors and accession procedures as illustrated in Figure 1.1 (R.W.Cox & Schechter, 2002).

**Figure 1.1 Global Politics and Trade Cycle**

In the global political scenario countries join together to form international institutions where key countries dominate the whole process leading the deliberations. They in turn are influenced by influential multinational and trans-national corporations. These key countries more popularly called the ‘hegemon’ decide on the trade policies and the rule which are again co-ordinated by the multilateral institutions. They together push countries to adopt the policies/commitments/obligations. All countries are forced or coerced to align according to the guidelines prescribed by these peer groups.
The process of integration has brought about political structural changes at the global level many countries like India and China have come together jointly supporting issues and strengthening the non-aligned voices in the global trade policy formulation. The common voices of India and China during the WTO negotiations on issues concerning subsidies, Special Products and Special Safeguard Mechanism (SSM) is an interesting development. They have strongly supported G-20 and G-33 countries even when developed countries have tried to disunite these groups in separate Green Room Meeting. The process of reform initiated in the WTO systems has witnessed a new realignment with developing countries jointly opposing moves quite unlike the Uruguay Round where countries were misled into accepting an agreement without understanding the implications. Another important change witnessed in the global scenario is that China has become the largest trading country surpassing even the US and Germany in world exports and is a substantial global force to reckon with (WTO, 2011). It even vindicates many theorems in international trade – Stolper Samuelson theorem that the developing nations will be able to export labour-intensive products. Consequently, the comparative cost advantage of developing nations in labour intensive goods will enable them to export agricultural products to the markets of developed nations and help the poor nations reduce poverty. This has actually happened in post WTO periods. It was also theorized that on account of the robust economic growth in developing courtiers like India and China due to liberalisation, the developed nations are likely to strengthen their protectionist responses (Deardorff, 2001). Deardorff using the Heckscher-Ohlin model says that imports from developing countries would reduce the real wage of labour factors in the labour-intensive
sector of the developed country and they would restrict market access to developing countries. Countering these heavy subsidies given by the developed nations like US and EU have aggravated the situation of the labour class in the third world and they were granted immunity through the ‘Peace Clause’. In the protectionist world of agriculture, subsidies and not competition determines the comparative advantage. Recent reports seem to suggest that US are facing severe challenges from China and trade no longer seems to be advantageous since transfer payments as part of trade adjustment schemes exceed the gains to the consumer. There is a growing sentiment in US that unfettered trade is not sustainable. Better safety nets are needed to assuage the immiserisation and policy makers fear strong domestic hostility against Chinese goods (Economist, 2011).

**The evolution of International Trade and its political economics**

The growing level of immiserisation on account of international trade reiterates the need for a balanced approach in trade policy and engagement. The concept of adjustment mechanisms has not emerged recently but evolved over the years in the international political economy. The analytical foundation of the orthodoxy theory of international trade, as it exists now were laid in the era of classical political economy by (Smith, 1970 [1776]), (Ricardo, 1973[1812]) and (Mill, 1848) who enunciated the absolute advantage to demonstrate that there were gains from trade by extending the concept of the division of labour between men to a division of labour between countries. Ricardo (1812) formulated the theory of comparative

---

advantage to develop an explicit argument against protection and an implicit argument for free trade. The concerns of Smith and Ricardo were not mere economic principles. Their economics were rooted in policies. Indeed their intellectual pursuits were motivated by a strong desire to challenge the political dominance of mercantilist ideology. The mercantilism ideology was subjected to severe criticism for its pursuit of national economic power at the cost of general economic welfare while neglecting a large section of people.\(^5\) In doing so, the advocates of free trade adopted a moral stance claiming that their concern was the welfare of human beings and not of nation states.

At the same time, the economic thinking of Smith and Ricardo endeavoured to provide a rationale to analyse the conditions for a transition from the prevalent feudalism to a prospective capitalism. Thus, for Adam Smith, free trade was simply one dimension of the case for *laissez faire* which confirmed his belief in the magic of the invisible hand. Similarly, for David Ricardo, the formulation of comparative advantage was not simply about the pattern of trade or the gains from trade. It was as much, if not more, about the impact of international trade on income distribution, capital accumulation and economic growth. The application was evident during the repeal of the ‘Corn Law’\(^6\) and the adoption of free trade was advocated by Ricardo in the belief that it would redistribute income away from the land lords, in favour of a progressive industrialist capitalists (since

\(^5\) See Smith (1976), Book IV, Chapters I to VIII. This critique of mercantilism was developed further in a longer term historical perspective by (Heckscher, 1919)

\(^6\) Corn Laws is a British law passed in 1815, which forbade the food importation into England and sought to maintain the rising prices for British agricultural products that had occurred during the Napoleonic wars, when the French navy had embargoed British ports. Facing the loss of food imports, Britain had to use more of its own land to feed its population. This caused crop prices, and hence, land rents to rise at rapid rates during the war period. The protectionist measure was an attempt to maintain the agricultural status quo after Napoleon’s defeat and a return to peaceful conditions.
the rent from land would decline) who would earn more profits (given a lower corn wage) through cheap imports of wheat and invest in manufacturing which promised increasing returns. In simple words, consequent to the removal of trade restriction an increase in profits would lead to an increase in the rate of accumulation, which in turn would lead to a growth in employment, income and wealth. Economics and politics were closely interwoven in this world, for the redistribution of incomes from rents to profits was bound to be associated with a redistribution of political power from landlords to capitalists.

