Chapter 2

Safety Systems and International Trade Relations

International Relations and Safety

Today virtually all people live within borders of separate territorial communities which are called states. The state tries to provide basic security to almost all people living in their boundaries. The idea of providing security is to understand each other’s problems and collectively address them. It includes protection, policing and providing welfare. In this pursuit the states institutes laws and enforces them such that a minimal safety is guaranteed. It is important to understand the evolution of the states and the various theories to understand the concept of safety as a finer term in international relations. The states have their own objectives which are realised through their collective endeavour. The states and people join together to find ways to coexist which requires specific dealing and entering into relations with each other. Different states are embedded in international markets which are essential to fulfil their individual objectives like food, clothing and shelter. As the relation deepens there are distinct ways the states interact and organise which forms the politics. The basic values that states usually uphold are the population’s socio-economic wealth and welfare. People expect their government to adopt appropriate policies to encourage high employment, low inflation, steady investment, uninterrupted flow of trade and commerce and so forth. Since national economies are rarely isolated from each other, most people expect that the state will respond to the international economic environment in a way that would enhance or at least defend and maintain the national standard of living. States would try to frame and implement economic policies which can maintain the stability of the international economy upon
which all are increasingly dependent. This would involve economic policies that can deal adequately with international markets with the economic policies of other states, with foreign investment, with foreign exchange rate, with international trade, with international transportation and communications and with other international economic relations that affect national wealth and welfare.\footnote{11} This is a direct result of economic interdependence, meaning a high degree of mutual economic dependence among countries which is the striking feature of the contemporary state system. Many thinkers consider this interdependence a good thing since it increases the overall freedom and wealth by expanding the global market place and thereby increasing participation, specialisation, efficiency and productivity. While many thinkers consider it a bad thing because it may promote overall inequity by allowing rich and powerful country or countries with financial or technological advantage to dominate the poor and weak countries that lack those advantages.\footnote{12} But both way wealth and wealth accumulation persists in any framework (Gilpin, 1987).

In the process interdependence profound conflicts of interest arise between the states. Some people are better off than other. The better will try to preserve and defend their privileged position and the worse off or the ‘have nots’ will struggle to change the situation (E.H.Carr, 1964). History is replete with such instances wherein countries were caught in direct confrontation and two great world wars have been fought. This aspects have been explained from a realist view point that international politics is a struggle for power and the aim of the international politics whether, trade, resources, power is always the immediate aim (Morgenthau, 1985). The 1930s and 1940s appeared to confirm this proposition. The quest for power certainly

\footnote{11}{The GATS framework too tries to address the service delivery of the member states}
\footnote{12}{Lack of global state perpetuate anarchy}
characterised the foreign policies of Germany, Italy and Japan. The same struggle, in response, applied to the Allied side during the Second World War. Britain, France and United States were the ‘have’ in Carr’s terms, the satisfied powers who wanted to hold on to what they had, and Germany, Italy and Japan were the ‘have nots’. And it was natural according to the realist that the ‘have nots’ would try to address the international balance through the use of force. This approach though explained the developments during the 1930 to 1950 were emphasising more on the pessimistic view of human nature.\textsuperscript{13}

**Post World War International Relations: Neo Liberal era**

The international thought slowly transformed with the erstwhile Soviet Union and United States tried to struggle with each other not through confrontation but through ideological supremacy. The main focus shifted to behaviouristic approach wherein laws and position were determined based on measureable facts and validation. There was more a scientific bend on the entire international relations phenomenon. This stage also witnessed more co-operation and establishment of international institutions. During this phase international trade witnessed new paradigm shift and countries tried to expand business and reconstructing war battered Europe. The period 1950, 1960s and 1970s witnessed international relations concerning trade and investment, travel and communication and liberal democracies viewpoint of the West.

This period also reported large growth in Multinational Companies as well as high surge in international trade. The realist thinking were replaced by a new renewed liberal approach of ‘neoliberalism’ which was characterised by formulation of theories

---

\textsuperscript{13} The safety concept in Realist format was through use of power military to secure and capture more resources.
based on scientific methods, behaviouralist methodological persuasion and repudiated idealism.\(^\text{14}\) There was an intense form of international cooperation. Functional activities across border (trade and investment) offered mutually advantageous long-term cooperation. Neoliberal theories dominated the period and stressed on automatic process of integration in all spheres of area through transactional cooperation (Keohane, 1984). By 1950s and 1960s Western Europe and Japan developed mass-consumption welfare states, as United States had done before the war.

The cooperation helped build social liberalism characterised by not just cross border flows but also social values. In the 1950s Karl Deutsch showcased that interconnectedness, which helped create common values and identities among people from different states and paved the way for peaceful, cooperative relations by making war increasingly costly and thus more unlikely (Duetsch, 1957).

The relationship between Western states (including Japan) were characterised by societal interdependence to political relations of governments, including transnational links between business corporations. The dark memories of war were forgotten and there was an ‘absence of hierarchy’ where military security did not dominate the discussion in any forum or the foreign policy (R.O.Keohane & Nye, 1975).

With high degree of interdependence states set up international institutions to deal with common problems. Institutions promoted cooperation across international boundaries by providing information and by reducing costs. Institutions can be formal international organisations such as the WTO or EU or the OECD, or they were less formal international agreements (often called regimes)

\(^{14}\) There was a transition of viewpoint with clear defined ideology supported by institutions promoting development issues at the global level
which deal with common activities or issues such as agreements about shipping, international meteorological department, aviation, communication or UNEP. This period took the form of neoliberal institutional liberalism. Another important development was republican liberalism characterised by persuasion to be democratically elected states living in peace with each other. This helped peaceful resolution of conflicts, build common values between democratically elected states and further more cooperation. The neoliberalism in all forms provided an overall consistent argument for more peaceful and cooperative international relations. Their thinking was dominant and formed the main pillar of interdependent world and the development of the GATT and International Trade Organisation (ITO) which later developed into the World Trade Organisation. Their overemphasis on high investment flows and lesser control by the states lead to the East-West confrontation in international relations in the 1970s and the 1980s.

This period too witnessed large number of commodity agreements like the Cotton agreements, cocoa, dairy and textiles etc., which countries build interdependence through sharing of information and solving their common problems. ICAs have always had both "economic" and "non-economic" objectives using "economic" to mean market intervention with price objectives. Other objectives such as the promotion of consumption were not in the context considered to be under the rubric of "economic clauses". The latter basically covered the levels and the variability of prices. Most ICAs with economic clauses had, therefore, price stability as their main objective. Even the Article XX(h) of the GATT allowed safety features to be taken that are “undertaken in pursuance of obligations under any inter-governmental commodity agreement” acceptable to

15 For obvious reasons ICAs with importer country participation (the ones that would normally qualify for treatment as exceptions to the GATT/WTO disciplines) cannot usually be expected to foster the raising of the average level of prices under the ICA.
members and that should not be "... arbitrary or unjustifiable discrimination between countries or ... a disguised restriction on international trade." Specifically these agreements too were mandatorily interlinked and had to meet the conditions set out in the Havana Charter (FAO, 2002).

**Hegemon stability and Balance of Power**

No matter how interdependent countries are, there existed sharp differences in the countries by virtue of their natural resources or capital and military power. This hypothesis was propounded by Waltz with his focus on the ‘structure’ of the international system and the consequence of the structure of international relations. This argument fell from the structure existing in the world: international system is an anarchy; there is no world-wide government; international system is composed of like units small or large, which perform the same functions. However, states are different in their power exhibiting relative capabilities. This relative power is exhibited by the states and they like to preserve it. The rise of bipolar world with Soviet Union and United States displayed their hegemony in the globe through various means like military operations, expanding alliances like the NATO. With the collapse of Soviet Union, the US dominated the system but the ‘balance of power’ theory states that other countries will try to bring American power into balance. The theory also states that smaller and weaker states will align themselves with great powers in order to preserve their maximum autonomy. This hegemonic stability has been instrumental in pushing international policies across countries. The United States during this period used trade as means through legislation to counter competitive pressurise from countries like Japan and even European countries.\(^{16}\) The disputes that US had with its own neighbouring

---

\(^{16}\) (Mearsheimer, 2001) The introduction of trade sanctions, and counter retaliatory measure by US shows that it wants to dominate the entire system, making sure that no other state or combination of states can challenge its autonomy.
countries and not allowing any redressal predominantly trade related, vindicate the hegemonic theory and the self-interest and the power it tries to wield to stabilise it. This behaviour of hegemony is natural in the context of international anarchy and interdependence is further strengthened through this process even if arises on account of self-interest (Baldwin D., 1993). The tone of the neorealist and neo-liberalist were similar in the context of enforcing the liberal view. It is also stated that without a dominant or hegemonic power, there can be no liberal world economy. It was in the interest of US that insisted on countries to accept liberal approach of trade and investment in east-Asian countries and opening up their economies. The recent weakening of US leadership had weakened the liberal world economy and protectionism is on the rise. This clearly indicates the role of the global hegemon (Stiglitz, 2003).

The hegemon stability theory is dynamic since the global anarchy on account of any global government makes states compete for power. All states strive for ideal situation and since the earth is huge states can become hegemon in their own region of the world. Regional hegemons can stabilise their political environment by disallowing any other regional hegemons in their vicinity. Even though European Union has enveloped the state entities into a broader sphere with less conflicts between individual states, Germany with its performance has become a dominant European state in the regional on account of its monetary power. Similarly, China has overcome its weak political position in the early periods 1980s and now surpassing even Germany as the largest exporting country in the world has emerged as a regional power in Asia. Thus in international relation the void of loosening power of one country leads to the emergence of another powerful country to become the hegemon. Thus there is a constant struggle between nation-states for power and domination in the international system. This dynamic
process of balancing is the natural mechanism of safety process being initiated in the international relation.

