



Parahyangan Catholic University
Faculty of Social and Political Sciences
Department of International Relations

Accredited A

SK BAN –PT NO: 451/SK/BAN-PT/Akred/S/XI/2014

**Understanding India's Constant Belligerence towards
the World Trade Organization
within Agricultural Negotiation Attempts**

Thesis

By

Avila Rahmatzafran

2014330033

Bandung

2018



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Hereby assert that this thesis is a product of my own work, and it has not been previously proposed by any other party in order to attain academic degree. Any idea and information gained from other parties are officially cited in accordance to the valid scientific writing method.

I declare this statement with full responsibility and I am willing to take any consequences given by the prevailing rules if this statement was found to be untrue.

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Abstract

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Title : Understanding India's Constant belligerence
towards the World Trade Organization within
Agricultural Negotiation Attempts

In their attempt to achieve welfare, India opted to enact protectionist-based policies to their agriculture. Following this decision, India became very uncompromising in negotiations due to the trade regime's failure in facilitating their domestic circumstances. But then again, what is the true cause of such constant belligerence throughout the events of the Doha Round?

India's belief of achieving welfare through the development of agriculture has been motivating their State-Centric behavior within the regime. The defensive posture maintained by India on their agricultural policy throughout Doha Round's Bali Ministerial Conference was one example of how a state could respond to the integrative vision and specific procedures of the World Trade Organization. The stance had only increased in severity due to the latent issues within the practices of the organization – the ongoing preferential treatment to developed member states.

Keywords: India, World Trade Organization, Agriculture, Doha Development Round, Protectionism

Abstraksi

Nama : Avila Rahmatzafran
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Judul : Memahami Perlawanan Berlanjut India terhadap *World Trade Organization* dalam Upaya Negosiasi Agrikultur

Dalam upaya terkini untuk mencapai kesejahteraan, India memutuskan untuk menerapkan kebijakan proteksi terhadap sektor agrikultur. Sejalan dengan keputusan ini, India menjadi tegas dalam negosiasi, karena kegagalan rezim perdagangan untuk memahami keadaan ekonomi domestiknya. Namun, apa yang menjadi penyebab dasar dibalik perlawanan di masa perundingan Doha Round?

Keinginan India untuk mencapai kesejahteraan lewat pengembangan sektor agrikultur menjadi sebuah alasan dari perilaku State-Centric mereka didalam rezim. Gestur bertahan yang diterapkan India sepanjang pembahasan agrikultur dalam Bali Ministerial Conference bisa dilihat sebagai salah satu respon negara terhadap visi integrasi dan prosedur khusus yang dianut World Trade Organization. Gestur ini menjadi lebih kuat karena permasalahan laten didalam praktik keorganisasian – yakni perilaku khusus yang diberikan kepada negara anggota yang sudah maju.

Kata Kunci: India, *World Trade Organization*, Agrikultur, *Doha Development Round*, Proteksionisme

Proceedings

States have always been the central part of the International Relations academic discourse. From the earliest form of Westphalian sovereignty to the near-supranational world governance of today, states have and will always be taking part in determining how the world works. But such power and right does not come without caveat – as a state holds the ever-present responsibility of maintaining their constituents' rights. Now, there are a lot of methods in which a state could fulfill this responsibility, but apparently the most common way of doing so is through economic means.

The economic path of state responsibility is likely preferable due to quantifiable nature of economics, which makes planning and assessing straightforward. The economic policies of a state that aims to maintain its constituents' rights are commonly associated with the term 'welfare'. Through providing services and infrastructure to secure the basic needs of their constituents, a state can be classified as enacting a welfare policy. When seen this way, we can certainly understand why welfare policies usually became an important aspect of governmental policy – it realistically give the state legitimacy over its rule, or ideally as a form of reciprocal commitment to the constituents who gave them rights.

However, since we are living in a globalized and interconnected world, even domestic policies could affect the dynamics of the world. This fact not only made governments more wary before making a decision, it also encouraged them to scrutinize the decision of others. The existence of global organizations have become a medium for such behavior. This problematic tendency is compounded by the intrinsic nature of global organizations – a vested, subjective belief in liberalist line of thought. It is through this nature that the unabashed critic to developed states' and lesser developed states' protectionist measures are sustained, without significant attempt to understand the reasons.

This research intends to reiterate a fact often forgotten in the discussion of fundamental International Political Economy – that a state’s decision of adopting economic perspectives are not just to be contrarian. It is done to accommodate their current economic conditions, and not rarely does their decisions are informed through extensive experience in the matter. The writer wished that through this research, critical conversations can be done again on the matter of economic perspectives, leaving the polarized stances on protectionism-liberalism-socialism behind. Alternatively, the writer hopes that any further exploration of the issue will consider the standpoint taken in this research, and reduce (or even eliminate) ideological biases.