Subsequent economic theorising about international trade began to separate the economics from the politics. This process started with Alfred Marshal and Francis Edgeworth in the late nineteenth Century. It was taken to its logical conclusion by Eli Heckscher, (Ohlin, 1933) and (Samuelson, 1939) during the first half of the twentieth century. Thus trade and commerce started getting a fresh lease of life and started assuming a new economic paradigm divorced from politics. What followed this thought was the neoclassical school of thought emphasising the gains from trade since it was easier for the nation to import a good than to produce it at home in terms of domestic resources used and pay for it by exporting another. The gains are attributable in part to international exchange when cost or prices differ among countries before trade is introduced. There were two other propositions which emerged from the theory of international trade in this phase and provided the basis for persuasive policy prescription: the free trade argument and the factor price equalisation theorems. This was a combination of the orthodox theory of utility maximisation and the logic of gains from trade with the assumption of perfect competition to establish the free
trade would enable an economy to operate with technical efficiency in production, in terms of resource allocation and to optimise consumption through trade, in terms of utility maximisation. The neat conclusion derived from this theorisation was that free trade ensures efficiency. The factor price equalisation theorem emerged as a corollary of the Heckscher - Ohlin formulation of comparative advantage. Samuelson (1948 and 1949) considered a situation in which there is free trade but no factor mobility. The Heckscher – Ohlin assumption about production condition ensured a unique relationship between the factor – price ratio and the commodity price ratio. In this world, free trade equalizes commodity prices. If complete specialisation is ruled out commodity price equalisation necessarily leads to factor price equalisation. The abstraction in the assumption of the model does not conform to reality but yields a powerful conclusion to suggest that even in a world where international factor movements are not possible, free trade in goods would ensure equity through an equalisation of factor prices across countries (Nayyar, 2008).

The concerns to an open trade were intertwined in the political economy since the late industrialisers such as the United States and Germany who wished to follow in the footsteps of England and France were guided by the economic interest rather than the economic efficiency. It was recognised that there were two critical assumptions underlying the strong prescription of free trade: first that market prices reflected social costs and second that a country’s trade in a good was not large enough to influence world prices. Under these assumptions efficient outcome was impossible to attain besides market failure provided the basis of the infant industry its comparative advantage in manufacturing activities and monopoly
power provided the basis of the optimum tariff argument and restrictive volume of trade which enabled the economy to increase its real income at the expense of the rest of the world. Another challenge that confronted the trade concept developed by Keynes during the recession period which was the ‘beggar – thy – neighbour’ policies as countries attempted to increase employment at home even if it increased unemployment elsewhere.

At the same time with Econometric tools improving, theoretical models of ‘endogenous growth’ were constructed suggesting that openness would positively contribute to growth (Grossman & Helpman, 1991)(D.Romer, 1993). They were of the opinion that technology enables domestic producers to have access to and benefit from reverse engineering thereby enhancing technological knowledge and capacity and expanding networks across countries and cut costs. However, the positive economic theories seems to suggest trade flows are driven by increasing returns rather than comparative advantage which are characterised by imperfect competition. And many strategic trade policies deter entry of foreign firms into lucrative markets and thus manipulate the terms of oligopolistic competition to ensure that excess returns are captured by domestic firms thereby raising national welfare at the expense of other countries. In a world of increasing returns and imperfect competition externalities are easier to identify in industries where research and development (R&D) expenditures are large and firms cannot entirely appropriate the benefits from investment in technology and learning. Thus economic interests and political compulsion have shaped the contours of economic theory. However, economic interests whether perceived or real have exercised an important influence on the political objectives of nation states in the world economy. In pursuit
of this national economic interests the use of free trade doctrine, with emphasis on efficiency and equity have been flexible over time and across space. Economic theories on trade can be considered in the world with similar levels of development as equal partners thus ruling out the use of political power to foster economic interests. This abstraction simply does not conform to reality the famous example is Portugal which was supposedly set to gain as much from exporting wine as England from exporting cloth. However, this did not happen in the realm of politics

“Portugal was dependent on British naval support and it was for this reason that she was obliged to accept conditions of trade which would wipe out her production of textiles and inhibited industrial development so as to make her dependent than ever." (J. Robinson, 1974)

It is apparently clear that despite the abuse of mercantilism, free trade was also about the pursuit of national economic power. The consequences of imperialism brought about another example where politics have drifted the economic rationale and policies were arbitrarily changed to suit individual interests. Initially the British cotton textile industry in Lancashire grew up under protection from superior Indian imports. When it became competitive free trade was imposed on India. A century later Indian textiles were once able to undersell Lancashire and British quickly imposed the protection again through an international agreement to regulate trade in textiles. This multi-fibre agreement (MFA) still continued under the uncertainty of the WTO even in the twenty-first century.

The evolution of GATT and the principle of non-discrimination which evolved after this was another set of flexibility which was
instituted in the trade policy systems to streamline the fragmented structure in the world and failure to regulate international trade. This made many countries toe the line multilaterally at the same time the developed countries essentially erected barriers to restrain imports from developing countries.