**Trade and Political Alignment: guaranteeing safety**

In a world of interconnectedness and interdependence there is a greater role of markets which now has formed the fundamental essence of the political economy and international relations. Since any state or individual looks forward to markets for survival procuring food, clothes and other essential goods. Political rules and regulation constitute a framework within which market functions. This is strongly determined by the economic strength which in turn is an important basis for political power. Thus economics, power and politics interact in a complicated manner. There is a complex interplay in the international context between politics and economics, between states and markets (Gilpin, 1987) (Polanyi, 1957). The first institution that was developed internationally was the Bretton Woods system way back in 1945 after the world war to foster economic growth and international exchange was deeply divided on the political lines. The Havana Charter for an International Trade Organisation, which was signed by 54 countries on 24 March 1948, contained a provision titled “Government Assistance to Economic Development and Reconstruction”. Eventhough the Charter was signed by the participating countries, it was not ratified by the US Congress. Other countries saw little benefit in ratifying it bringing it into operation without the participation of the US. Hence the Havana Charter did not come into effect. Similarly, the US gold for dollar market was abandoned on account of its deep involvement in the Veitnam War (1961-73) and the economic difficulties it was facing. The subsequent oil crisis from 1973 onwards that made it evident that politics and economics hang together. These uncertainties in the global market forced many developing countries like India, Brazil and South Africa in the 1970s to call for a ‘New International Economic Order’, to improve the market position of the Third World Countries in the
international system. After the end of the cold war, the eastern Europe and former Soviet Union markets were opened for international trade. The countries insisted on not just mere market integration but membership in Western organisation like the NATO, European Council and OECD which clearly connects political integration alongwith economic integration with advanced economies of Western Europe, North America and Japan. Thus the interplay between politics, market and economics is clearly evident. This political alignment too indicates the effort on part of the different states trying to protect its interest. The interest embodies the countries to live in a more comfortable zone where there is more stability and security. This reflects another aspect of security and safety different countries or states endear to.

**Trade Theories: Assuring safety**

The primitive political theory connecting market was mercantilism. This theory is intimately connected to the establishment of the modern sovereign state during the sixteenth and seventeenth centuries. Mercantilism was the world-view of political elites that were at the forefront of building the modern state. It took the approach that economic activity is subordinated to the primary goal of building a strong state. It was also a basis for political power. Mercantilism helped communities get powerful even in India.\(^1\)\(^7\) Mercantilism envisaged international economy as an arena of conflict between opposing national interest\(^1\)\(^8\), rather than an area of cooperation and mutual gain. Economic competition between states is a ‘zero-sum game’ where one state’s gain is another state’s loss.

---

\(^{17}\) The process of urbanisation and growth of foreign trade led to the strengthening of the merchants and financiers and the growth of a money economy. They interacted with the state and sought to extend their control on the country side, and also the growing class of artisans through a process of dadni (Chandra, 2009)

\(^{18}\) The early forms of mercantilism traded in barter terms or in gems, gold and other precious items. Many a times comparison of trade volume was difficult, which led to conflicts.
States have to be worried about the relative economic gain, because the material wealth accumulated by one state can serve as a basis for military-political power which can be used against other states. There was close similarity between the mercantilist and the neorealist thought about competition between states in an anarchic realm.

Economic rivalry between states had taken two different forms. The first was called the defensive or ‘benign’ mercantilism: states looked after their national economic interests because that is an important ingredient in their national security; such policies need not necessarily have negative effects on the other side. The other form is the ‘malevolent’ mercantilism. Here states attempted to exploit the international economy through expansionary policies. Even though mercantilist saw economic strength and military power as complementary, not competing goals, in a positive feedback loop. The pursuit of economic strength supported the development of the state’s military and political power; and military-political power enhanced the state’s economic power.\(^\text{19}\)

Mercantilist maintained that the economy should be subordinated to the primary goal of increasing state power: politics must have primacy over economics. Spain through mercantilist option benefited from the supply of gold and silver bullion from the Americas; that led them to call for the acquisition of bullion as the main road to national wealth. Netherlands emerged as the leading country in Europe by expanding overseas trading empire strengthening the mercantilist approach that increasing trade surplus is the road to national prosperity. Mercantilism was considered by states as a means to balance power in a region. Spain and Netherlands were able to balance power with England, which was playing the leading role in the world politics through

\(^\text{19}\) All forms of pursuit in one way or the reflects the effort to establish a safer and better means to secure wealth
industrialisation. Mercantilism has been nationalistic in its approach where many states in Europe lagging behind Britain wanted to catch up with it but at the same time literature cited that catching up could not be left to the market forces; it called for political measures to protect and develop local markets (Cox, 1987). Here again countries want to assure safety in the current state without any threat from other neighbouring countries.

Mercantilist writers have argued that a key objective of trade was to promote a favorable balance of trade. A "favorable" balance of trade is one in which the value of domestic goods exported exceeds the value of foreign goods imported. Trade with a given country or region was judged profitable by the extent to which the value of exports exceeded the value of imports, thereby resulting in a balance of trade surplus and adding precious metals and treasure to the country’s stock. Scholars later disputed the degree to which mercantilists confused the accumulation of precious metals with increases in national wealth. However, without a doubt, mercantilists tended to view exports favorably and imports unfavorably.

Early mercantilists were concerned not just with the balance of trade but the commodity composition of trade. Exports of manufactured goods were considered beneficial, and exports of raw materials (for use by foreign manufacturers) were considered harmful; imports of raw materials were viewed as advantageous and imports of manufactured goods were viewed as damaging. This ranking of activities was based not only on employment grounds, where processing and adding value to raw materials was thought to generate better employment opportunities than just extraction or primary production of basic goods. There was also a preference for

---

20 One the few references where the protectionist face of mercantilism was highlighted

53
building up industries that would strengthen the economy and the national defence.\textsuperscript{21}

The mercantilists even advocated government policies directed to arranging the flow of commerce to conform to the belief that protection of their interest against adverse imports is very important. They sought a highly interventionist agenda, using taxes on trade to manipulate the balance of trade or commodity composition of trade in favour of the home country.

Mercantilism has been advocated by some eminent politician and economists. Alexander Hamilton, one of the founding fathers of the United States, was a strong proponent of mercantilism in the form of protectionist policies aimed at promoting domestic industry in the United States. Another German Economist Friedrich List propounded the theory of ‘productive power’ which stressed that the ability to produce is more important than the result of producing. This aspect is fairly advanced in terms of state carrying the flexibility to produce any good at the desired level it wants. It even carries the onus on states to provide domestic industry with the environment to naturally produce the good without any unfavourable competition. Even the Japanese model of development stresses strong mercantilism with the commanding role of state in promoting economic development. This involves strategically identifying industries and protecting them from outside competition and even by regulating the competition between firms.

**Economic Liberalism**

Even during period of economic liberalism, an important phase in international relations, which followed mercantilism further changed the approach of safety. This phase moved to a more

\textsuperscript{21} Frédéric Bastiat attacks the mercantilists in Economic Sophisms. (Bastiat, 1873)
methodological approach from the comprehensive political control and regulation of economic affairs. The main objective further shifted from the state to individual welfare. They rejected the theory that economics is subordinated to the politics. Adam Smith fundamentally changed economic thinking about international trade. Smith argued that economic growth depended upon specialization and the division of labor (Smith, 1784). Smith was averse to providing subsidies to domestic industry as means of securing the safety on the grounds that undue protection would not just benefit certain domestic industries, but would also diminish competition and give those producers a monopoly in the home market, enabling them to charge higher prices.

Further theories like the theory of comparative advantage pushed forward the safety mechanisms to broader zones involving more states. It highlighted the positive sum game of the liberalism that trade was beneficial to all partners. It was postulated that trade will help countries specialise thereby increase efficiency and productivity (Ricardo, 1973[1812]). Paul Samuelson further summarised the arguments as follows: “Whether or not one of two regions is absolutely more efficient in the production of every good than is the other, if each specialises in the product in which it has a comparative advantage (greatest relative efficiency), trade will be mutually profitable to both regions (Samuelson, 1967, p. 651). Thus economic liberals shifted the focus of safety from the state to the individual as a consumer and a producer. They assumed that the individual was rational in pursuing his or her own interest and if it applies to all the market players, all participant gains.

Even though liberals believed no political interference by governments and called for laissez-faire: i.e. for the freedom of the market from all kinds of political restriction and regulation. Yet they

---

22 (see Book I, Chapter 3). (Smith, 1784)
felt markets can neglect the general mass and lead to extreme inequities of income wealth calling for limited state action in areas like education and poverty relief (Mill, 1848). The depression in the 1930s made many thinkers to admit instances of market failure. John Maynard Keynes was a strong support of markets and was of the view that market is a great benefit to people but it also entails potential risks, uncertainty and ignorance. And he cited remedial political management of the market (Keynes, 1936).

**Broadened Safety Tenets: Marxism and Neo Marxism**

Karl Marx critically opposed liberalism and broadened the safety mechanism from individual to class. According to Marx the economy is exploited by humans based on their class creating inequality. He took the zero-sum game argument of mercantilism and applied it to relations of classes instead of relations of states. Marxists agreed with mercantilist that politics and economics are intertwined and economics decided on the politics of the economy. Under the Marxist framework there is a struggle between the two classes and all the wars were not the fought between states rather competition between the capitalist classes of different states trying to secure their interest at the cost of the other class. He argued that the class struggle cuts across states and the imperialism and colonialism were one form of capital expansion. The present globalisation and economic liberalisation is the capitalistic expansion led by giant transnational corporations.

