Trade Safety Nets and Agricultural Production System in International Agreements with special Reference to Kerala

Introduction

Mercantilism and increased trade prosperity became the main stream of global thought helping people and communities to increase their state power.[1] With the evolution of economic liberalism and dominance of Adam Smith ideology economic market place became the main source of progress, cooperation and prosperity. The doctrine that 'free trade and specialization will increase countries wealth and individual welfare' became the dominant ideology (Gilpin, 1987). Trade was referred to as a powerful catalyst to human development and if right conditions are provided, international trade could generate powerful impetus for accelerated progress towards MDGs (UNDP, 2005). Trade was even the means by which dominant theoretical approach of realism was replaced by the concept of neoliberalism wherein countries and people were able to create common values reducing chances of war and conflict (Duetsch, 1957). The wave of liberalism strengthened globalisation. New organisations like the World Trade Organisation (WTO) became the main actors in the global political economy (Jackson & Sorensen, 2008). However, increased prosperity coexisting with abject poverty among third world countries made the political scientists to emphasise on the international society approach and greater role of non-state actors. They stressed on the neo-Marxian dependency theory (Hettne, 1995). The growing inequity was indicative that the existing trade agreements and the present trade flow are neither free nor fair. The reason was attributed on three accounts: one, the rules were framed without proper assessment at the ground level; second, the gains were not properly distributed throughout the domestic economy; and third, the rural economies were unable to adjust to the transitions and surge in imports. The mercantilist mantra of zero-sum-game was fanning discontentment and disillusionment.[2] Now economies like the US[3] are facing severe challenges from China and trade no longer seems to be advantageous since transfer payments as part of trade adjustment schemes exceed the gains to the consumer. There is a growing sentiment in US that unfettered trade is not sustainable. Better safety nets are needed to assuage the

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1 Spain Benefited from the supply of gold and silver bullion from the Americas, their call for bullion as the main road to national wealth; Netherlands emerged as the leading country in Europe mainly because of overseas trading empire and trade surplus as the road to prosperity.

2 Linu Mathew Philip and Ashutosh Kumar Tripathi (2006) 'Aiding development through Trade Safety Net' Trading Up Volume 2 Issue 4 Oct - Dec 2006http://www.centad.org/download/Oct-Dec_3-4.pdf

3 The Dominant Hegemon strongly advocating for greater openness

immiserisation and policy makers fear strong domestic hostility against Chinese goods (Economist, 2011).

The Stolper-Samuelson theorem says that the developing nations tend to export labour-intensive products. Consequently, in the post-WTO world the comparative cost advantage of developing nations in labour intensive goods will enable them to export agricultural products to the markets of developed nations and help the poor nations reduce poverty. However, considering the robust economic growth in developing courtiers like India and China due to liberalisation, the developed nations are likely to strengthen their protectionist responses (Deordorff, 2001). Deardorff using the Heckscher-Ohlin model says that imports from developing countries would reduce the real wage of labour factors in the labour-intensive sector of the developed country and they would restrict market access to developing countries. Besides, the heavy subsidies given by the developed nations like US and EU aggravates the situation of the labour class in the third world further, because in the protectionist world of agriculture, competition is not determined by comparative advantage, but by the comparative access to subsidies.[4]This creates a panic situation for the labour class in the third world and necessitates trade safety nets.

Agriculture and Trade: Safety Nets a necessity

Agriculture has remained a sensitive sector, be it advanced or developing countries. Their contribution to food security, livelihood security and rural development has been the central pillar of the Doha Development round of negotiations.[5] The earlier failures hinged on the disagreement on subsidies and the legitimate policy space members want in their trade policy. The Agreement on Agriculture (AoA) succeeded in the UR on the precincts that it would usher in a new era of distortion free trade. And it would enable better participation of developing countries and increased prosperity and welfare. Lower market barriers were expected to absorb “shocks” (arising, say, from unexpected production shortfalls) and instill price stability in global farm trade. Critiques disagreed that dismantling barriers to trade and investment will not solve the challenges of development. They felt tax reforms were a necessity to make up for lost tariff revenues and social safety nets to compensate displaced workers.[6] However, most developing economies did not have the capacity to effectively adjust, and agricultural prices have remained quite volatile during the post-WTO period. Many countries reeled under the volatility in food prices. Cheap agriculture imports resulted in drop in spices prices