**Existing Trade Safety Systems**

In the multilateral framework in WTO which is based on three fundamental principles: freer trade, trade without discrimination, and predictability in trade through reciprocity there is a commitment which countries have to reduce the market barriers and give access to countries as part of the liberalisation process. An increase in trade liberalisation coupled with the introduction of new competition can set new demands for certain domestic industries. In instances where domestic industries are struggling to survive, various trade remedies are available to protect them from foreign competitors. The retention of trade remedies in trade agreements serves the purpose of obtaining political support needed for the successful implementation of the agreement and assures import-competing sectors in member states that protection against unanticipated consequences of liberalisation is available. When there is a sudden surge in imports, countries can temporarily safeguard themselves in an effort to protect the affected domestic industry. Traditionally, these safeguard measures were only available for application under World Trade Organisation (WTO) rules; but with the proliferation of trade agreements in recent years, these measures have also been included on a regional and bilateral level. While global safeguards concern the application of safeguard measures on a multilateral level, regional or bilateral safeguards refer to measures addressing distortions which
come about as a result of implementing regional bilateral trade agreements. The rules of the WTO provide that safeguard measures must be applied without discrimination. Regional or bilateral safeguards, however, address only the adverse effect of the regional or bilateral liberalisation and are therefore only applicable between contracting parties. For this reason these measures are also known as ‘transitional measures’, as they may not be invoked after the termination of the transition period. Global and regional safeguards are different institutions dealing with problems arising from different free trade initiatives. The General Agreement on Tariffs and Trade (GATT) Article XIX, together with the WTO Agreement on Safeguards, remains the generally applicable safeguard regime at a multilateral level. Safeguards in regional and bilateral agreements vary greatly: from agreements containing no general safeguard measure to agreements with detailed and rigid provisions and conditions for implementation.

All the regional and bilateral agreements which contain safeguards do nevertheless share similar characteristics and are comparable to some extent with the WTO Agreement on Safeguards. The WTO Agreements on Safeguards provides for several options which include conditions for invocation, investigation procedures, applying the safeguard measure, duration of safeguard measures, provisional application, compensation for loss of trade, special treatment for developing countries and dispute settlement. Even though the rules and procedures for transitional safeguard measures are built into the agreements, they still need to be applied within the framework of GATT Article XXIV. It even allows the flexibility for intra-regional safeguard application. If only the measures are invoked on a significant percentage of the regional trade. In addition to
regional and bilateral safeguard, special safeguard mechanisms are applicable in certain situations where protection could usually not be obtained otherwise. These measures provide additional protection to traditionally sensitive sectors like agriculture and textiles and clothing. The provisions have different requirements and conditions for the invocation regarding notification, strength and length of implementation, compensation, option of retaliation and the determination of serious injury. Agricultural products have special safeguards which can be arbitrarily applied based on trigger volume or price on products which have been tariffed in the early phase of Uruguay round. The challenge with safeguards is that agricultural commodities are very volatile making the applicability very difficult and at the same time the safeguards disrupt the economic flow and are highly criticised for its misuse. Even then, they can provide valuable remedies and revenue to make trade adjustments. They are popularly the first tier of trade safety nets that can target specific trade products protecting the domestic industry. From the consumer perspective they cause considerable disruption and directly results in price escalation in the short-run and helpful if the domestic industry can supplement the domestic demand in the medium term. However, intense lobbying and competition makes the imposition of safeguards very complex. These measures require industry specific information which needs to be definitely ascertained before imposing it. In the case of agricultural products besides being volatile its supply is seasonal in nature, which makes application even more difficult. Even the information available on the domestic producers varies substantially and with market strongly controlled the application of safeguards violate other provisions of competition and liable for global scrutiny.
Agriculture Development and trade

Agriculture development and trade theories are intertwined in the stages of development. Lewis (1954) viewed development as the relocation of factors of production from agriculture characterised by low productivity and use of traditional technology to a modern industrial sector with higher productivity (Lewis, 1954). His theories were employed to support industrialisation led domestic and international policy environments, which discriminated against agricultural development; this brought about an inefficient and systematic bias against agriculture and rural economy in the allocation of development resources. At the same time it was felt that although labour was surplus in the agricultural sector and its growth was seen as a precursor of industrialisation to ensure supply of food to prevent rising food prices and nominal wage cost undermining industrial development (Lele & Mellor, 1981). In India, over protection given to the industrial sector through duties, exchange rate and regulation of outflow of agricultural products has been widely criticised. This bias worsened the terms of trade and the new economic policy reforms on the agriculture sector brought about a significant reduction in the anti-agriculture bias through a more balanced degree of relative sectoral protection (Chand, 2005). This phenomenon was prevalent since Independence, wherein industrial sector was protected through trade policy by insulating it from the foreign market, while it disprotected its agriculture (Singh, 1995). This bias had led to (1) deceleration in output growth, (2) an almost zero growth in employment in agriculture, (3) strain on the natural resource base, (4) vulnerability to imports and weak ability to compete in the global market, (5) persistent rural undernutrition, (6) rising rural distress, (7) poor performance of rainfed and dry land
agriculture, (8) gender inequities, and (9) declining viability of marginal and small farmers. Conversely, it was also explicitly identified in the literature that there was a strong growth linkage. However, in an open economy the situation can help in reducing the food prices and the wage rate but can adversely impact agriculture supply function depending on the level of state intervention. In the case of India, the economic reforms did not affect the critical food crops, which continued to be strongly controlled by the state. Consequently, the terms of trade (TOT) in post-reform period improved favourably towards agriculture (see Table 1.1). Agricultural growth was 3.7% per annum in the first six years of the reform period (1991-97) and the terms of trade in agriculture improved during this period (Dev, 2010).

**Table 1.1**

**Terms of Trade (ToT) of Agricultural Sector in India**

<table>
<thead>
<tr>
<th>Year</th>
<th>Index of Price Paid</th>
<th>Index of Price Received</th>
<th>Agricultural Terms of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-82</td>
<td>61.9</td>
<td>54.9</td>
<td>88.7</td>
</tr>
<tr>
<td>1991-92</td>
<td>123.8</td>
<td>130.8</td>
<td>105.6</td>
</tr>
<tr>
<td>1992-93</td>
<td>133.5</td>
<td>138.7</td>
<td>103.9</td>
</tr>
<tr>
<td>2001-02</td>
<td>229.0</td>
<td>235.3</td>
<td>102.8</td>
</tr>
<tr>
<td>2006-07</td>
<td>285.4</td>
<td>291.1</td>
<td>102.0</td>
</tr>
</tbody>
</table>

Source: (Dev, 2010)

The increase in the terms of trade had resulted from the sharp increase in the growth in agriculture in the different periods. During this post-reform period there was a sharp rise in agricultural trade and more rapid business transaction between agriculture and the rest of the economy (V.N.Mishra & Rao, 2003). However, the growth in agriculture has been very unstable and volatile which indicate the
high risk arising from price and yield fluctuation (Fig 1.2). There were years when the growth had gone negative (-6.6%) in the year 2002-03 and flattening at near zero percentage in more than three years. There are hardly any cogent literature co-relating the trade linkage but there is need to understand whether these fluctuations are invariable linked to the international trade policies, which were not properly streamlined during the transition phase.