The researcher would like to first acknowledge the favors given by his friends, acquaintances, and family members;

Utmost appreciation are also given to Yulius Purwadi Hermawan, Ph.D and the academia of Parahyangan Catholic University for the knowledge and assistance provided throughout the research;

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CHAPTER 1

INTRODUCTION

1.1 Background

In this day and age, the neo-liberal approach to economy is widely believed as the adequate foundation of economic progress in the international regime. Neo-liberal Economics, spearheaded by capitalism, have several precepts that are always present in its related economic models. Understanding these precepts is the key to understanding the popularity of neo-liberalism as an idea.

At the foundation of the approach is the *laizzes-faire* approach to the economy and the market – the root of all Liberal economy. Advocated by the Liberal economist Adam Smith, *laizzes-faire* (literally meaning ‘hands off’ in French) was a political-economic approach that suggests the state governments to reduce or completely refrain itself from active involvement in the market process.¹ The seclusion of governments came from the assumption that individual economic units would know what to do best in a certain economic conditions. When aggregated into a collective economic entity, this ‘self-preservation’ nature will shape the market to be perpetually in optimal working condition.

The precepts of neo-liberal economy is largely derived from this singular approach, but made to accommodate an interconnected global system. To

¹ David N. Balaam and Bradford Dillman, *Introduction to International Political Economy* (United States: Longman, 2011), 30-34.

summarize, there are four important precept of neo-liberalism: Globalization as a means to spread the benefits of capitalism, Free Trade and Market as the embodiment of Liberal economy system in a global scale, Economic Efficiency to ensure an actor's survival in a competitive open market, and Fiscal Austerity to limit the resurgence of Protectionist mentality.²

The proponents of neo-liberalism believed that the implementation of these precepts will result in a globally progressive economy. When woven together, and done along the lines of *laizzes-faire*, the benefits will be able to spread wide and deep; across all sectors and transcending economic classes.

In accordance to the Liberal line of thought, it is no surprise when a neo-liberal world attempts to create a set of institutions to ensure proper application of their beliefs. Such is the case when the victors of the Second World War convened at Bretton Woods, in an attempt to create supranational entities that will serve as a platform of further economic liberalization and growth.

The central belief of the Bretton Woods institutions (the WTO, IMF, and World Bank) can be summed into three points: a uniform exchange rate (initially fixed, but changed to free rates in the 1980s), maximum employment, and the promotion of free trade.³ Every liberalization operations and procedures set forth by the Bretton Woods institutions are done to meet these ends. Theoretically, the

² *Ibid*, 40-43, 132-133.

³ Robert Leeson, *Ideology and the International Economy* (Great Britain: Palgrave-Macmillan, 2003), 16-24.

implementation of such liberal mindset into the global economy would allow the market to operate in increased efficiency – bringing forth the promised growth.

The trade regime, often associated to the World Trade Organization by the general public, is a system that met newfound popularity at the later dates of the 20th century. Seeing how prolonged protectionism became a contributing factor in the occurrence of a global economic stagnation and several economic crises, the creation of a new, liberal-based trading system should naturally be an interesting choice. Starting with the creation of the General Agreement on Tariffs and Trade in Bretton Woods,⁴ the trade regime constantly evolved as the world became increasingly in need of order within the system. Now, we are currently in the presence of the World Trade Organization, the predecessor of GATT in the field of trade regulations. Amongst the many technicalities WTO requires as an organization, there is one part that stands out the most – how they decided to periodically convene on how to improve the current international liberal trade regime.⁵

The aforementioned periodical conventions are called *rounds*, and one round usually revolves around a set of previously agreed topics. The general topic will be further specified into several working groups, revolving around a certain issue. The negotiation amongst members will be executed bi-annually in ministerial meetings, which are done to check on progress before proceeding to negotiate

⁴ *Ibid*, Balaam & Dillman, 38-41.

⁵ “World Trade Organization,” Encyclopedia Britannica, accessed September 17, 2017, <https://www.britannica.com/topic/World-Trade-Organization>.

unsolved issues. One example of such rounds is the Doha Round. The Doha Development Round started in 2001, with the core agenda of facilitating international trade by reducing trade barriers.⁶ The projected increase of up to \$1 Trillion in global trade surplus became an incentive for members to participate in this round.

Development is also a recurring topic in the global economy. In such an interconnected global economy, every actor would need to be in a level playing field to even survive in the competitive market. As Freidrich List once said:

In a “cosmopolitan” world, there could be no free trade until states could compete with one another on an equal footing.⁷

The topic became an issue due to the fact that even no two states can be called equal – the classification of *Developing Countries* and *Lesser Developed Countries* serves as further proof. Surely enough, the Bretton Woods institutions came up with a ‘solution’ to deal with this issue through the activities of the International Monetary Fund (IMF).

Initially after its birth in the Bretton Woods, IMF was a short-term oriented institution, helping member states that came into contact with recessions in the market by simply providing bailout funds to cover national deficits. However, as the liberalism point-of-view got increasingly entrenched into the system, liberal economists debated this take on monetary assistance. They declared that economic

⁶ “Doha Declaration explained,” World Trade Organization, accessed September 18, 2017, https://www.wto.org/english/tratop_e/dda_e/dohaexplained_e.htm.