In the neo-Marxian framework, developed by Robert Cox, international relations are built on structures of forces which are material capabilities, ideas and institutions. The struggle is a bid to secure a more secure and free environment for the different classes and their individuals. And according to him as history progressed the

---

**23** Keynes philosophy called for a ‘wisely manage’ state intervention
structure moved to social forces as a process for capitalist production which helped form ‘forms of state’ and interacting with social forces creating ‘world order’ which is an interaction of group of states through international law and institutions (Cox, 1987). Similar political thought was provided in the neo-Marxian framework by Immanuel Wallerstein (1974), where a world system of hierarchy has been developed based on capital and power situation. The central area is the core symbolised by advanced and complex economic activities (mass-market industries and sophisticated agriculture). Furthermore, these activities are controlled by indigenous bourgeoisie. Peripheral areas are at the bottom of the hierarchy which produce for normal consumption but all the policies are concentrated with the core (Wallerstein, 1974). On a similar vein but critical neo-Marxian theory drew stronger emphasis on safety mechanism by strong authoritarian system of masses. They were of the opinion that the present inequity arises on account of dependency by which the powerful class bind the countries and states in subjugation. The dependency theorist like Andre Gunder Frank and Samin Amin did not hesitate to argue that Third world countries have to cut off or at least severely limit their ties to the capitalist world market if they have to develop (Amin, 1990).

**Trade Liberalisation and Protectionism**

Ever since the principles were set down by economist John Williamson who coined the term Washington Consensus neoliberal ideas dominated in the world. Williamson first set forth these policies for developing nations seeking to reform their economies. This was quickly adopted as the economic model for developing countries. One reason for its instant popularity was that the Washington Consensus arrived at a time when the central planning of the economy by

---

24 In this early phase of revolutions the first was the struggle for wealth, while the second was the ideological struggle between the ideas and the third was the institutional struggles.
National governments had been widely discredited. For this reason it filled the urgent need for an economic policy framework. Most studies undertaken whether comparative or country level during this phase played a critical role in shifting policies in several developing countries away from IS strategy and in getting the World Bank to enforce trade reforms more fully across the globe. Their policy studies strongly suggested that growth and trade barriers are positively related. The policy judgement that many drew from these studies was that the Export Promotion strategy was helpful in significantly attaining higher growth on a sustained basis than the Import Substitution strategy through government stimulated investments leads to an unsustainable growth path (Narayana, 2007).

However, John Stuart Mill in his Principles of Political Economy (1848), was critical of unfettered liberalism or open trade and wanted "infant industries" to be protected. In his book he stated "...... protecting duties can be defensible, when they are imposed temporarily (especially in a young and rising nation) in hopes of naturalizing a foreign industry, in itself perfectly suitable to the circumstances of the country... . . . A protecting duty, continued for a reasonable time, might sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment.." (Mill, 1848, pp. 264 Book V, Chapter X).

Although the infant industry argument did not originate with Mill, his recommendation gave it intellectual credibility but also generated intense controversy among economists. Even though this argument was highly criticised in light whether trade restrictions will provide new industries with the proper incentives to acquire productive knowledge that will reduce their costs or whether governments could correctly identify "infant" industries and distinguish those that stood a chance of growing up from those
were destined to remain infants. At the same time it must be remembered that trade may not always be a positive sum game. The welfare of the people of the state is paramount.

Another aspect underlying the policy towards greater openness is the "terms of trade" argument, which deals with the ratio (i.e., the prices) at which countries exchanges exports for imports. This is generally referred to as terms of trade (ToT) which are determined by international supply and demand. At the same time these underlying factors could be manipulated by government policy to the benefit of one country. In the 1840s, Robert Torrens—one of the originators of the theory of comparative advantage—argued that reciprocity, not free trade, was the wisest trade policy because a unilateral tariff reduction would lead to a deterioration in the terms of trade. His argument was greeted with great skepticism until John Stuart Mill, in an essay in his book Essays on Some Unsettled Questions of Political Economy (1844), developed the theory of reciprocal demand and essentially showed that Torrens was right. Countries that possess the power to affect the prices of goods on the international market may find it advantageous to restrict trade.

For example, the Organization of Petroleum Exporting Countries (OPEC) restricts the exports of oil in order to drive up its price on world markets, thereby improving its terms of trade (the price of its exports relative to its imports) and enriching itself at the expense of other consuming nations. As this example indicates, trade restrictions that improve one country's terms of trade necessarily imply that those terms deteriorate for other countries; the gains of the restricting countries comes at the expense of others. If the losses of countries exceed the gains so then more openness is desirable.

Economists were also worried that protection would not be temporary, but would become permanent.
However, even with protection, the distribution of the gains from trade across countries can guarantee safety and welfare.

Here again more technical challenges are confronted when markets do not function perfectly due to externalities, such that the first-best optimal policies cannot be imposed and trade policies might be a second-best policy, or when there are strategic interactions among firms that generate rents that can be shifted with trade interventions. In addition, such arguments for government intervention have been countered with three arguments. First, governments generally lack the ability to identify externalities and rents and, even if they could, even then determining the optimal type and amount of intervention is exceedingly difficult. Second, even if a rationale for intervention existed and the government capable of imposing the optimal policy, actual policies are not determined in a scientific manner but result from the pressure of self-serving special interests. The interventions would therefore tend to serve private and not public interests, to the detriment of the economy. Third, an optimally-imposed intervention might engender retaliation by foreign countries that would erase any gains from that intervention.

Economists like the Rodriguez criticised the method used by the studies promoting liberalisation. And that there are no theoretical presumptions in favour of finding unambiguous negative relationship between trade barriers and growth rates in cross-national data. Moreover an increase in the growth rate of output neither is necessary nor a sufficient condition for improvement.

According to him openness by itself is not a reliable mechanism to generate sustained economic growth. Second openness will likely exert pressure that widens income and wealth disparities within countries. And openness will leave countries vulnerable to external shocks that can trigger domestic conflicts and political
upheavals. According to him the import substitution (IS) policies that followed in much of the developing world until the 1980s were more successful in some regards and their costs have been vastly exaggerated. He cited that import substitution worked rather well for about two decades. It brought unprecedented economic growth to scores of Latin America, Middle East and North Africa and even to some sub-Saharan Africa. The economies that have done well in the post-war period have all succeeded through their own particular brand of heterodox policies. (Rodriguez & Rodrik, 1999).

The main reason country has been protectionist was to provide safety\textsuperscript{26} to the infant industries. The Stopler-Samuelson theory on the similar analysis found that the flow of investment increases the development countries on account of comparative advantage in their labour and are able to competitively increase the imports in the developed countries. This makes the developed countries resort to protectionist barriers and non-trade concerns to block the adverse condition. The political scientists have tended to see protection as the norm and have puzzled over why a country would ever liberalize its trade policy or adopt free trade if otherwise there was a hegemon pushing the agenda or specific interest for the state since most agreements are reciprocal.

For most of the post-war period, less developed countries have used trade barriers extensively, many for the explicit purpose of import-substituting industrialization (ISI). But beginning in the 1980s especially, many developing countries began to liberalize trade and to adopt export-oriented policies. The conclusion of the Uruguay Round promoted this by reducing trade barriers in many areas of key interest to the LDCs, such as textiles and agriculture; also brought many new developing countries into the international trade organization, the WTO, inducing them to follow its rules. In addition,

\textsuperscript{26} Sometimes referred to as policy space as given by Kevin P. Gallagher (2005).
the transition from communist economies to market-based ones by many countries in the early 1990s further accelerated the trend toward global trade liberalization. All of these changes have resulted in one striking fact about the period since 1980: There has been a far-reaching liberalization of trade barriers across the globe (WTO 1996; Rodrik, 1994). During this period, the growth of trade has outpaced growth in world output. Also important are changes in the nature of global trade. There has been tremendous growth in intra-industry trade and in intra-firm trade. Intra-industry trade, which involves the exchange of goods from within the same industry, say Toyotas for BMWs, now accounts for between 55% and 75% of trade in advanced industrial countries (Greenway & Milner, 1986, pp. 237 Table 5-3); for the United States, this figure was 83% in 1990. Intra-firm trade, which involves transfers of goods within one company across national boundaries, has also grown; it now accounts for over 40% of total US imports and 30% of US exports. These two types of trade are important because they tend to have different effects than standard, inter-industry trade (Milner, 2013). Generally, they are associated with fewer displacement effects and less conflict. As Lipson (1982) argues, intra-industry trade provides a powerful new source of multilateral interest in the liberal trade regime: diminished adjustment costs in some sectors, and higher net gains from trade as a result (Milner, 1999). Finally, there has been a significant regionalization of trade. Intraregional trade flows within the European Union, East Asia, North America, and Latin America especially have become more important as a share of total trade. This is partially a result of the regional integration agreements signed by these countries in the past two decades—e.g. the single market in Europe, the North American Free Trade Agreement (NAFTA), the Association of South East Asian Nations (ASEAN), the Asia Pacific Economic Cooperation (APEC), and Mercosur (WTO, 1996).
Another factor in Trade Policy is the pressure group and lobbying which exists in the process. Thus the move to protection by governments is a function of the demands made by domestic groups. Domestic groups seek protection or liberalization because such policies increase their incomes. The distributional consequences of trade policy thus become the explanation for its causes. Adam Smith (1937 [1776]) may have been one of the first to recognize this when he noted that the subversion of the national interest in free trade is the frequent outcome of collusion among businessmen. Schattschneider (1935) was another early proponent of the view that special economic interests were mainly responsible for the choice of protectionism; he showed how these pressure groups hijacked the US Congress in 1929–1930 and produced one of the highest tariffs in US history, the Smoot- Hawley tariff. The extent of protection and the demands for it vary both across industries and across countries. If all domestic groups favoured protection, then such variance would not have existed. Explaining this variance has been a key feature of the literature. The main divide has been between so called factoral versus sectoral or firm-based theories of preferences. In both cases, preferences are deduced as a result of the changes in income that accrue to different actors when policy changes from free trade to protection or vice versa. Factoral theories rely on the Stolper-Samuelson theorem (1941), which shows that when factors of production, such as labor and capital, can move freely among sectors, a change from free trade to protection will raise the income of factors that are relatively scarce in a country and lower the income of relatively abundant factors. Thus, scarce factors will support protection, whereas abundant ones will oppose it. Rogowski (1989) has developed one of the most interesting political extensions of this, claiming that increasing (decreasing) exposure to trade sets off either increasing class conflict or urban rural conflict according to the factor endowments of different countries. In contrast, sectoral and firm-based theories of trade preferences follow from the Ricardo-Viner
model of trade also called the specific-factors model—in which, because at least one factor is immobile, all factors attached to import-competing sectors lose from trade liberalization while those in export-oriented sectors gain. Conflict over trade policy thus pits labor, capital, and landowners in sectors besieged by imports against those who export their production. Irwin (1994) and Magee, Brock and Young (1989) have found evidence in support of the specific-factors model; Balestreri (1997), Midford (1993) and Rogowski (1989) supported the argument for protection through the Stolper-Samuelson type models. Pattern of protection varies with the level of trade preference. Anderson (1980), Baldwin (1986), Caves (1976), Marvel & Ray (1983), Pincus (1975), Ray (1981), and Trefler (1993) have shown how specific characteristics make an industry more likely not only to desire protection but also to be able to induce policy makers to provide it. These regression analyses tend to straddle the debate between sectoral and factoral models of trade politics. Their comparison across industries suggests a sectoral type of model, but many of their findings do not disagree with those of a more factoral view of the world. For example, they tend to demonstrate that low-skill, labour-intensive industries with high and rising import penetration are frequently associated with high protection. In addition, many show that export-oriented industries and multinationals tend to favour freer trade and to be associated with less protection (Milner 1988).