The high growth fluctuation seems to relate with the high instability in supply of agriculture products which may connect international trade and poor domestic policies. This phenomenon corroborates with the Lewis Theory “that upon closer examination of agriculture growth, it is paradoxical that agriculture growth leads to agriculture decline” (Lewis, 1954). This is based on the Engel’s Law that in a closed economy with constant prices the share of agriculture will keep on declining no matter how fast the sector grows. Since growth is led by demand factors in market economies

![Figure 1.2](image-url)

**Comparison of Compound Growth Rates of GDP and Agricultural GDP of India**

Source: Agricultural Statistics at a Glance 2011, Ministry of Agriculture, Government of India
and a less than unitary income elasticity for the agricultural products guarantees that the gross value of sales by farmers will grow less rapidly than the general economy and on the contrary if agricultural output fails to grow rapidly enough then rising prices will help farmers garner higher consumer expenditure share which would result in lower real incomes (ibid, 1954). The best way countries have tried to shift this risk is through transformation of agriculture by following the four stages of agricultural development. These stages are remarkably uniform where the share of agriculture in countries labour force and total output declines in both cross-section and times series samples as income per capita increases. The declining importance of agriculture is uniform and pervasive, a tendency obviously driven by powerful forces inherent in the development process, whether in socialist or capitalist countries, Asian, Latin American, or African currently developed or still poor.

What really matters in the transformation are changes in the agricultural production system which transforms and supports the whole economy. Here yield and production plays an important role and farming decisions in allocation of area to specific crops and the variety selection is critical. It has been found that agricultural production had rapidly increased during the green revolution period and subsequently stagnated in the post green revolution period. In the post reform period there was a faster increase in the cash crop (non-food) production on account of the rapid integration of Indian agriculture with the international economy. There was higher instability in production of these crops in the post reform as compared to the pre-reform period on account of high fluctuations in international markets, which posed considerable challenge (Chand & Raju, 2009). Notwithstanding these instabilities, international trade
in agriculture had picked up considerably in the post reform period and now it ranks in the first 15 in the world exporters in agriculture and constitutes close to 2 percentages of the world exports. India has always maintained a trade surplus position in agriculture trade valuably adding US$ 23 billion annually (GoI, 2012). The liberal viewpoint showcases this example of India’s success story in agriculture advocating for further domestic reforms.

Agriculture has remained a cause of contention in the domestic debate on price and subsidy reforms as well as international trade negotiations. It has been the cause of delay in the multilateral trade negotiations, as in the Uruguay and Doha rounds; is a source of political tension, especially in transforming countries; and a challenge area for policy dialogue with development partners, particularly in the poorest countries. Reforms as cited earlier, has been politically sensitive with strong vested interests and hence, are difficult to achieve. Even the agricultural policies vary widely across countries. They have historically tended to shift from net taxation to highly subsidised as income of the country increases. Low income countries tend to tax the farmers in the export sector as an important source of fiscal revenue, while developed countries tend to heavily subsidise farmers. These differences often create a policy bias against poor in both domestic and international markets. The economic and social cost of subsidy and price control tends to depress international prices by 5 per cent on an average and suppress agricultural output growth in developing countries (WorldBank, 2007). Keeping this mind Uruguay round negotiating mandate sought “greater liberalisation of trade in agriculture”, the global comities of nations were locked in an intense debate on the nature and extent of trade liberalisation in agriculture. Various perspectives on agricultural trade liberalisation
have come to the fore in this debate. While the proponents of the trade liberalisation agenda have argued aggressively in favour of dismantling the tariff walls, for this, in their view, would bring significant global welfare gains, there have been contra voices that have emphasised that there are significant non-trade concerns, which would have to be given precedence over the trade agenda. There is need to structurally evaluate the impact of liberalisation on the farming community to understand the real gains as a primary stakeholder. There is also a need to examine the perception farming community, traders and policy makers have about the existing political discourse on liberalisation.

The case for liberalizing agricultural trade has been built on the premises of pure theory of international trade. Accordingly, free trade provides the “optimal solution”, but only under “ideal” market conditions. While earlier studies enumerated the welfare implications of laissez faire policies in largely conceptual terms, more recent studies have provided precise estimates of the welfare gains resulting from trade liberalization, including liberalization in agricultural trade (Anderson, Martin, & Van der Mensbrugghe, 2005). The trade theory had long underlined that free trade remains the “optimal policy” only in the absence of market distortions. Jagdish Bhagwati (1971) in his “generalized theory of distortions” had clearly stated the assumptions for an ideal liberalised trade. According to him, free trade ceases to be the optimal policy if any or all of the following distortionary situations occur in the free-trade equilibrium: (i) factor market imperfections, (ii) product market imperfections, (iii) consumption imperfections, and (iv) trade imperfections. These distortions might be market-determined or policy-imposed. In each case, it was further argued; specific policy interventions directly aimed at addressing the
source of the distortions are required. According to this prescription, distortions in the labour market should be addressed by using a combination of domestic taxes and subsidies. In the same vein, trade distortions caused by the existence of foreign monopolies (or imperfect market conditions, as later analysts have assumed), import tariffs would be the optimal policy intervention (Bhagwati, 1971). Although the generalized theory of distortions argues that labour market distortions should be addressed through the use of domestic policy measures and that intervention with trade protection would be welfare reducing, some of the more recent studies have provided different evidence. Contrary to the view held by the proponents of free trade, these studies have pointed out that the episodes of trade liberalization have different implications in economies with distorted labour markets. It has thus been argued that trade liberalization could hurt the workers because rigidities in the labour market are quite pervasive. The reality of labour market rigidities, in particular involving labour engaged in the rural sector, is the reality facing many developing countries like India. In India, the share of rural population has not declined much even though the relative importance of agriculture in GDP has declined quite significantly in recent years. Table 1.2 captures this reality in India.
Table 1.2
Changing Composition of agriculture in GDP and Rural Population Share in India