⁷ *Ibid*, Balaam & Dillman, 62.

recessions was never the fault of the market system, but instead the fault of closet protectionist governments. Hence, the IMF shifted into a more medium-term oriented institution – providing monetary assistance *only if* the governments are willing to reform their economy in accordance to IMF.⁸ It is no coincidence that the system paraded by the IMF and the rest of the Bretton Woods institutions (even up to the point of WTO's creation) is neoliberalism – an economic system that is very close to developed member states.

In the modern world, India is considered as one exemplar of a successful developing state. Included into the BRICS classification alongside Brazil, Russia, China, and South Africa, India is projected to be a developed economy by 2020. This praise, however, did not come without hardship. As with the general Asian region, before the late 20th century, India was also riddled with poorly-planned macroeconomic policies.⁹ Nationalist rhetoric found its way inside the Indian society during a period of economic stagnation, and with it, the protectionist economy. However, as the poorly-planned protectionism crumbles at the face of the world economy, India's neo-liberal economists decides that it is a proper time to join the fray.

Starting at the 1990s, neo-liberal economics gained traction within India alongside the loans given by IMF to the government. The political revolutionists in India decided that this time, they need to embrace the global market and reduce

⁸ *Ibid*, Robert Leeson, 184-188.

⁹ Matthew McCartney, "neoliberalism and South Asia: The Case of a Narrowing Discourse," in *neoliberalism: A Critical Reader*, ed. Alfredo Saad-Filho & Deborah Johnston, (London: Pluto Press, 2005), 237-240.

their involvement in the economic system. The assumption is that the Indian economy would adapt accordingly, giving way to a form of perfect competition – where consumption and surplus would be distributed across the domestic system.¹⁰ This assumption was mostly correct. As soon as several business sectors became privatized, trade barriers rescinded, and government-debilitating subsidies reduced, Indian economy experienced quite the significant boost in the early 20th century. However, the recent behavior of India in WTO negotiations indicates that this notion may not be entirely true.

1.2 Research Problem Identification

1.2.1 Research Problem Description

The long-term overview of neo-liberal economy often ends up with a narrow academic point-of-view, and a habit of overstating the potential gains of a strictly liberalized economy. The main approach of the liberal economy is the belief in *laissez-faire*; the invisible hand. While the usage of such approach is able to analyze future projections, the liberal explanation stops there. Short-term contingencies and specific methodologies of developing an economic sector is absent. This is exemplified by the weak sustainability assessment typical in liberal economy.¹¹ For liberal economy, a system is deemed sustainable when it is fiscally able to support itself and when liberalization occurs in the system (disregarding the extent and intensity of such liberty). The way liberal economy perceives itself as ‘the only

¹⁰ *Ibid.*

¹¹ *Ibid*, Matthew McCartney, 240-242.

economy' is also worrying, as they tend to rule out any other methods other than economic liberalization (when other methods may yield better results in the same conditions).

Besides, the potential benefits that are usually paraded by liberal economy are either exaggerated or requiring major sacrifices – especially for developing and lesser developed countries. Economic growth depends heavily on the domestic system and the governmental readiness of a state; the increase of productivity may vary due to the inconsistency of economic behavior; and the reduction of poverty may even be unachievable due to the demographic variables of the respective economy. Such a great margin of possibilities proves that the axiomatic relationship between liberalization and development is unjustifiable at best.¹² At this point, one can even say that the liberal economy is more of a political trend than an economically sound solution.

Knowing these, the international regime's constant perpetuation of economic liberalization might be questionable. Regardless, they show no signs of stopping in the near future. One of their methods to achieve this goal is by facilitating trade among nations. The most recent example is the WTO's Doha Round. This effort might turn out to be a two-edged sword for the governments who ratified it – specifically, the governments of developing nations. In a way, this facilitation is promoted to yield a large economic gain for its signatories – especially

¹² Timothy A. Wise & Jeronim Capaldo, "Will the WTO fast-track trade at the expense of food security?" *Al Jazeera*, June 24, 2014, accessed November 10, 2017, <http://www.aljazeera.com/indepth/opinion/2014/07/wto-negotiations-food-security-20147237431402983.html>.

for the developing economies. However, many are skeptical to such claims. In the variable and uncertain economic world, no projections are set in stone.