**GATT and WTO Era**

The transition to the new trade order had become a necessity since by mid 1980s, the Bretton Woods trade regime was no longer adequate to deal with a highly integrated world economy characterized by oligopolistic competition, scale economies, and dynamic comparative advantage. The new protectionism of the 1970s had led to the erection of numerous nontariff barriers, such as the quotas and government subsidies (W.M.Corden, 1984). Moreover the
character of trade itself was changing and outgrowing the rules and trading regime of the early post-war era. Trade became closely intertwined with the global activities of multinational firms, and trade among industrialized countries became the most prominent feature of the trading system. And at least from the early 1980s, the United States pressurized West European and other trading partners for a new round of negotiations to strengthen the multilateral trading system. Eventually American pressure overcame European and other resistance, and finally the Uruguay Round of trade negotiations was launched at Punta del Este, Uruguay in 1986, resulting in intense negotiation until its conclusion in 1993. The Uruguay’s most significant accomplishment was the creation of the World Trade Organisation (WTO). In doing this, the Round took an important step toward completion of the framework of international institutions that had originally been proposed at Bretton Wood (1944). Although the WTO incorporated the GATT along with many of its rules and practices, the legal mandate and institutional structure of the WTO were designed to enable it to play a much more important role than the GATT had played in governance of international commerce. The WTO has more extensive and more binding rules. Moreover, the WTO has, in effect the primary responsibility to facilitate international economic cooperation in trade liberalization and to fill in the many details omitted in the Uruguay Treaty. The agreement establishing the WTO expanded and entrenched the GATT principle that trade should be governed by multilateral rules rather than by unilateral actions or bilateral negotiations. World Trade Organisation ushered a new order of multilateralism (Goldstein, 2010). This change is conventionally ‘a transition from a power based to a rule based regime’ (Pauwelyn, 2005). “To a large degree,” one of the pioneers of the academic study of international trade notes ‘the history of civilization may be described as a gradual evolution from a power oriented approach, in the state of nature, towards a rule oriented approach’ (Jackson, 1978). The movement GATT to WTO has shifted
the trade governance outside the sphere of domestic circle. Thus countries are bound to follow the international law and adjust according the system. WTO has brought all the rules under specific agreements. Even the protection of domestic economy has been facilitated through detailed agreements on safeguards.

**Agriculture Protection and Safety systems**

The history of agricultural protectionism dates back to the mercantilism era (the turn of the 16th century) when great geographical discoveries and economic progress stimulated the development of industry and foreign trade. At that time the international trade comprised mass consumption products, industrial and agricultural raw materials, which were mainly cereals. The aim of the economic policy of rapidly developing European colonial countries was to achieve a positive balance of trade and an economic self-sufficiency. The goal was to be reached by supporting the domestic industry, with a subordination of the policy targeted at the agricultural sector whose task was to supply cheap raw materials and food products. The prices of food products needed to be kept at a relatively low level, which were supposed to contribute to lower production costs of industrial and handicraft products and to strengthen their competitiveness in exports. At that time the protectionism were observed through high customs duties and prohibition, which limited the imports of competitive products from abroad and exports of products necessary in the home market, especially raw materials and food products. Strictly mercantilist policies were favoured primarily in Europe in one form or the other (Pawlak, 2011). However, trade regulation alone cannot ensure competitiveness, security and safety in agriculture

Historically, the answer is clear. No country has been able to develop and transform without raising productivity in its agricultural sector (if it had one to start—Singapore and Hong Kong are
exceptions). This is without protection or with protection. The process involved first the successful structural transformation of agriculture, through higher productivity, provides food, labour, and even savings to the process of urbanization and industrialization. A dynamic agriculture is a prerequisite which raised labour productivity in the rural economy, pulled up wages, and gradually eliminated the worst dimensions of absolute poverty and scale up the agriculture to be responsive to international economy. Somewhat paradoxically, the integration process has led to a decline in the relative importance of agriculture to the overall economy, as the industrial and service sectors grew even more rapidly, partly through stimulus from a modernizing agriculture and migration of rural workers to urban jobs. The role of protection is manifested in the process of development and growth.

A growing agricultural sector demands nonfarm production inputs, and supplies raw materials to transport, processing, and marketing firms. Likewise, increases in farm incomes lead to greater demand for consumer goods and services. It helps in stimulating national economic growth through uninterrupted supply of food, raw materials and consumption linkages (Hazell & Haggblade, 1993, p. 190). Thus protecting agriculture is very critical to bring balance in the economy which depends on stage of development agriculture us currently in.

Over long historical periods, agriculture’s role seems to evolve through four basic stages: the early “Mosher” stage when “getting agriculture moving” is the main policy objective (Mosher, 1966); the “Johnston-Mellor” stage when agriculture contributes to economic growth through a variety of linkages (Johnston and Mellor, 1961); the “T.W. Schultz” stage when rising agricultural incomes still fall behind those in a rapidly growing non-agricultural economy, inducing serious political tensions (Schultz, 1978); and the “D. Gale Johnson”
stage where labour and financial markets fully integrate the agricultural economy into the rest of the economy (Johnson, 1997; Gardner, 2002). Thus protection is critical since agriculture sector remains an important sector responsible in growth and poverty reduction. And any efforts to “skip” the early stages and jump directly to a modern industrial economy have generally been a disaster (Timmer C. P., 2002). To maintain the balance, subsidies and border measures become very important and contentious when addressing global agreements.

When analysing the agricultural trade negotiations at WTO, the academic literature concentrates on the difficulties of agreeing on the specific commitments to reduce agricultural support and protection (e.g. Moyer 1993; Paarlberg 1997; Josling et al. 1996; Swinbank and Tanner 1996; Patterson 1997; Meunier 2005). The problem of agriculture goes deeper than disputes over tariffs and subsidies differ fundamentally on the nature of agriculture.

Basically, the conflict over agriculture can be put down to the question of whether agriculture is a unique economic sector with special market and production conditions which deserves special treatment because it contributes to national goals, or whether it is an industry with market and production conditions which are not fundamentally different from those of other economic sectors. From the economic depression of the 1930s up until the 1980s, the ideational underpinning of agricultural policy in liberal democracies was characterized by the former view, which in the political science literature is also known as agricultural exceptionalism (Skogstad 1998: 467–70).

The concept of agricultural exceptionalism is often used to describe the special treatment of agriculture in the nation state specifically in the EU (Grant 1995; Skogstad 1998; Halpin 2005), and
applicable at the global level. It is an elite assumption, or idea, on the nature of agricultural production and markets. To some extent, this assumption, or idea, is supported by logical reasoning and evidence, such as theories on the farm income problem and the treadmill providing the intellectual underpinnings of agricultural exceptionalism. In simple words, the farming industry is different from most economic sectors in modern societies. First, farming is subject to unstable weather and market conditions, which are beyond the control of the individual farmer and in India it is referred to as the way of life. Climatic factors, and plant and animal diseases and pests, can have a marked impact on farm production, resulting in sharp fluctuations in market prices (because of the low price elasticity of demand for farm products) and potentially unstable farm incomes. Furthermore, farmers may collectively overreact to market price movements, with high prices following a harvest failure inducing farmers to increase their plantings for the next season, when prices collapse because of oversupply, etc. Second, it has often been argued that farm incomes could be chronically low (‘the farm income problem’) in a growing economy. Because of the low income elasticity of demand, there will be little increase in the demand for farm products as the economy grows. Consequently, farms have to get larger, and farmers and farm workers have to quit the land if income levels in the farm sector are to match those in the rest of the economy. In the context of developing countries the farm size are very low and very often are subsistence or family farm. However, if farm labour and other farming assets are ‘locked in’ to the sector, unable to exit and earn higher returns elsewhere in the economy, their income earning capacity may be depressed. Moreover, given that farming is characterized by many small farmers, each of whom is a price-taker, there is a ‘treadmill’ of competition as each farmer seeks to reduce costs by adopting new technologies, thereby fuelling oversupply which drives down market prices. Thus ‘the first rationale for treating agriculture as an exceptional sector is tied to the specific
interests and needs of farmers’ (Skogstad 1998: 468). The second defining feature of agricultural exceptionalism is that the farming sector ‘contributes to broader national interests and goals’ (Skogstad 1998: 468). A secure and safe food supply at stable and reasonable food prices are highly valued. In the agricultural exceptionalist view, unregulated markets will fail to deliver these valued objectives in food supply. The importance of food security to the world’s high-income developed economies decreased during the second half of the twentieth century as a result of changes in the technology of war, the globalization of food supply chains, the international acceptability of global currencies together with the purchasing power of high-income economies, and major productivity gains in agriculture and the food supply chain (Swinbank 1992). Food production increased and relative food prices decreased, so that food shortages, and high food prices, were no longer seen as an immediate risk for high-income consumers (and economies) though for developing and least developed countries it remains an accessibility issue. Further versions of agricultural exceptionalism have evolved that emphasized the public goods provided by the agricultural sector. These include care of farmed landscapes, maintenance of biodiversity, flood control, and the viability of rural communities that preserve the country’s cultural heritage.27 By the late 1990s, policy makers and analysts were referring to the multifunctionality of agriculture. The nature of agricultural production and markets, agricultural exceptionalism underwrites a distinct agricultural policy paradigm and thus legitimizes exceptional treatment of agriculture in terms of public policy (Skogstad 1998: 465–6). A policy paradigm ‘specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing’ (Hall 1993: 279). This distinct agricultural policy paradigm has been variously phrased, for example, the state-assisted paradigm (Coleman et al. 1997: 275), the dependent agriculture