[4] See Girish Kumar, R, “WTO, Indian Agriculture and EU Protectionism”, *ISDA Journal: Studies in Development and Administration*, Vol.18, no.1 & 2, Jan.-June 2008

[5] World Trade Organisation: The Doha Round started in the year 2001

[6] Dani Rodrik ‘Globalization Is No Shortcut to Development’ http://www.worldbank.org/html/prddr/trans/JulAugSep01/pgs8-9.htm

destabilising rates of profit, rent, wages, dividend and profit, etc., adding pressure on the factors of production to move out to relatively more attractive areas thereby disturbing, for instance, the spices production (K.N.Harilal, 2010). With interventionist's policies of the government either curtailed or withdrawn there is an urgent need to explore safety systems by way of safety nets to protect the production systems.

Research Questions

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

The proposed work answered these questions by taking Spices production with special reference to Cardamom and pepper as the case study

Methodology

The study is interdisciplinary in its approach relying more on the premises of economics. It used a positive approach to understand the trade concepts that constitute safety nets in agricultural production system with special reference to Spices. It employs simple economic tools to assess the instability in prices of Cardamom and pepper and uses trend deviation to tabulate the price band for livelihood security. The study also employs a small questionnaire to key stakeholders to assess the safety nets needed for the production system of cardamom and pepper.

Chapterisation Scheme

The First chapter titled 'Introduction' deals with the broad theories of international relations/ international political economy. It analyses the relationship between economics and politics, key actors, nature of relationship between actors and their economic goals. The chapter also introduces the safety net concept in the present era of globalisation as the principle of efficiency becomes the new buzzword in the new international economic relationship between the North and the South.

Second chapter entitled 'Safety Systems and International Trade Relations' is a detailed discussion portraying the evolution of protectionist doctrines in trade relations over the centuries. The chapter makes an attempt to understand the protection concepts, the relevance of safety nets in domestic policies and how significant these safety nets fit into the concept of trade relations. The chapter tries to critically examine the conformity and incoherence of safety nets in light of the different international relations theories.

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

The fourth chapter entitled 'Domestic Interventions: Dwindling Policy Space' tries to understand the policy instruments that can provide the agricultural production system safety nets. It enumerates practical policy options and alternatives and attempts to broaden the national dialogue on such choices. The chapter looks at the different National Agricultural Policies (NAP) India has formulated to address risks arising from international trade in agriculture. The chapter elucidates different policy options that exists vis-à-vis Indian agriculture production and how the risks can be minimized. The policy analysis delineates the facts of the Indian economy and explores its responsiveness to the macroeconomic framework – so as to permit informed judgments on the most suitable alternative policies. It examines the various constraints confronted by the agricultural production system in the context of existing political realm and role of different stakeholders in the production.

The Fifth chapter entitled 'Spices Productions Systems and International Trade' draws the case study of cardamom and pepper in Kerala. The chapter examines in detail the trend in production and international trade of the two spices crops and tries to assess the risks involved. It tried to tabulate the livelihood band based on the trend deviation of domestic prices in the light of the cost of cultivation of the spice crops. The chapter also includes the findings and analyses of the survey conducted.

The final Sixth Chapter 'Trade Safety Nets in Spices: Ensuring Adequate Flexibilities in Livelihood and Rural Development' summarizes the findings of the whole study and suggests different trade safety nets that can be instituted in the production system of cardamom and pepper. It makes an attempt to find ingenious solution to the problems faced by the farming communities and key stakeholders in international trade of cardamom and pepper.

Findings and Conclusion

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

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