Simply put, the deviation of gains that can be achieved through trade facilitation is too great – ranging from a mere \$68 billion worldwide up to the promised \$1 trillion. One can say that the developing nations cannot put nor faith or fortune in such an uncertain possibility.¹³

As one of the parties that are involved in the international trade regime, India is currently in a state of concern – the condition of their domestic economy is unsuitable for further liberalization. India's agricultural sector is notoriously known for its inefficiency. Even when providing livelihood for about 50% of the general populace, it is only contributing to less than 20% of the national GDP.¹⁴

It all began after the Indian economic crisis in 1991. Right in the brink of defaulting due to massive governmental deficits, India decided to seek assistance from the international regime. The not-so-small loan of \$2.2 billion came with an IMF Restructuring Program, requiring India to liberalize their economic system.¹⁵ All seems well for India – at a macroeconomic viewpoint. The overall national GDP did increase, but at what cost? The agricultural sector was left in shambles. Ignored by the foreign investors and private banks (which preferred other economic sectors

¹³ D. Ravi Kanth, "Ratifying trade facilitation agreement could prove costly for India," *Livemint*, April 26, 2016, accessed November 10, 2017, <http://www.livemint.com/Opinion/1uCGQScxT69dQtiu6SU1zK/Ratifying-trade-facilitation-agreement-could-prove-costly-fo.html>.

¹⁴ Anoop Sadanandan, "Political Economy of Suicide: Financial Reforms, Credit Crunches and Farmer Suicides in India," *Journal of Developing Areas* 48, no.4 (Fall 2014): 302.

¹⁵ International Monetary Funds, "At a Glance - India and the IMF," *International Monetary Funds*, <https://www.imf.org/external/country/ind/rr/glance.htm>.

with a faster return rate of investment),¹⁶ and without any significant assistance from the government, the marginal farmers in India are stuck in a never-ending loop of economic hardship.

In the trade regime, India is currently accused for illegal subsidization practice. Scrutiny came at their national minimum price scheme for agriculture products, which allows the government to purchase goods from farmers at an increased price, serving as a wage support for the economically crippled farmers. While the policy is technically a breach of the WTO Agreement of Agriculture (AoA), the standards used by this agreement are gravely inadequate – as it still uses the 1966 economic standards to measure subsidization acts.¹⁷

The situation is apparently getting worse during the WTO's Geneva Ministerial Conference in 2008; developed states deemed that the Special Safeguard Mechanism (that allows for protectionist measures on injuring imports) given to developing states is unfair and prone to create a trade diversion.¹⁸ If this proposal was to be passed by the WTO General Council, India will lose yet another of the few ways they can assist their domestic agricultural sector. Seeing how this all adds up, it's no wonder that during recent years, India has been strongly opposing the WTO regime.

¹⁶ *Ibid*, Anoop Sadanandan, 291-293.

¹⁷ *Ibid*, Timothy A. Wise & Jeronim Capaldo.

¹⁸ "What is Special Safeguard Mechanism under WTO?" Indian Economy, accessed October 2, 2017, <http://www.indianeconomy.net/splclassroom/95/what-is-special-safeguard-mechanism-under-wto/>.

1.2.2 Research Focus

This research will be specifically given analytical and timeframe focus. The analysis will focus on both the internal and external factors that are believed to contribute to India's belligerence towards WTO. Specifically, the research will highlight the factors that affected India's attempt at implementing an agriculture-based welfare economy.

This research chose 2001 as a starting point because at the time, India was in the process of synthesizing an agricultural development path from its past experiences. In this same period, the World Trade Organization also begun its first Negotiation Round in Doha. The presence of agriculture as a core agenda in the Round provides a momentum for India to secure new ways of agricultural development in the supranational level.

In retrospect, 2013 was chosen as an endpoint because the period marks the start of a significant role change of India in the World Trade Organization – as a primary discussant in the Bali Ministerial, particularly in the creation of a peace clause which declared that India's subsidization policies will not be challenged until the upcoming Ministerial.¹⁹

1.2.3 Research Question

This research acknowledges how past liberalizations had given adverse effects to India's domestic economy, especially the agricultural sector – the same

¹⁹ "India and US reach WTO breakthrough over food," BBC Business, accessed October 2, 2017, <http://www.bbc.com/news/business-30033130>.

goes with its past approach of hardline protectionism. This is presumably related causally to India's belligerent behavior in the World Trade Organization. Therefore, this research raises the question: What is the cause of this constant belligerence towards the regime, especially throughout the Doha Round?

1.3 Objective and Contribution of Research

1.3.1 Objective of Research

This research will attempt to describe how the economic experiences of the national economic system negatively affected India's agricultural sector, and analyze whether that can be classified as a reason behind India's belligerent behavior in the World Trade Organization.

1.3.2 Contribution of Research

This research was made to serve as yet another reference point for the scholars in the field of International Relations who wish to participate in the academic research of macroeconomic policies and trade regimes.

Alternatively, this research was made to provide another viewpoint for anyone who wishes to assess India's belligerent behavior towards the World Trade Organization regime.

1.4 Literature Review

This research refers to several other literatures in order to ensure the validity of its facts and arguments. There are three literatures in particular that is going to be used as a reference point: *Political Economy of Suicide: Financial Reforms, Credit Crunches and Farmer Suicides in India*, a research done by Anoop Sadanandan which is presented in *The Journal of Developing Areas* (2014), *Doha stalemate: The end of trade multilateralism?*, an article written by Valbona Muzaka and Matthew Louis Bishop, which is presented in the *Review of International Studies* (2015), and *Fixing Market Failures or Fixing Elections? Agricultural Credit in India*, a paper made by Shawn Cole which is presented in the *American Economic Journal* (2009).