27 Agriculture still contributes a big share in Global Green House Gas emission.
paradigm (Moyer and Josling 2002: 33), and the interventionist policy paradigm (Daugbjerg 1999: 418). Despite the lack of an agreed term, the definitions are strikingly similar, all emphasizing a distinct policy paradigm in which the price mechanism is seen as ‘a suboptimal means of achieving an efficient and productive agricultural sector’ (Coleman et al. 1997: 275). When the state-assisted paradigm underpins agricultural policy, governments intervene in agricultural markets to ensure farm incomes (Moyer and Josling 2002: 33). This dictates a crucial role for the state. Farm incomes (the policymakers hope) can be maintained or increased by a myriad of measures, used singularly or in combinations. They include revenue-increasing and cost-reducing measures, such as: establishing border protection (by the use of tariffs, variable import levies, import quotas, or quality regulations); restricting domestic supply, using quotas and planting restrictions for example, or giving farmers collective monopoly powers in the domestic market in the form of marketing boards; intervening to maintain domestic market prices, through intervention purchases, subsidies for the use of food products as animal feed, etc.; direct payments to producers: linked to production (e.g. deficiency payments), input use (e.g. area payments), location (e.g. in mountainous regions), or supposedly decoupled from production (e.g. the Single Payment Scheme introduced by the EU in 2003); export subsidies, either in explicit form, or for example, via the operation of state-trading enterprises; cost-reducing measures, such as subsidies on fertilizers, fuel, seeds, and irrigation water; and investment grants, sometimes in the form of subsidized credit, including payments for replanting vines, converting from conventional to organic production, etc. However, these measures need not necessarily increase and stabilize incomes because the increase in farm revenues brought about by these instruments, and input subsidies, will not be matched by a similar increase in farm incomes, as land (and other input) prices will rise, and more inputs such as fertilizers and fuel will be purchased as output expands. Moreover,
unless targeted at small farmers, and/or farms in disadvantaged regions, the benefits of such schemes are likely to be highly skewed, with a minority of farm businesses reaping the bulk of the benefits. Understandably, the beneficiaries are eager to see support continued. The state-assisted policy paradigm does not dictate a particular policy design, but leaves room for a variety of agricultural policies. For instance, the way the state-assisted policy paradigm was manifested in the original EU policy model was to support farm incomes indirectly through artificially high market prices, while the dominant model in the United States was direct payment schemes. The idea of agricultural exceptionalism also led to formation of exceptional political and administrative institutions in the agricultural policy sector. Special administrative bodies are also set up to administer agricultural policies and these often are integrated farm associations in the policy administration, forming close networks consisting of agricultural civil servants and group officials. In India the states have a different department with special team at the state level to look into farming system. Specific boards like the Spice, Rubber and Coffee Boards, etc. existing help in providing the support. In the US and the EU the policy process is characterized by a corporatist policy style. In some cases, the responsibility for implementing agricultural policy was delegated to farm associations, in particular in the dairy sector. While agricultural support and protection measures benefited farmers, landowners, and other businesses associated with farm production, they also brought about economic welfare losses for society as a whole. The measures prevent food from being grown where it could be produced most efficiently, which means that the economy is not as productive as it could be, and impose costs on consumers (who pay excessively high prices for food) and taxpayers. Agricultural policies also distort trade, to the disadvantage of competitive suppliers elsewhere, including many developing countries which cannot afford to provide the same level of support to their farmers. High tariffs prevent them from exporting
commodities, in which many have a comparative advantage, to the highly protected markets in developed countries. For instance, cane sugar, which can be produced in many developing countries with a tropical climate, can easily compete with sugar produced from beets grown in the temperate climate of the EU. However, an EU tariff on sugar is in excess of 200 per cent prevents overseas producers of cane sugar from competing with sugar produced within the EU, apart from a select group of developing countries from the ACP (African, Caribbean, and Pacific States) that had privileged access to the EU's market. Agricultural exceptionalism has been institutionally embedded in GATT since 1947. The fundamental idea underpinning GATT 1947 is that of market liberalism and free (or, at least, freer) trade. The overarching ideational foundation of the GATT was based on comparative advantage. GATT's Preface had declared that the objectives of its Contracting Parties were those of ‘raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods’. To this end they agreed to enter ‘into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce’. The overall aim was to allow producers with a comparative advantage to expand their market share, giving consumers access to a wider range of more competitively priced products. Though appealing from an economic perspective, the smooth transformation to such a situation can prove difficult, because it puts severe pressure on industries that had previously benefited from protection. In particular, agriculture proved to be one of the main sectors of many economies that strongly resisted free trade. Thus, agriculture was given exceptional treatment in GATT. Articles XI and XVI meant that agriculture was shielded from the full force of rules regarding the use of quantitative import restrictions, and export subsidies. Thus, the farming industry has
had exceptional treatment in the international trade rules in force since 1947, mirroring the domestic agricultural policies in many of GATT’s Contracting Parties, including the United States and the European countries which a decade later formed the European Economic Community (now the EU). Agricultural exceptionalism in the GATT implied that international trade rules played only a minor role in shaping the CAP or the Farm bill of EU and US, respectively.

**Trade Adjustments as safety systems**

In pursuance of international trade the states are forced to face competing industries. There will always be industries in which foreign competitors are more efficient than domestic producers. When import barriers on the products of those industries are lowered, the foreign producers will be able to attract domestic consumers with lower prices. Domestic import competing firms in those markets will face downward pressures on sales and profits, which in turn can lead to pressure for lower wages, job losses and perhaps even company closures. Lower wages and/or job losses, and the prospects of lower returns to capital, will cause workers and capital to leave in order to find employment in other parts of the economy. This is very likely to include the country’s export industries, especially if the trade liberalization is the kind of reciprocal liberalization that occurs in a multilateral round such as the recently launched Doha negotiations. Provided the country is pursuing sound economic policies, other parts of the economy are also likely to be expanding, as consumers—who are benefiting from lower prices due to the trade liberalization—expand their purchases of a range of other goods and services.

Sometimes transitions from the previous employment to the new employment take place relatively smoothly, as happens when a booming export sector “pulls” workers and capital away from domestic import competing firms. Unfortunately, this is not always
the case. When it is not, workers incur adjustment costs in the form of periods of unemployment, along with moving expenses and/or retraining costs to obtain new skills. Entrepreneurs and shareholders in the declining import competing firms are also likely to suffer adjustment costs in the form of declines in capital values.

Trade liberalization, however, will lead at the same time to two basic types of gains for the economy. Consumers gain from the lower prices (and increased quality and variety) that come with trade liberalization. In addition, the adjustment process described above will bring efficiency gains, as increased international specialization allows factors of production to shift into activities in which the country is relatively more productive (that is, in line with its comparative advantage). Trade liberalization brings even more gains when companies can exploit economies of scale and when trade boosts the country’s growth rate (for example, by increasing the inflow of new technologies). Although the economy may be worse off in the short run, the gains from trade will outweigh short-run adjustment costs in the medium to long term provided the markets are perfect. The uncertainty in the international global system and the supply and finance together sometimes makes it very risky.

Even though trade liberalization brings net gains to the economy, this does not imply that the economy is immediately better off. It may well be that for a period of time following the liberalisation; the economy is worse off than without liberalization. In this case the adjustment costs are an investment the country makes in order to reap future “profits” in the form of higher incomes.

The shortfall like the fall in employment, credit requirements State Governments can identify individuals and groups that may suffer from the adjustment process and they can also develop policies to alleviate the burden falling on those adversely affected. The burden
of adjustment costs will fall most heavily on production factors employed in import competing industries. These losses can be substantial for certain workers and companies. Private savings or social safety nets will help workers concerned to get through periods of low or zero income. It is important that such buffers exist, as their absence may seriously hamper the economy’s adjustment process. In other words, assistance during adjustment periods can be justified on efficiency grounds. If policy makers want to intervene to compensate those who lose from trade liberalization, then policy needs to be designed differently depending on whether they are directed towards short-run (adjustment) losses or long-run losses. In the first case, policies should provide only temporary assistance as they are meant to serve as a buffer during a transition period. In the second case, only policies of a more permanent character (e.g. redistributive tax systems) can serve the purpose. While intervention in the adjustment process may make sense sometimes on efficiency grounds, it is mainly equity considerations that would drive governments to address the long-run distributive effects of trade reform. Governments can adopt policies that influence the size of adjustment costs faced by the economy. Domestic markets exert an important influence on the size of adjustment costs faced by workers and/or companies. The same is true of domestic institutions to the extent they affect the functioning of markets. To a certain degree, therefore, policy makers can influence the size of adjustment costs an economy faces as a consequence of trade liberalization, which in turn may allow a government to go further and faster in reaping the gains from trade.