<table>
<thead>
<tr>
<th>Years</th>
<th>Agriculture as % GDP</th>
<th>Rural as % of Total Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>46.1</td>
<td>80.1</td>
</tr>
<tr>
<td>1980</td>
<td>38.9</td>
<td>77.0</td>
</tr>
<tr>
<td>1990</td>
<td>31.3</td>
<td>74.5</td>
</tr>
<tr>
<td>2000</td>
<td>23.7</td>
<td>72.3</td>
</tr>
<tr>
<td>2010</td>
<td>14.5</td>
<td>70.6</td>
</tr>
</tbody>
</table>


The asymmetry between fast decline of agriculture’s share in GDP and slow fall of the share of rural population is most significant in India. The situation looks particularly challenging wherein India witnessed halving of agriculture’s share in GDP over the past three decades, but the share of its rural population has declined by a mere 10%. Even the paid employment in agriculture in India is very low around 5% (in 2004) (ILO Online Statistics and ADB Key Indicators).

It may be argued that most developing countries, distortions in their labour market were policy-imposed by adopting policies that provided excessive protection to industrial sector. In many cases, agriculture was also taxed, since the imperatives of providing the population with the basic food items at affordable prices took precedence and this meant that agricultural producers were unable to obtain remunerative prices for their products. The policy bias against agriculture in developing countries was reflected in the inadequate flow of investment to the sector. Here again, India stands out as a case in point. In the early 1980s, the share of agriculture in the country’s gross capital formation was close to 20%, which, by the
turn of the century had declined to a mere 6%, despite overall growth in investment across the whole economy (Dhar, 2007). If in the earlier decades, trade theorists were addressing issues relating to distortions as departures from the free-trade ideal, the seventies saw the initiation of a discourse that challenged the fundamentals of the traditionalist’s view of trade theory. This body of literature was based on the premise that global markets are characterized by imperfect competition. Using the conceptual bases from the theory of industrial organization, the proponents of this view argued that under imperfect competition, there is a possibility of “strategic” interventionist trade policies (Helpman & Krugman, 1989). Based on this understanding, the strategic trade theorists have analysed various situations in which government intervention were justified. The original idea of strategic trade theory was propounded by Brander and Spencer (1981, 1984), who showed that government intervention can raise national welfare by shifting oligopoly rents from the foreign to the domestic firms (Brander & Spencer, 1981; 1984). They argued that the grant of export subsidies would have the effect of a deterrent on foreign exports as a result of which profits of the home firm would rise more than the amount of subsidy. This would result in a rise in home income through increased rent captured by a domestic firm.

The large body of literature that has emerged since has provided analytical insights into the functioning of the various sectors (largely in the United States) in which interventions of the kind were prevalent. These studies have assessed the potential gains from using strategic trade policies and have concluded that carefully designed import tariffs or export subsidies can ensure better outcomes than free trade in certain markets, mostly in differentiated manufactured products associated with oligopolistic market
structures. Using these arguments agricultural products markets was also associated with a high concentration of “agents” indicating potential applicability of “strategic” policy interventions in the agricultural sector by developing countries. Furthermore, it is also argued that governments in the developed world (in particular the US and the EU) have used discriminatory policies like export subsidies and tariffs, to maintain a dominating position in the global markets for major agricultural commodities in the past decades. They have been using farm policy instruments for managing output in markets and even now with subsidies that have often suffered because supplies have far exceeded what the markets can carry. These policies were not subjected to the discipline introduced by the General Agreement on Tariffs and Trade (GATT). And, perhaps more importantly, effective disciplines for reining in the discriminatory policies have eluded the global community even after two decades of multilateral negotiations on agriculture. The use of policy instruments by the US and the EU to promote their interests in the global agricultural markets has resulted in an interesting debate in the context of the re-shaping of the global agricultural policies that the WTO is currently engaged in. Initiated by the developing countries, this debate makes the point that “strategic” interventions on their part would be justified to counter persisting distortions in agricultural markets. These interventions combined with sound distributive policies, they argue, are necessary for safeguarding the livelihoods of the multitude of farmers that exist in the agricultural landscape in their countries besides ensuring that the food security concerns are met.
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 of 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). Whether or not this tariff would shift rent from foreign to local
producers is not very certain. However, for the objectives of the policy defined as in the G-33 proposal, shift of rent is not necessary. It is the increase of domestic production which meets the G-33 goals. Thus, to achieve these goals tariff is only one policy instrument easily available to a country. Others, like subsidies, would require budgetary expenditures which are out of reach for many developing countries. As was indicated in the foregoing, developed countries have been granting large doses of subsidies to their farm sector, which has enabled these countries to dump subsidized products in several developing country markets. 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 for they could realize higher value for their products than would have been the case if they had to compete with cheap imports. But when the SPs are the nature of essential commodities, there is a possibility that the higher prices would affect the poor among the urban consumers. In other words, the interests of the agricultural producers get pitted against the interests of the urban consumers. Many commentators have argued that such a situation could lead to an increase in poverty and would hence decrease welfare (Ivanic & Martin, 2006). However, this argument does not take into considering the fact that the increase in commodity prices would benefit agricultural producers (accounting for nearly two-thirds of the country’s workforce) who can then provide a boost to the country’s economy as consumers. It may be argued that the main reason for using the instrument of SPs is to ensure reversal of the secular decline in commodity prices, in particular prices of commodities that are critical for providing livelihood security for farm households. In the past decades, low
commodity prices have reduced the farmers in developing countries to marginalized existence and this situation can get far worse if the subsidized commodities are allowed to enter the developing country markets for “promoting” trade.