In India, farmer suicide is a reoccurring social problem. However, a significant increase in the numbers happened in mid-1990s, and it stayed that way for the next decade. The main idea of Sadanandan's research is finding a link between financial liberalization (especially in the form of agriculture credits) and these farmer suicides. Sadanandan's preliminary assumptions are presented in the form of six hypotheses:²⁰

1. Direct bank lending to farmers was lower in the states where foreign and private banks had greater presence;

²⁰*Ibid*, Anoop Sadanandan, 289-291.

2. Lending to agriculture, as part of priority sector lending, was lower in states with greater presence of private and foreign banks than in states where such banks had negligible presence;
3. In states with more foreign and private banks, credit to small-scale industries and housing under priority sector lending was higher;
4. In states with greater presence of public national banks, lending to farmers was lower;
5. In states where foreign and private banks had significant presence that more farm households had to seek loans from private moneylenders and rural indebtedness was higher;
6. Farm suicide rates were higher in states where bank lending to farmers was low.

Sadanandan later attempted to prove these hypotheses by performing a statistical, quantitative research. He also adopted the instrumental variables approach to prevent estimation bias.²¹ This research perceives Sadanandan's work as impartial and objective – analyzing numerical data from a distance, in order to deliver factual conclusions.

Sadanandan's hypotheses were proven to be true through his research, and several implications can be derived from the results.²² Firstly, even though extensive financial liberalization has proven to cause the increase of farmer suicides, implementation of governmental policies could have reduced the intensity

²¹ *Ibid*, 294.

²² *Ibid*, 302-303.

of said suicides. This point is proven by the fact that in the regions where policies such as *Kisan Cards* (which gives farmers entitlement to governmental financial supports) and infrastructure development (namely irrigation) were implemented, the farmers' need of moneylender credits are reduced, resulting in fewer suicides.

The second implication is regarding India's economic structure. As implied in the hypotheses presented above, the liberalized financial sector is very competitive. Therefore, strategic plans for agriculture credits are to be expected. However, India's agriculture sector simply cannot keep up. Inefficient and not giving significant contributions to the national economy, the agriculture can be perceived as an unprofitable credit sector. This is also related to the other implication – how the theoretical association between financial liberalization and economic growth often ignores the national economic structure as a deciding factor. In the case of India as a developing economy, the structure is still undergoing transition. The government should have been given more control, in order to prepare itself against unwanted effects of financial liberalization.

The last implication is the relation between financial exclusion and social violence. As grim as it might sound, the impact of financial liberalization on India still falls within the 'moderate' category. The violent tendencies are directed inwards, resulting in suicides. Imagine, however, if the violent aftereffects of such economic marginalization were directed outwards – into protests and riots against the government.

Sadanandan's work is technically different from this research, primarily in the quantitative method used to prove the hypotheses. Sadanandan apparently also distanced himself from the subject in order to deliver a numerical, objective conclusion. However, Sadanandan's work could still serve as a foundation point in this research. The conclusion of his work proves that the effects of liberalization in India have negative effects on some sectors, especially agriculture. He also implied that governmental measures are needed to mitigate these negative effects – a perspective that this research also believe.

On the other hand, Valbona Muzaka and Matthew Louis Bishop's article intends to analyze the trade regime, its relation to the principle of multilateral trade, and the popular narrative which suggests the decline of said regime. In their work, Muzaka and Bishop decided to differentiate the definitions on the World Trade Organization and multilateral trade. While commonly acknowledged to be the representative of multilateral trade, Muzaka and Bishop perceived the World Trade Organization as merely a part of it.²³

In their article, Muzaka and Bishop explored the institutional nature of both World Trade Organization and multilateral trade. As an institution, both subjects need a generalized principal of conduct *and* a shared social purpose to work properly and persevere to later generations.²⁴ Muzaka and Bishop also posit that the latter aspect is yet to be achieved by the current institutions. This research perceives

²³ Valbona Muzaka and Matthew Louis Bishop, "Doha stalemate: The end of trade multilateralism?" *Review of International Studies*, no.41 (2015): 383-387.

²⁴ *Ibid*, 403.

Muzaka and Bishop as believers of the liberal-institutional perspective – rectifying false logic behind the popular narrative by exploring the fundamental points of the World Trade Organization and the multilateral trade as institutions.

Muzaka and Bishop’s work proven their initial arguments: multilateral trade is *not* ending, it is merely misunderstood. While it is true the multilateral trade as an institution is a product of the past, the fundamental understanding of such institution is debatable at best. Through a sociological-institutional approach, the multilateral trade can be understood as ‘an enduring – yet changeable – structure with both material and symbolic properties that influence actors’ identities, values, behavior, access to resources, and action’.²⁵ The ‘changeable structure’ aspect is very evident if we consider the evolution of multilateral trade as an institution. However, in practice, actors within the institution often adhere to past understandings very strictly, forgetting that change is sometimes necessary, if not inevitable.