Safety net is a prerequisite, with the presence of an important well-functioning credit and labour markets for the adjustment process. Displaced workers will be aided if they can acquire funding to endure periods of low or zero income. Enterprises may be required to undertake significant investments in order to adjust. In both cases
credit markets play an important role in facilitating adjustment, and many developing countries are likely to be at a disadvantage on account of poor credit coverage and delivery.

Domestic labour market conditions help to determine costs to workers of leaving an employer and searching for a new job. Labour market conditions also affect companies’ incentives to create jobs, which in turn affects the duration of unemployment spells during an adjustment episode. The functioning of the labour market also influences the level of political resistance to trade reform. Apart from ensuring an effective labour market, governments may also have an important role to play in supplying information on jobs, wages and so forth.

The quality of a country's infrastructure and utilities also influences the adjustment process. This is particularly the case for firms, where higher transaction, information and communication costs are likely to have a negative impact on producer responses to trade reform.

Adjustment costs can be reduced if preparedness exists and there is certainty in the policy framework. Workers and firms will adjust more effectively and with less delay to trade reforms if they are convinced that the reforms will not be reversed.

The pace of trade reforms has had a beneficial impact on adjustment costs. Delayed implementation periods for trade policy changes may give firms with the potential to adapt to a new competitive environment the necessary time to finance adjustment costs internally through accumulated profits. Longer implementation periods for developing countries are justified on the grounds of higher adjustment costs for companies and poorly functioning credit markets in these countries. But additional time alone may not be sufficient in all cases. Low income workers, for example, will not be
able to use additional time to accumulate savings from their income. For this reason, the study argues that delayed implementation periods for trade reform are not necessarily a substitute for social safety nets. The implementation of trade reforms at a gradual pace may lessen political opposition to change, but the risk of undermining reforms by adopting them too slowly must also be borne in mind. A gradual approach to policy changes may be adopted to spread adjustment costs over time, so mitigating political opposition to trade reform. Gradual liberalization too had smooth transition. Earlier experience indicate that if trade liberalization are highly concentrated in certain regions the adjustment costs are high and have strong repercussions in the country as a whole. On the other hand, if reforms are carried out too slowly or are not sufficiently well defined in advance, gradualism could undermine the integrity of intended reforms.

In many cases effective adjustment to trade liberalization required the expansion of a country’s export sector and this may be an argument for pro-export policies. If effective adjustment is aided by growth in export markets and export expansion occurs too slowly or fails to materialize, the process of change may be seriously hampered. Since the adjustment is gradual even the use of export promotion schemes can be defended on economic efficiency grounds. WTO agreements seek to provide space for governments to tackle adjustment problems. In practice, multilateral trade liberalization is by its very nature a gradual process that takes into account difficulties related to adjustment. Multilaterally agreed trade rules and disciplines also offer countries several safety nets that can be used to address adjustment problems. Most WTO Agreements contain more or less explicit provisions aimed at facilitating their adoption. In particular, they often specify phased-in implementation periods. Implementation periods tend to differ among agreements and
groups of countries, with developing and least-developed countries usually being granted longer implementation periods.

“Safeguard” provisions in WTO agreements offer Members the possibility to react ex post to problems caused by unforeseen import surges. The existing trade policy through the WTO agreements tended to focus on restructuring industries hurt by import competition, rather than on the reallocation of resources released by the contraction of import competing sectors. The state can resort to anti-dumping remedies rather than safeguard remedies when seeking temporary relief for adjustment purposes.

**Safety Nets and International Trade**

Safety nets are “formal and informal mechanisms that protect people against the adverse outcomes of poverty. The social policy aspect of safety nets is concerned primarily with formal programs meant to provide or substitute for income. These include cash and in-kind transfer programs, subsidies, and labour-intensive public works programs, among others. Also included are mechanisms to ensure access to essential public services, mid-day meals, such as school fellowship or scholarships and fee waivers for health care services or for heating in cold climates. These instruments are usually intended to benefit individuals and households who are chronically unable to work, as well as those who experience sudden, transitory declines in their purchasing power (Subbarao, et al., 1997).

Haddad and Zeller (1996) had distinguished between the “social assistance” and the “social insurance” functions of safety net programs. Safety nets with an assistance function seek to increase the livelihoods of those who lack resources by relieving deprivation, whether or not they are designed to have a long-term impact on physical, human, or social capital and, thus, on development. By contrast, safety nets with an insurance function aim to protect people
against risks by guaranteeing that the status quo will be retained (or regained) in the event of a shock. One economic rationale for safety net spending, which is empirically difficult to confirm, is that minimizing household and individual risk will increase national production and investment by enabling households to maximize (increase) rather than stabilize (insure) their average income (Alderman and Paxson, 1992 and Bardhan and Udry, 1999).

The most widely used are the food safety nets represent a subset of possible safety net programs. They are designed to ensure livelihoods (for example, through the provision of public works employment paid in food), increase purchasing power (through the provision of food stamps, coupons, or vouchers), and relieve deprivation (through the direct provision of food to households or individuals). They differ from cash-based programs—public employment or cash transfers—in that they are tied to food as a resource. All have in common the fact that they increase the household’s real income but in the form of food or cash-equivalents associated with food. The degree to which the food provided in food-based safety nets is convertible to cash depends on the design of the program. In all cases, the possibility that households may substitute food received for food already being consumed or may sell the food that they receive means that these programs increase their real income. However, they vary in the extent to which they are tightly tied to food and to specific nutritional objectives; for example, food stamps function like cash in the market and are similar to cash transfers, while food provided directly to individuals in school or health care settings is less fungible.

The main goal of the safety net program is simply to transfer purchasing power (that is, income), providing food is quite inefficient because of the complicated logistics involved in managing the distribution of bulk commodities. Distributing food free of charge (as
a transfer) may also distort local food markets. Food stamps are less costly than food to store and transport, but they entail the costs involved in printing, distributing, and redeeming what is essentially a parallel currency, and they distort the market, intentionally, by limiting the use of the transfer to food. Providing cash is probably the most efficient way of delivering an income increase to a household, if that is the sole objective, since providing food in a safety net program involves not only logistical costs but also the risk of distorting the market. There are, however, legitimate reasons for adopting food or food-linked benefits such as food stamps for use in a safety net program. Food may be used in a safety net program because it is available from international donors when cash is not, because it may in some circumstances be self-targeted to needy households, and because food, but not cash, may fall under the control of women in the household, with possible benefits for children’s health and nutrition. If a safety net program is to be tied to food, program designers should carefully consider whether to choose a food-based or a cash-based program.

Food-based safety net programs vary in terms of how much choice is given to the beneficiary. Cash transfers, of course, allow recipients to purchase anything they wish, thus maximizing consumer choice. Food stamps can either be restricted only to food, though allowing complete free choice as to the kind of food purchased, or they can be restricted only to particular foods, thus restricting consumer choice. At the other extreme, direct provision of food limits the consumer’s immediate choice (either to accept the food offered or to refuse it), yet the consumer may still sell the food received or choose to substitute one commodity for another.

Many of the food-based safety nets in place in developing countries were instituted as a temporary response to a short-term crisis, such as the economic shock of structural adjustment
measures, yet they have remained in place as a result of permanent structural change (Vivian, 1994). For example, safety net programs have been created in direct response to devaluation, hyperinflation, or cuts in public social spending that threatened to have adverse social and political effects. Other safety nets were reformed during structural adjustment to supplant social policies that were considered economically unsustainable, such as Sri Lanka’s replacement of untargeted consumer food price subsidies with a targeted food stamp program (which has since been replaced with a program of cash transfers and consumer subsidies). Safety net programs of any kind, including those that are food-based, are highly visible and, if they provide significant benefits, popular as well. This makes them difficult to remove once an emergency situation is over.

Any safety net program are designed to include mechanisms for determining when the need no longer exists, whether at the national level or at the level of the beneficiary household, when food availability returns to normal after a famine or when a household becomes economically secure. However, social safety nets are not only needed after transitory shocks. Even when an acute situation is resolved, there will continue to be vulnerable households in need of social support. Safety nets need to be seen as a permanent, planned means of assisting the chronic or transitory poor population that exists in any country. A safety net program can, therefore, also be a long-term public sector intervention, although flexibility is of course needed to allow the program to expand and contract according to the level of need and to be capable of responding to economic crises (Ferreira, Prennusht, & Ravallion, 1999).

US Trade Safety Nets

Since international trade has negative consequences of increased competition from abroad – unemployment and income loss – tend to be highly concentrated by industry, by location and according
to worker characteristics. For example, increased steel imports throughout the 1970s and 1980s helped hold down steel prices and encouraged US steel producers to become more productive. On the other hand, increased competition from abroad caused tens of thousands of job losses like in US steel industry workers to lose their jobs and experienced severe income losses. These losses were highly concentrated in the “rust belt” states of Michigan, Ohio, Pennsylvania and West Virginia and the workers who lost their jobs tended to be older and less educated (Rosen, 2003).

It was found that United States does not have a coherent strategy for dealing with dislocated workers and economically distressed communities. Instead, federal and state governments have developed a combination of the following small programs, primarily aimed at compensating individuals for their job and income losses.