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 the developing countries’ poor still live. This 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.

Rationale for Safety Nets: trade and agriculture

Agriculture-based livelihoods in developing countries 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 which are often incomplete and imperfect as a result of (a) poor
infrastructure, services and communications and (b) the absence of a well-developed and diversified monetary economy (Ellis 1993). This partial integration into markets leads to an integration of production and consumption objectives with a complex mix of both competitive and complementary relations in the allocation of scarce household resources in pursuit of these objectives. These complex relations, together with the multiple market and other risks facing poor producers the security and survival becomes paramount, making emphasis on achievement of secure minimum production levels rather than on maximisation of average incomes. Subsistence agricultural production often plays a very important role in this regard. Their objective achievement is further skewed by seasonality parameter which manifests in climate, investment, labour demand, production and prices turn fundamental for any welfare. Even when the farming system is small, seasonal volatility in food prices increases the uncertainty of decision making with regard to consumption and production. For agriculture based livelihood intensification of production is critical alongwith integration into the local markets. With globalisation of agricultural markets, and opening up of the market exposes producers and consumers to new market risks (Dorward, Kydd, Morrison, & Urey, 2004). Poor integration of local market farmers and the communities lack of preparedness combined with distorted international rules and lack of voice in the multilateral negotiation stifles their freedom to harness any gains from agricultural trade (Philip & Tripathi, 2006)

Thus there is a need to look into the agricultural production system and the general welfare it brings to the producers. With the concept of social security getting high preference in the policy arena in India and with new schemes like the National Employment Guarantee
Communal Scheme (NREG) and National Food Security Bill is gaining importance. There is a compelling need to examine different social protection schemes which can help in assuaging risks from engaging in international agreements. The emergence of safety net evolved as a special instrument to counter the adverse impact of a particular change in economic policy. Safety nets are defined as the public policy instrument to assure the primary stakeholder of at least a minimal economic security in the face of uncertain markets and forces of nature. It can comprise one or more public programmes directed at supporting commodity prices, yield, revenue or whole-farm gross or net income. The idea of safety net is not to comprehensively address all the problems of the stakeholder but to cater to specific needs to make them recover from adverse fluctuations. Advanced countries like the US had used the ‘waiver provision’ in 1947 insulating its infant agriculture; the highly sensitive agriculture sector was exempt from GATT rules as a consequence (Baldwin, 2004). The idea of the waiver was not to provide complete solution to agriculture rather to overcome constrain it could face on account of international competition.

The emergence of safety nets primarily emerged during the debates on development. The inherent weaknesses in theories have led to its discovery. Persistence of development problem like poverty, hunger and malnutrition in spite of rapid reforms enhanced their utility. Economic liberals had their claim that a free market economy can be a powerful force promoting growth and modernisation; at the time it is not true that an unregulated market will more or less automatically lead to optimum development for individuals and states in the long-run. Dependency theorist point out the influence of strong capitalist interest and the reason that the third world are still been made dependent but at the same time it is not true that integration of
the world market would lead to underdevelopment. Both dependency and liberal viewpoint agree on the mainstream concept of growth and modernisation. They believe in distribution and welfare and that development is not mere satisfaction of material needs it also includes, participation, freedom and self-realisation. In the recent time the liberals are accepting the significant role states can play in maintaining balance and role of safety nets and social protection mechanism as a means to development.

Thus, during the concurrent WTO negotiations there was an endorsement by all countries that food security, livelihood security and rural development concerns can no longer be neglected in the agricultural trade rules. The current development is part of Raul’s redistributive justice frame word where the fallacies and ambiguity in the ‘Agreement on Agriculture (AoA)’ would be corrected and countries now cannot be misled. There is growing acceptance that trade and investment will not solve all the challenges of development. Even though tax reforms are essential to bring down the cost of imports they necessarily cannot usher development; there is a necessity to make up for lost tariff revenues and social safety nets to compensate displaced workers. However, most developing economies are not in a capacity to effectively adjust, and agricultural prices have remained quite volatile during the post-WTO period. Many countries are still reeling under the volatility in food prices. As already discussed trade process can bring in wealth and prosperity but comes along with loss in revenue, lack of assured market, price volatility, and unemployment.

---

7 World Trade Organisation: The Doha Round started in the year 2001
The main reason why trade safety nets are needed is because trade, as percentage of the total GDP, is increasing over the years indicative of the growing integration of the regional economy with the global economy. And the country’s domestic prices are getting equated to world prices. With tariffs already low or removed there is greater risk of global instability transmitting into the domestic market.