Subsequently, the current international trends (such as the proliferation of *plurilateral* trade, the failures of the Doha Round, the weakness of the WTO structure, and the protectionist response to the 2008 crisis)²⁶ does not spell the end of multilateral trade. As always, we are in the process of change; powers are shifting, objectives and priorities changing, newer players joining in. Muzaka and Bishop believe that all actors within the multilateral trade institution need to share a common social purpose. The GATT and its current predecessor WTO creates

²⁵ *Ibid*, 395.

²⁶ *Ibid*, 387-394.

strong, nondiscriminatory rules, but they can only serve as the means of achieving said social purpose. A collective mindset, a common interest is still missing. Agreement and understanding on the interests of state actors is needed to achieve an actual social purpose.

Muzaka and Bishop's work is substantially different from this research. Even if done in a qualitative manner, and analyzing the same subject, they still hold liberal institutional values at heart. In retrospect, this research has some doubts regarding the efficacy of such institutions. However, Muzaka and Bishop's work still supports this research, by providing another method in perceiving the World Trade Organization – and the concept of multilateral trade, by extension.

Finally, Shawn Cole publicized his views on a part of the decision making mindset of the Indian government, specifically on how the agricultural credits within the state is being used for political leverage. In his paper, Cole attempted to analyze the importance of the Indian agricultural sector for the government and its political needs. Guided by theories on political budget cycle and tactical electoral redistribution, Cole highlighted patterns within the political lending and credit targeting cycles. The political cycle, analyzed in 4-year intermittent periods of scheduled election, indicates that a manipulation of credit institutions are indeed present.²⁷

²⁷ Shawn Cole, "Fixing Market Failures or Fixing Elections? Agricultural Credit in India," *American Economic Journal: Applied Economics* 1, no.1 (2009): 228-235.

1. The amount of credit directed to agriculture by public banks are closely related to election cycles. Specifically, the credits given a year prior/in the year of an election is greater than credits in off election years. The increase of 8% is substantially greater than the agricultural credit's natural average growth of 0.5%.
2. The type of credit given is also affected in a similar manner. In off election years, size and number of public loans are significantly lower in comparison with election year. Despite the changes in these variables, interest rates of public banks does not display notable deviations.
3. The loan lateness and default rates are also affected by the cycle. Nearing election years, credits and loans marked as late are increased up to 15%, despite the volume only increasing around 8%. This might be caused by the accumulated maturation of loans made in former years. Interestingly, promises fulfilled by political actors sometimes reduced the amount of late credits following the election years.
4. The size of the credit cycles is not only affected by election years, but also by the demography of the respective population. The size of rural population is very influential to the size of cycles. As an additional factor, areas with improved education removes the incentive from credit manipulation.

In the context of resource targeting, the core determinants are the candidate's victory margin and the district's electoral tendency.²⁸ With lesser and negligible victory margins, candidates are more likely to influence agricultural credits. This pattern holds true in the years following election, but in the actual year of election, only candidates in limbo would actively peruse credit as a political tool. A district's electoral tendency dictates the flow of overall agricultural credits – with swing districts given more priority.

Targeted loan enforcement and forgiveness is typically present alongside with credit manipulation practices.²⁹ Virtually a way to buy votes, this method induces banks to give credits to the populace which loans will be paid in full by the respective politician. Cole posits that in districts where victory margins stood around 15%, reduction of late credits are also present – suggesting a write-off paid by politicians.

However, despite the greater agricultural lending in times of election, the actual production output is not affected very much, or even at all. This might be a result of inefficient investment or non-agricultural consumption,³⁰ but a clear conclusion cannot be made due to the limitations of statistic data.

Cole's work is similar to Sadanandan's, in a way. Both explores the significance of another economic sector (financing) to the Indian agriculture. However, Sadanandan's work focuses on the adverse effects taking place due to an

²⁸ *Ibid*, 236-243.

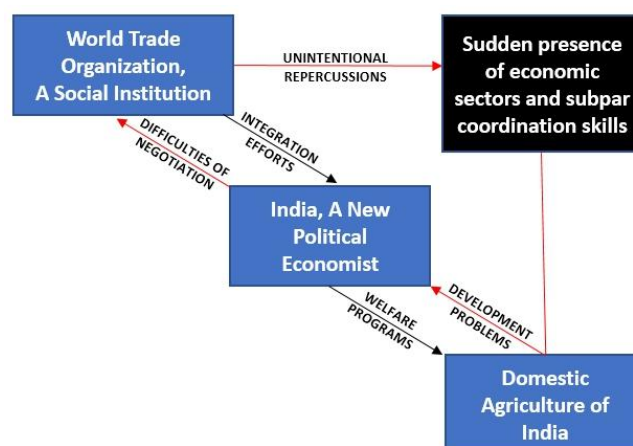
²⁹ *Ibid*, 243-245.