Unemployment Insurance (UI) provided income support for unemployed workers for up to 26 weeks. Unemployment payments currently average less than $200 per week, approximately one-third of average weekly earnings for all salaried workers. Payments can be extended during times of recession under certain circumstances. In recent years, only one-third of unemployed workers have actually received UI benefits. The program is administered by the states and financed through a federal payroll tax.

Job Training Partnership Act (JTPA), which has since been incorporated into the Workforce Investment Act (WIA), allocates funds to the states to provide training and some income maintenance benefits for dislocated workers, regardless of cause of job separation. Since the total amount of funds appropriated for this program is so small, JTPA/WIA benefits tend to be concentrated on providing training, with no or little funds remaining for supplemental income support payments.
Economic Dislocation Worker Adjustment Assistance Act (EDWAA) requires firms to give workers advanced notice of any plant closing and attempts to coordinate some dislocated worker programs.

Trade Adjustment Assistance (TAA) was established in 1962 to provide assistance to those workers whose job loss could be traced to increased import competition. There have been several changes in the program since its establishment the latest were in 2002. Workers whose job loss are attributed to increased imports or shifts in production are eligible for income maintenance and training funds for 78 weeks (after UI benefits expire), job search and relocation assistance. Workers must be enrolled in training in order to receive income support.

Growing import exposure spurs a substantial increase in transfer payments to individuals and households in the form of unemployment insurance benefits, disability benefits, income support payments, and in-kind medical benefits. These transfer payments are two orders of magnitude larger than the corresponding rise in Trade Adjustment Assistance benefits. Nevertheless, transfers fall far short of offsetting the large decline in average household incomes found in local labour markets that are most heavily exposed to China trade. The estimates imply that the losses in economic efficiency from trade-induced increases in the usage of public benefits are, in the medium run, of the same order of magnitude as U.S. consumer gains from trade with China.

According to Economist Mr Konczal, … "The gains from trade with China are between $32 and $61 per person. The deadweight losses are estimated at $52 from the transfer mechanisms in place. This is a very provocative framing and numerical analysis. One conclusion is that since the consequences of trade are very real, and the frictions involved in adjusting in the short and medium term are
serious, the government needs to back a free trade regime with serious employment subsidies and mechanisms for coping with the consequences of trade.” (Economist, 2011)

America had a relatively good system for dealing with displaced workers. But the shallowness of its recessions and the rapidity with which employment has reduced the effectiveness of the programme to spring back led to complacency and neglect of these institutions. In Europe, by contrast, governments responded to persistent high unemployment with a wave of labour market reforms and investments in retraining and other measures to return workers to the labour force. Recent jobless recoveries have therefore left the American economy with a declining participation rate, while Europe has done better.

Federally funded transfer programs, such as Social Security Disability Insurance (SSDI), implicitly insure U.S. workers against trade-related employment shocks. Import exposure also predicts a large but imprecisely measured increase in benefits from Trade Adjustment Assistance (TAA), which is the primary federal program that provides financial support to workers who lose their jobs as a result of foreign trade. However, TAA grants are temporary, whereas most workers who take-up disability receive SSDI benefits until retirement or death (Autor & Duggan, 2006). For regions affected by Chinese imports, the estimated dollar increase in per capita SSDI payments is more than forty times as large as the estimated dollar increase in TAA payments.

And because so much of the gains from trade with China are being offset, the popular support for trade openness with China is low and falling. The sentiment is leading to a more hostile American approach to China, and the potential costs of that development go way beyond the net benefits from trade. It really is remarkable how far off the radar these issues seem to be given the present state of the
American labour market and better trade safety nets are needed. (Economist, 2011)

Most safety nets are often seen as short-term palliatives or, worse, wastes of scarce money in developing economies. Critics point to leakages of benefits to non-targeted groups (i.e., the non-poor) or the policies’ potential adverse effects on the incentives to work or save. Even supporters of social safety nets often view their benefits solely in terms of equity. These policies are rarely seen as an integral part of a strategy for fostering economic growth and poverty reduction. Indeed, many observers have argued that there are significant trade-offs between spending public money on such programs and long-term poverty reduction.

Since the safety nets is specifically targeted for only specific problems like prices reduction or unemployment for few months or food inadequacy for the period. These social safety nets make workers more efficient, they increase the potential output and growth rates of an economy. Many social protection are comprehensive and become very general and are criticised for their inefficiency. The instance of safety nets like food inadequacy on account of food shortage because of exports can lead to malnourishment malnourished worker is very unlikely to be an efficient worker. At one extreme, workers receiving less than the food-energy required to support bodily functions at rest simply cannot be productive. But even less severe nutritional deprivation can impede productivity. Malnutrition in children reduces their long-term capacity to learn and hence their ability to earn future incomes. Social safety net programs that prevent workers and their families from falling below this nutritional ‘threshold’ contribute to higher potential output. With little or no capital, the marginal product of additional capital can be quite high. Credit-market failures, however, mean that some people are not able to exploit their potential. Programs that reduce the incidence of poverty and programs that
support productive saving amongst the poor may, again, raise the potential output of the economy. The safety nets specific area targeted since poverty can have a geographic dimension poor household in a well-endowed area has a good chance to escape poverty eventually, whereas an identical household in a poor area is likely to see stagnation or decline. Policies that redress geographic inequalities may permit capital and labor in the poor region to be more productive and so stimulate pro-poor growth.

Higher poverty and inequality can lead to higher crime rates (which surely hurt aggregate efficiency in an economy) inequality reducing safety nets can contribute to an economy’s potential by reducing the costs associated with crime. There is some statistical evidence to buttress these arguments. Studies of economic growth across many countries reveal that economies with higher initial inequality tend to experience lower rates of growth, when allowance is made for such factors as initial income, openness to trade and the rate of inflation. Indeed, one analysis found that a fifth of the developing economies it studied had such high inequality that it stifled pro-poor growth. There are statistical difficulties with such macroeconomic evidence, however. Somewhat stronger support for the argument of equity-in-support-of growth comes from some microeconomic analyses. Diverse examinations of initial inequalities in land-holdings, income, wealth and nutrition point to a negative impact of inequality on economic potential and output growth.

The safety nets envisage targeting and efficient redistributions. The common focus on static measures of transfers—e.g., what share of the benefit goes to the poor—may overlook the dynamic benefits of such interventions. This broader view also holds implications for the design of the targeting mechanisms of social safety nets. Moreover, establishing that inequality and uninsured risk may be harmful to economic growth does not prove that any policy reducing inequality or
uninsured risk will contribute to growth. Any such intervention that distorts external trade or the domestic economy would have ambiguous impacts on long-term poverty. The best role for policy may, in fact, not be to reduce current inequality but to attenuate its adverse impacts.

Since most of the safety nets are targeting mechanisms that may contribute not just short term adversities but focussed more to long-term efficiency (and pro-poor growth). Targeting poor areas or minority ethnic groups—that would otherwise be locked out of economic opportunities—addresses an obvious market failure. It might have a greater impact on long-term poverty reduction and help economy bounce back if setbacks and poverty increases for short period. Since most of the trade instability follows a cycle and for a particular period they can be easily over by safety net systems. Like conditional transfers—i.e., transfers that combine targeting with explicit attempts to enhance capital accumulation by the poor—by their nature are not intended simply to address current income shortfalls, but aim to facilitate longer-term poverty reduction. Mexico’s Progresa and Bangladesh’s Food For Education programs are examples with evidence of success in both reducing current poverty and promoting schooling and (hence) lower future poverty. Self-targeting transfers—e.g., workfare—can be designed in ways that also facilitate longer-term poverty reduction, such as by assuring that the work is done in poor neighbourhoods, which are typically in great need for investment and maintenance of local public goods. Successful programs such as Argentina’s Trabajar Program have emphasized both current income gains and making the work productive. Even the current Mahatma Gandhi Rural Employment Guarantee Scheme can work as an effective safety net during time of off-season when trade is very low or when the market arrival is very high depressing the prices and the wages. Thus theoretically evidence suggests that there is tremendous scope for policies to alleviate current poverty and
uninsured risk and, at the same, to enhance economic efficiency. There have been a number of successful transfer schemes. However, in drawing implications for future policies, targeted transfers may not dominate other options, such as fostering new institutions for credit provision, better enforcement of property rights, and supply-side interventions in schooling and healthcare. Theory and evidence suggest that the trading involves considerable risk social safety nets enhance growth potential and emphasize careful design and evaluation to ensure that that potential is realized.

However, safety nets have been criticised for their burden on the taxpayers since the gains from the consumption is sacrificed at the cost of the trade safety nets but their necessity bores from the dependence of the farm sector on the long term stability of the agricultural sector.

**International Commodity Agreements**

Even though trade agreements played a critical role in the market politics of the state, another important element especially connecting the agricultural sector during the neo-liberal phase is the international Commodity Agreements (ICA). These institutions like other multilateral organisation had a key role to provide safety nets to agricultural commodity both from the producer and consumer perspective.

International commodity agreements (ICAs) had the economic provisions of price banding and stockholding or supply control obligations globally and were established in the post Second World War period with the declared objective of stabilising international commodity prices.

The term “international commodity agreement” (ICA) referred to a treaty agreement between governments of both producing and
consuming countries to regulate the terms of international trade in a specified commodity. There have been six ICAs which have had “economic” (i.e. interventionist) clauses: the International Cocoa Agreements (ICCAs), the International Coffee Agreements (ICOAs), the International Natural Rubber Agreements (INRAs), the International Sugar Agreements (ISAs), the International Tin Agreements (ITAs) and the International Wheat Agreements (IWAs). There is also a large number of “study group” style agreements whose functions are information collection and dissemination, market promotion and, in certain cases, fostering research and development. With the ending of international commodity control, where they have survived, the previously active agreements have taken on this form.