**Table 1.3 Comparison of international and domestic instability (India): 1994-2005**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>International</th>
<th>Domestic$^c$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>11.04</td>
<td>5.92</td>
</tr>
<tr>
<td>Wheat+Flour, Wheat Equiv.</td>
<td>12.61</td>
<td>5.85</td>
</tr>
<tr>
<td>Maize</td>
<td>14.33</td>
<td>10.30</td>
</tr>
<tr>
<td>Sugar, Total (Raw Equiv.)</td>
<td>11.32</td>
<td>8.34</td>
</tr>
<tr>
<td>Oil of Soya Beans</td>
<td>15.33</td>
<td>17.60</td>
</tr>
<tr>
<td>Oil of Sunflower Seed</td>
<td>13.51</td>
<td>12.11</td>
</tr>
<tr>
<td>Oil of Rapeseed</td>
<td>16.44</td>
<td>18.59</td>
</tr>
<tr>
<td>Skim Milk, Evaporated</td>
<td>11.90</td>
<td>13.41</td>
</tr>
<tr>
<td>Butter</td>
<td>12.65</td>
<td>5.06</td>
</tr>
<tr>
<td>Meat Bovine Fresh</td>
<td>8.14</td>
<td>19.40</td>
</tr>
<tr>
<td>Meat Sheep Fresh</td>
<td>9.06</td>
<td>5.80</td>
</tr>
<tr>
<td>Meat of Swine</td>
<td>13.41</td>
<td>9.21</td>
</tr>
<tr>
<td>Meat Poultry Fresh</td>
<td>8.32</td>
<td>8.24</td>
</tr>
<tr>
<td>Coffee Green+Roast</td>
<td>21.84</td>
<td>18.78</td>
</tr>
<tr>
<td>Cocoa Beans</td>
<td>23.65</td>
<td>2.91</td>
</tr>
<tr>
<td>Tea</td>
<td>5.76</td>
<td>16.08</td>
</tr>
<tr>
<td>Cotton Lint</td>
<td>15.47</td>
<td>13.37</td>
</tr>
<tr>
<td>Rubber Natural Dry</td>
<td>25.60</td>
<td>21.21</td>
</tr>
<tr>
<td>Jute</td>
<td>17.68</td>
<td>28.57</td>
</tr>
<tr>
<td>Hides and Skin</td>
<td>10.19</td>
<td>10.97</td>
</tr>
</tbody>
</table>

Source: Computed from FAOSTAT and WPI of Commodities from GOI website.

Instability is measured as the Standard Deviation from trend: STDEV(Log (Y_{t+1}/ Y_t))*100.

$^c$ Instability in WPI computed by the Ministry of Industry, GOI.
A comparison of domestic and international price data reveals that agricultural prices have remained quite volatile during the post-WTO period for many agricultural commodities as illustrated in Table 1.3. The commodities which were decontrolled like the oilseeds cocoa, tea and jute and exposed to large imports or exports were found to be more volatile than the controlled products. A number of factors, both from the supply side as well as the demand side, contribute to this high volatility. From the supply side, a distinguishing feature of international agricultural trade is that only a limited number of exporting countries dominate international trade. The share of the top five exporters remained as high as 98 per cent of global exports. Even for a widely produced crop like rice, the share of the top five exporters is more than 76 per cent and for all cereals the share of the top five is almost 75 per cent.9 To some extent, the dominance of few players in world agricultural commodity markets is attributable to the fact that domestic and export subsidies undertaken by these countries. Subsidization results in depressed world prices and keeps many potential exporters away from the international market.

Agriculture in India is more like a way of life. The agrarian crisis that seems to precipitate in the farming communities of these regions is some way or the other linked to trade flow pattern. For example, in August 1999, soybean and soy oil import policy was liberalized in India. As a result, subsidized imports of soybeans imports totalled three million tonnes in one year (a 60 per cent rise compared to earlier years) and cost nearly US $1 billion. Within one growing season, prices crashed by more than two-thirds and millions of oilseed-producing farmers lost their market, unable even to recover

---

what they had spent on cultivation (even the variable cost). The loss is reducing the confidence and the financial credibility of farmers, pushing them out of reach from any institutional support like credit, insurance. Debt liability or rural indebtedness is a stark reality of the rural economy and very low level of investments insulate the farmers in participating and making gains from trade. Plight of farmers has worsened by the indiscriminate and forced integration into an unfair global system.\(^\text{10}\) The high level of dependence in the whole economy with strong food and multiplier linkage makes trade safety system a pre-condition before pursuing any further liberalisation.

**Spices Economy and Safety System in Kerala**

Spices has remained an important commodity which helped India to garner international recognition. Its natural comparative advantage by virtue of its quality made it geographically linked with the subcontinent. It has defied all the modern theories of transition and modern agriculture where even without capital investments or modern tools was able to generate high income for all the stakeholders. It was able to overcome the industrial bias. It formed a leading example to all the agricultural products in the paradigm shift of economic reforms. However, in the post reform period and global integration it witnessed very high instability which needs careful examination in the context of international relations, politics and economics.

With more than 25 spices commercially grown, India is the largest producer, consumer and exporter of spices in the world. Spices sector is one of the key areas in which India has an inherent strength to dominate the global markets. But, about 90 per cent of spices