³⁰ *Ibid*, 246.

external factor – the presence of economic liberalization. Cole, on the other hand, explored how the Indian government exploited that effects into their favor – by manipulating agricultural credit flow as a political tool. The paper also serve as a foundation to this research, proving that the Indian government (particularly in the 1990s) is not entirely helpful to the development of agriculture, as they are still in the process of political and economic maturity.

1.5 Theoretical Framework

This research is constructed to provide a causal logic, which will be supported by factual data in the following chapters, and concluded through a theoretical perspective in the end. In this chapter, the logic is presented: the background shows how concepts (liberal economy, the trade regime, India’s development plan) are supposed to work; the research problem identification argues that such propositions are not working in the real world, and later poses a question; and the literature review provides other scholars’ findings regarding the matter.



Theoretical Flowchart, compiled by the researcher.

This research will use several theories in the attempt of describing and analyzing the issue. The dynamics of variables and theories are presented in the flowchart above. First, Robert Gilpin's *State-centric Realism* is going to be used as a modern understanding of mercantilist economy in the analysis of India's current behavior in the World Trade Organization regime. The *New Political Economy* is a parallel to Gilpin's, by believing that an actor's economic approach is dictated by past experiences, hence making the approaches dynamic and dependent to national circumstances. In the context of this research, India is the New Political Economist.

The *Economic Integration* theory is believed to be a driving force of the WTO, and it will define the goals and procedures of this *Social Organization*. India's attempt to integrate the regime's beliefs into its agricultural development and welfare programs are evident, and noted by the research. However, since the theories of *Second Best* and *Coordination Failure* applies in any attempts of development in the regime, India's response have been limited in range and efficacy. The writer also points out that there would be several intersubjective concepts and terminologies saturated throughout this research, incorporating relevant points of other academic realms to improve the validity of the research's arguments.

Mercantilism is the oldest perspective available in a state's economic policy arsenal. Originating as early as the 15th century, mercantilism caters to one of the most basic needs of man and state: protecting their independence from existing and potential threats, done by the accumulation of power, sustained by economic

wealth. Mercantilism's popularity waned throughout the course of the 18th century, mainly due to its failure in accounting for the effects of a global market. Today, however, the myriad of failures brought about by the neo-liberal system (such as asymmetric interdependence, unequal development, and the fragility of an integrated economy) ignited a resurgence of mercantilist policies – in the form of neo-mercantilism.

In 2001, American political-economist Robert Gilpin coined a term which explains implementation of neo-mercantilism in a state's decision making process – the State-Centric Realism. In this model, state remains the main actor in the realm of international relations, and the state will always strive for independence and sovereignty in the interconnected global system. However, the moral superiority of states which are prevalent in realism (and conventional mercantilism) is not present. State actors acknowledge the proliferation of non-state actors and their increased relevance in the system. Therefore, state-centric realism posits that states will both consider their own national interests *and* the dynamics of the international system in the process of decision making – both politically and economically.³¹

Perspectives are an integral part in the decision making of an economic actor, as it orients their approach towards an issue. New Political Economy, however, is not a perspective. It is a belief that perspectives of any economic actor are never permanent.³² This was derived from the fact that we are currently in

³¹ Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (New Jersey: Princeton University Press, 2001), 15-23.

³² Timothy Besley, "The New Political Economy," college lecture, London School of Economics, November 8, 2004, transcript, 16-20.

possession of an extensive array of economic perspectives which we can opt to use in addressing an issue. However, since we are dealing with political-economic issues, not one perspective can be deemed as universally and ultimately correct.

As such, through the use of the advancing informational infrastructure, New Political Economy concerns itself with empirically testing the aforementioned perspectives to determine their compatibility with an economic actor's current circumstance. This testing is primarily done in two ways – by challenging the perspective's tenets with situational data of the respective economic actor, and by deriving economically sound institutional and structural formation through the synthesized data. In summary, New Political Economy is made to assist economic actors in selecting the proper economic belief in one specific circumstantial period, by reflecting on their economic characteristics in that one specific circumstantial period as a benchmark.

In their late research on the WTO and multilateralism, Valbona Muzaka and Matthew Louis Bishop opted to approach the regime as a social institution. The trade regime is seen as a social system, and WTO as the lead that coordinates the activities within. As an institution, WTO possess a set principal that guides the behavior and (to some extent) mindset of its member states. These principals are synthesized through the beliefs of the members and the regime's experience in forming institutions.³³ Intrinsically, the regime and the institution will always be

³³ *Ibid*, Muzaka and Bishop, 394-396.

subject to contestation of political-economy ideologies. Most importantly, the institution is assigned a specific purpose to reach.