Primary commodity markets have been subjected to governmental intervention at least as far back as the nineteen thirties. The first IWA was concluded in 1933 as a response to low wheat prices during the Great Depression. At the end of the Second World War, there was a widespread expectation across the range of primary markets that excess production would result in low prices. The immediate post-war discussion of commodity matters aimed at avoidance of a market failure. The unratified 1948 Havana Charter, which would have set up the International Trade Organisation as the third pillar of Bretton Woods, included measures aimed at the alleviation of situations of “burdensome surplus” (Rowe, 1965). For the most part, it was envisaged that this would be accomplished primarily through supply regulation, typically export controls. In the absence of the institutional structures which the Havana Charter aimed to create, interested governments negotiated free-standing agreements of which the 1949 International Wheat Agreement and the 1954 International Sugar Agreement and International Tin Agreement were the first. Both the ISA and the ITA primarily on supply management - the ISA entirely, so while the ITA also utilised a buffer stock, the initial purpose of which was seen as supporting the price over the period in
which export restrictions took effect (see Fox, 1974). These two agreements continued an interventionist tradition inherited from interwar colonial administrations. The 1949 IWA followed a different approach based on the concept of a multilateral contract (International Wheat Council, 1993). Wheat and sugar were both produced in developed as well as developing economies. In the immediate post-war period, the major wheat exporters were Argentina, Australia, Canada and the United States. The ICAs negotiated during the 1960s related to tropical export commodities with the result that the exporters were developing countries and consumers were developed economies. This equation coloured future developments. At the time of the negotiation of the first ICOA (International Coffee Agreement) in 1962, coffee was predominantly a Latin American commodity (Brazil and Colombia were the largest exporters), although production was already expanding in Africa. The Instituto Brasileiro do Cafe (IBC) was responsible for Brazilian coffee policy and had favoured supply management for many decades, but the Colombians had resisted this, preferring to expand production under unfettered conditions. However, as coffee consolidated in Colombia, the coffee-growing regions came to look for higher prices rather than increased output (Bates, 1997). The ICOA was modelled on the ISA as a pure export control agreement. The United States remained the single largest coffee consuming nation. The crucial element which allowed the ICOA to come into existence was the willingness of the US government to agree to export controls. This was the period immediately following the socialist revolution in Cuba, and it is often supposed that the United States saw the advantage of higher coffee prices for Latin American exporters as outweighing the disadvantages arising from a controlled market. Bates (1997) argues that the highly concentrated US coffee roasting industry was more concerned with reliability and security of supply than with price and may have seen acceptance of supply controls as an tolerable price for supply security. Cocoa is largely West African, although there is significant production for export in south-east Asia. (Latin America
now produces largely for domestic consumption). Many of the West African cocoa producers are also coffee producers, and West African cocoa had inherited a tradition of state-controlled marketing from the British and French colonial administrations. In this context, it was natural that the cocoa producers would seek an agreement similar to that negotiated in coffee. However, the US government declined to join the 1972 ICCA, perhaps seeing West Africa as less important for US interests than Latin America. The ICCA differed from the ICOA in that its primary instrument was the buffer stock, with export controls playing a supplementary role. With the 1964 foundation of the United Nations Conference on Trade and Development (UNCTAD), ICAs moved into a more highly politicised environment. Existing ICAs came under the auspices of UNCTAD, which also sought, from 1976, to stimulate the negotiation of new agreements as part of the Integrated Programme for Commodities (IPC) in connection with the so-called New International Economic Order (NIEO). The NIEO was intended to set up what its proponents viewed as a more equitable system of trading relations between the developed and the developing world. The IPC was endorsed by the United Nations General Assembly in 1974. Its most explicit statement is in UNCTAD Resolution 93(IV) which sought the stabilisation of commodity prices around levels which would be “remunerative and just to producers and equitable to consumers” (UNCTAD, 1976). UNCTAD produced a list of ten “core” commodities in which it hoped to see ICAs but developed country governments argued for a commodity by commodity approach to negotiation (Gilbert, 2011).

Brown (1980) gave an account of the UNCTAD negotiations. There was a proposal of buffer stock intervention, which developed countries remained suspicious since there main intention as a producer country government was interested in raising the prices and

---

28 Cocoa, coffee, copper, cotton, jute, rubber, sisal (later extended to all hard fibres), sugar, tea and tin. Note the absence of grains.
not reducing the variability of prices. The INRA was the only new agreement to emerge from this long process which had huge implication on India (Brown, 1980).

The tropical export crops ICAs emerged against a background in which colonial governments had historically regulated commerce and the subsequent UNCTAD push for more widespread agreements took place in a context in which many developing country governments hoped to re-establish political regulation of international markets. In sugar and wheat, the ICSAs were negotiated against a background in which international commerce had been largely on an intergovernmental basis. The initial motivation was the avoidance of excess supply and low prices and, in the case of wheat, food security.

Subsequently, developing country governments pushed for “remunerative and just prices”, a phrase widely interpreted by consumer country governments as suggesting above-market prices. Volatility reduction featured more prominently in the rhetoric of negotiation than in actual practice.

The principal instruments used by ICAs have been supply management through export controls and buffer stock intervention. The ICOA and ISA both relied entirely on supply management while the INRA only used a buffer stock. The ICCA and ITA employed both instruments. In the first ITAs, the buffer stock was seen as a supplement to export controls but in later ITAs it assumed the major role. In the ICCA, the buffer stock was always more important than the export controls. The initial (1933) IWA was based on export controls but these were ineffective and absent from subsequent IWAs. Gilbert (1989) discussed the detailed intervention procedures.

Supply management presupposes the ability of government to control either production or exports. In agriculture, production is typically undertaken by a large number of relatively small producers,
and the same was also true of most tin production. Governments can attempt to control production through quotas (livestock and dairy products); acreage controls (crops) or dredger capacity (alluvial metals) although yield variability can translate into substantial output variability for crop commodities. For export crops, governments found it more effective to regulate exports than production. In the cocoa, coffee and sugar agreements, these controls were often implemented through monopsony-monopoly marketing boards (a feature of many ex-British colonies) or caisses de stabilisation (standard in many ex-French colonies). With exports constrained and little domestic consumption, export controls forced producing countries to accumulate excess production. When ICOA export controls were finally lifted in 1989, producer country inventories were released onto the world market resulting in depressed prices over the following five years (Gilbert, 1996). To that extent, the difference between stabilisation via export controls and via a buffer stock lies in who holds the stocks and at whose cost. In export control agreements, the incidence of the costs of stabilisation is on producers and producer governments which have the incentive to reduce future production. Instead, with buffer stock stabilisation, producer and producer governments had little incentive to reduce production.

The commodities debate became increasingly politicised through the latter half of the nineteen seventies and into the eighties. Many developed country governments viewed price stabilisation as a costly diversion of funds from more pressing development objectives. Some suspected that a number of commodity exporting countries wished to substitute an inefficient socialist-style “planned” commodity economy which would result in an unfavourable shift in the terms of trade against the developed countries. Industry groups saw the continuing UNCTAD negotiations as driven by political rather than commercial concerns. Consequently, the ICA movement went into reverse.
The ISAs had never managed to overcome the problems caused by the United States 1962 decision to deny access to Cuba, then the largest sugar-exporting country, to the US market, and by the substantial growth in sugar production in the European Union. The fourth ISA terminated in 1984 and was replaced by an agreement which did not contain market intervention clauses (Gilbert, 1987).

The IWAs failed to achieve mechanisms for updating contractual price floors and ceilings in the face of market turbulence which commenced in 1968 and became acute in the 1970s. Implicit in this was the absence of incentives in the agreements to ensure continued adherence to the agreements in altered market circumstances.

The ICCA allowed the possibility of market intervention through unspecified production management measures, but no longer through the buffer stock. However, the ICCAs never had either the finance or the country coverage to be able to have more than a small effect on the cocoa market (Gilbert 1987, 1996). The ITA broke down spectacularly on United Nations Day (24 October) 1985 as the result of attempting to defend an unrealistic floor price with insufficient finance (Anderson & Gilbert, 1998). The ICOA effectively abandoned supply management ambitions on (US) Independence Day (4 July) 1989. In the post-Cold War period, the United States no longer saw a need to provide surreptitious financial support for its Latin American coffee-producing allies, and Brazil, now the second largest coffee consumer as well as the largest producer, had mixed motives. Intervention under the INRA staggered on until 1999, a year prior to formal termination of the agreement, when first Malaysia and then Sri Lanka and Thailand gave notice of withdrawal. These actions were in part motivated by the perception that, because of adjustment of the price bands, the INRA offered too little stabilisation. This effectively terminated the agreement and hence also the ICA movement.
There is no single reason for the breakdown or lapse of the commodity agreements. The cocoa and sugar agreements lapsed because they were ineffective. The tin agreement collapsed because it was attempting to hold the price at too high a level with too little finance to do this. This was the single case which corresponds to the widespread view that ICAs attempt to stand Canute-like against the incoming market tide, but it is important also to recall that the ITA was effective for the first twenty-five years of its existence. More interesting are the cases of coffee and natural rubber where the agreements lapsed rather than collapsed. In the case of coffee, this was because the agreement lost support from consumers and to some extent also from producers (Gilbert, 1996). The case of rubber is more complicated and is relevant to some current policy discussions. The INRA provisions required that the stabilisation band would be automatically updated in relation to a moving average of past prices. Nevertheless, updating remained controversial when this implied downward revision of the floor price (Gilbert, 1996). In the end, stabilisation lapsed as producing country governments saw little benefit from continued price smoothing. These changes in support took place in the context in which the markets for tropical export commodities were being liberalised and in which domestic stabilisation agencies – marketing boards and *caisses de stabilisation* – were being dismantled or forced to accept reduced powers (Akiyama, Baffes, Larson, & Varangis, 2001). The private sector was becoming more important and government involvement in agriculture was diminishing. Governments had both less power than previously to control supplies, and also 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.