\(^{10}\) ‘Trade’s Victim-The great unraveling’, *The Economist* January 2007, pp 32.
production in the country is used to meet the domestic demand and only 10 per cent is exported (Peter and Nybe, 2006). Central Statistical Organisation (CSO) has estimated the value of production of all spices to be Rs 14,215 crores during TE 2002-03, which is around 4 per cent to the total value of agricultural output which makes it less than a percentage of the whole GDP. At the same time it contributes more than 2 per cent of the total exports. Even though spices prices have fluctuated their exports registered substantial growth during the last five years, registering an annual average growth rate of 21% in value and 8% in volume. During the year 2010-11, spices export from India had registered an all time high both in terms of quantity and value. In 2010-11 the export of spices from India had been 525,750 tonnes valued Rs.6840.71 crores (US $ 1502.85 Million) as against 502,750 tonnes valued Rs.5561 crores (US $ 1173.75 Million) in 2009-10, registering an increase of 28% in dollar terms of value and 5% in volume. India commands a formidable position in the World Spice Trade with 48% share in Volume and 44% in Value. In the context of its leading trade parameters there is need to understand the production system of spices, the stakeholders involved and how the existing trade policies contribute to its development. Spices especially cardamom and pepper was taken as a case study since they predominate in the global trade economy from time immemorial and forms a classic example on how state interventions can structurally support and help it overcome international instability. Another factor for its selection is scale with which spices are grown in Kerala. Kerala state is the single largest spice-producing state in value terms, next to Andhra Pradesh. Kerala is the largest producer of the King and Queen of spices, pepper and cardamom, respectively. In fact, Kerala
contributes 97 per cent of the total black pepper production in the country and 76 percent of total cardamom production. Both pepper and cardamom are plantation crops and employs a high percentage of labour force. Cardamom is predominanted by big land holding farmers while most of the pepper plantation is owned by small growers. Most of the spices cultivation is carried in plantations which involves long-term interests. These plantation hire contract labourer and it is desirous to examine development dimensions be it the wages or the risk involved. There are studies which show that most of the workers of the spices plantation are forced to live in unhygienic conditions, which leaves them in very poor health conditions. Insecure and unhealthy working conditions make them socially as well as economically weak which automatically exclude them with lesser options causing them to enter into a vicious cycle of poverty and thereby inherit the culture of poverty. This inherent poor condition arises on account of the high instability of prices resulting in indebtedness among farmers. The international prices of pepper and cardamom have fluctuated rapidly. The pepper prices fell from Rs 260 in the late 1990s to Rs 60 in 2003-04 which resulted in large scale misery. Most of the farmer’s suicides in the districts like Wayanad, where both pepper and cardamom are grown, were shown to attribute to prices fluctuations. Under these precincts the current thesis tries to undertake the case study with special references to pepper and cardamom to explore the option of instituting trade safety nets for ensuring livelihood security.

**Overview**

The present work is a maiden work on understanding the mechanisms that can be developed to protect the farmers and the agricultural
production from the instabilities that arise from external trade engagements. In order to devise the mechanism the study tries to understand how far the existing safety systems in trade agreements and trade policies provided adequate protection to agricultural producers? The second main hypothesis it tries to examine is how effective were the current agricultural policies to support key development issues in agriculture trade? And finally try to ascertain how far the trade safety nets can provide adequate flexibility in their policy space? As part of case analysis cardamom and pepper, which are grown by small and marginal farmers while at the same time involves high value exchange in the international markets, was selected as the main crops for illustration of safety nets.

The thesis is compiled under six chapter’s entitled: 1. Introduction; 2. Safety Systems and International Trade Relations; 3. Trade Interventions and Safety nets in the Post-WTO period’; 4. Domestic Interventions and policy space; 5. Case study of spices in Kerala; and 6. Conclusion and Policy Suggestion. The first chapter is a brief introduction to the different theories and debates encircling trade and agriculture. It analyses the relationship between economics and politics, key actors, nature of relationship between actors and their economic goals. The chapter also introduces the safety net concept in the present era of globalisation as the principle of efficiency becomes the new buzzword in the new international economic relationship between the North and the South. The second is a detailed discussion portraying the safety dimension in all theories, evolution of protectionist doctrines in trade relations over the centuries. The chapter makes an attempt to understand the protection concepts, the relevance of safety nets in domestic policies and how significant these safety nets fit into the concept of trade relations. The chapter tries to
critically examine the conformity and incoherence of safety nets in light of the different international relations theories.

The third chapter entitled ‘Trade Interventions and Safety nets in the Post-WTO period’: Reality or Myth’ looks at the possible options of trade interventions that can form an important component of safety nets. The chapter includes a detailed section on special products and their applicability in international agreements with special reference to India. The chapter also includes a section on agriculture safeguards and market quotas as an important institution providing safety net. It analyses whether it is practically possible to make trade interventions, given the limited policy-making space of nation-states after the advent of WTO. It critically examines the different interventions Indian government has resorted to protect the interests of its farming community.

The fourth chapter entitled ‘Domestic Interventions and Policy Space’ tries to understand the policy instruments that can provide the agricultural production system safety nets. It enumerates practical policy options and alternatives and attempts to broaden the national dialogue on such choices. The chapter looks at National Agricultural Policies (NAP) India has formulated to address risks arising from international trade in agriculture. The chapter elucidates different policy options that exists vis-à-vis Indian agriculture production and how the risks can be minimized. The policy analysis delineates the facts of the Indian economy and explores its responsiveness to the macroeconomic framework – so as to permit informed judgments on the most suitable alternative policies. It examines the various constraints confronted by the agricultural production system in the context of existing political realm and role of different stakeholders in the production.
The Fifth chapter entitled ‘Case Study of spices in Kerala’ is the case study of cardamom and pepper in Kerala. The chapter examines in detail the trend in production and international trade of the two spices crops and tries to assess the risks involved. It tried to tabulate the livelihood band based on the trend deviation of domestic prices in the light of the cost of cultivation of the spice crops. The chapter also includes the findings and analyses of the survey conducted.

The final Sixth Chapter ‘Conclusion and Policy Suggestions’ summarizes the findings of the whole study and suggests different trade safety nets that can be instituted in the production system of cardamom and pepper. It makes an attempt to find ingenious solution to the problems faced by the farming communities and key stakeholders in international trade of cardamom and pepper.