Economic Integration is the purpose of the Social Organization we know as the World Trade Organization. Favored by economic perspectives as the means of achieving welfare, integration of economies is a quantitative model that base its deliberations to a simple cost-benefit analysis. Simply put, for an economic integration to have meaning at all, it would need to reduce trading cost while still giving a beneficial margin. Diversions, on the other hand, would result in adverse effect for the entire global market, as it will likely disrupt the natural supply-demand dynamics occurring at the time.³⁴ Economic integration as a method of the regime predates the creation of WTO, adhered as a guideline in creating agreements in the time of GATT.

The theory of Second Best, presented by Lipsey and Lancaster, highlights the difficulties in developing a national economy in the presence of an integrating market. An economy could only be considered as ‘developed’ when all of its economic factors reach an optimum point of production and efficiency.³⁵ The same still goes in the integrated market. However, uncertainties of the market would likely prompted some (if not most) of its actors to enact distortions on the flow of trade. These distortions would affect development by disabling several aspects of the economy to reach its optimum. When all economic components cannot attain

³⁴ Snorrason, *Asymmetric Economic Integration: Size Characteristics of Economies, Trade Costs and Welfare* (Physica-Verlag Heidelberg, 2012), 14-15.

³⁵ *Ibid*, Snorrason, 15-16.

optimum *simultaneously*, development plans to a particular aspect in an integrated market would rarely improve national economy – even if supported by transfer payments.

Complementary to this belief, the Coordination Failure theory explains an additional layer of difficulty in implementing a development plan. A theory attempting to explain development in a liberal economy, coordination failure acknowledges the existence of a free market and the subsequent invisible hand. As with liberal economy, the central point of the theory is that the market is capable of resolving itself into an equilibrium that represents a highest efficiency possible. However, with the wide range of production and advanced complexity of a national economy, sometimes the invisible hand could create an equilibrium that is subpar the actual capability of the market, resulting in underdevelopment of an economy.³⁶ In a way, this could justify the governmental interventions that is commonplace up to this date.

1.6 Methodology of Research

1.6.1 Research Method

In the attempt of finding out the connection between increased economic liberalization and India's belligerence towards the WTO regime, this research will use the qualitative method of research. This research deems this method as an

³⁶ Dang G. and Sui Pheng L; *Infrastructure Investments in Developing Economies: The Case of Vietnam* (Springer, 2015), 20-21.

adequate way to explain this social phenomenon because, as Creswell once mentioned, the qualitative method presents a complex and detailed explanation on an issue. Other than that, the qualitative method also excels in providing an understanding on the context behind an issue, and in explaining the mechanisms on which variables intertwine in an issue.³⁷

The process of a qualitative research begins by setting a base assumption on the issue, selecting appropriate theories then subsequently using those theories as a benchmark in data collection and interpretation, and finally answering the research question with the processed data in hand.³⁸ All these process will be done in accordance with the economic perspective employed in this research, and also the structure that is going to be elaborated in the following segment.

1.6.2 Data Collection

To properly conduct a qualitative research, this research will require data – and the acquisition of data related to this research will be done through literature reviews. This research will use sources such as International Political Economy books to provide theoretical foundations, Indian agricultural and development journals to provide secondary data regarding the matter at hand, and legal documents of the World Trade Organization as a *de jure* source of the organization's output.

³⁷ John W. Creswell, *Qualitative Inquiry and Research Design: Choosing Among Five Approaches*, (Sage Publications, 2007). 43.

³⁸ *Ibid*, 51.

Before usage, these literary sources would also be subject to credibility checks to ensure the quality of this research. Further along the line, this data will be assessed through the selected economic perspective. The deductive usage of theories will also be employed in the data analysis process. All in all, the results of the data analysis process are expected to yield a bottom-up pattern of logic.³⁹

1.7 Research Structure

This research will be specifically structured into five major chapters. The content of these chapters will be as follows:

Chapter 1 will be used to provide an introduction to this research. This chapter will be constituted from the background of research, the issue identification, the research question, the objective and usage of research, the literature review, the theoretical framework, and the methodology of research.

Chapter 2 will be used to explore the first variable of this research – India’s behavior, in the World Trade Organization as a part of the trade regime. In this chapter, the writer will provide relevant data regarding the inner workings of the WTO as the current embodiment of the regime, and India’s belligerence that followed. This research will then analyze this data to find out the reasoning behind the regime’s architecture, and why does it concern India.

³⁹ *Ibid*, 38.

Chapter 3 will be used to explore the other variable of this thesis – the effects of economic dynamics on India’s domestic agricultural sector. In this chapter, the writer will elaborate how the shifts in an interconnected global economy has a negative effect to India’s attempt at developing its economy, agriculture in particular.

Chapter 4 will be used to provide an analytical approach to the research question, using the pre-established theoretical framework and the gathered data from the earlier chapters. This chapter will attempt to answer the main research question of finding out whether India’s behavior in the WTO can be attributed to the dynamics of an interconnected economic system.

Chapter 5 will finally provide a conclusion of the research.