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Back to basics: Connecting politics and trade

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TRADE AS A TOOL OF ECONOMIC GROWTH, JOB CREATION AND POVERTY ALLEVIATION

The role of trade as a tool of economic growth, job creation and consequently poverty alleviation has been debated for a long time, and increasingly now that the world is going through a prolonged economic slowdown.

Growth, employment and equity are closely interlinked. According to established trade theories, an increase in trade brings the need for more manpower, hence more jobs, which in turn would spur economic growth and redistribution of income, resulting in the alleviation of poverty.

Trade has an important role to play in the growth of economies and free and fair trade can help the world tide over the problems of unemployment and reduce poverty in general. However, the manner in which trade would affect employment would differ from country to country as other factors also play a role. For example, technological advancement also has a strong impact on employment and productivity, benefiting some jobs and hurting others.

Advances in technology have provided great opportunities for trade in services and we have benefitted immensely in terms of the creation of employment opportunities in high-value jobs. Economic growth and increased trade create jobs; there is no arguing about this assertion. However, the causal linkage between trade and the creation of jobs is a complex one and empirically is both inconclusive and insufficient. It is widely acknowledged now that liberalization has a redistributive effect, which creates jobs in some sectors while destroying them in several others. Increase in production for exports certainly creates more jobs, but import substitution of domestic production has its own impact on employment and causes dislocation. Retraining and relocation of displaced workers is not an easy task. Whereas a worker may find a new job very quickly in one country, it may take much longer for a similar worker in another country experiencing similar conditions.

It is a well-established fact that trade liberalization leads to job creation, job destruction and job relocation. As countries move up the value chain, the qualitative nature of job markets also changes. There are several factors at play and the net impact of liberalization varies from country to country as well as across regions.

It is precisely this realization that guided the founders of the WTO to build in the flexibilities, which are so essential for the least developed countries (LDCs) and the developing economies while framing the rules of global trade. This policy space was deemed to be essential and it remains equally valid even today. While we recognize the need for greater opening up of markets, we need to calibrate it in a manner that would enable institutions to emerge in a stable environment. Trade openness has to proceed in tandem with the evolution of appropriate policies and institutions.

Developing economies face peculiar challenges. Institutions are not fully developed. A growing labour force necessitates the creation of new jobs. There are inherent inadequacies in educational institutions and training and skill development facilities. A legacy of poor infrastructure is a huge constraint on competitiveness. Even the advanced economies of today have only gradually embraced openness in trade and therefore, we need to strike a balance by fully recognizing the constraints faced by the developing countries.

India embarked on the path of economic liberalization nearly two decades ago and since then our economy has become increasingly integrated in the global economy. India has autonomously liberalized its tariff structures, with the result that the average applied tariffs have come down to 33.3 per cent for agricultural goods and less than 9 per cent for industrial goods. Our trade to GDP ratio, which was as low as 20 per cent in 1998, has today crossed 50 per cent, marking a dramatic shift. Both our imports and exports have shown healthy growth, pointing to the continuing openness of the Indian economy. We have a large trade deficit, which as a measure of the GDP, is one of the highest in the world.

We have had a positive experience of calibrated trade liberalization. Indian industry has gradually gained competitive strengths and is now in a position to compete effectively not only with imported products but is also carving a niche for itself in the global market place. Indian industry has a large component of small and medium-sized enterprises (SMEs), which are dependent on exports and contribute to economic growth. SMEs contribute about 8 per cent of our GDP, 40 per cent of our exports and employ 60 million people. Therefore, SMEs engaged in exports have a special socio-economic significance in India's trade paradigm.

There is no doubt that openness in trade is an essential prerequisite both for economic growth and the creation of employment opportunities. However, the pace of trade liberalization has to be calibrated according to the specific requirements of a country keeping in mind its socio-economic realities. Domestic policies and institutions are required to cushion any adverse impact of rapid trade liberalization. The LDCs and the developing countries would require flexibilities to help them adapt even as they integrate themselves in the globalized world. In a situation where the domestic economy is marked by high rates of unemployment and an increasingly young population entering the job market, the political pressure for creating greater job opportunities becomes more pronounced.

We cannot talk about openness without mentioning the need to keep the labour markets open. In today's globalized world, where capital and technology move with unprecedented speed in unprecedented volumes across national boundaries, it is completely inexplicable why labour cannot follow suit. Therefore, if we are viewing the trade paradigm from a perspective of generating sustainable employment, it is imperative to address the issue of free movement of labour across borders.

Trade can very well play an important role in economic growth, job creation and poverty alleviation provided that equity is maintained in trade. Trade should not be a tool available only to the developed countries in their quest for markets in the developing countries, thus reaping the benefits in the form of growth, job creation and the resultant redistribution of income. Such a dispensation can have very adverse effects on developing and poor countries, which do not have the wherewithal to compete with the advanced technologies, adequate capital, infrastructure and skilled labour force available in developed countries. Developing countries need to be supported in gaining equity in terms of infrastructure, technology and skill development before some parity in trade can be achieved. Until such a time, policy space needs to be available for them to protect their industries from being wiped out, which would result in economic downturn and a consequent increase in poverty in developing countries. The tool of trade is thus a potent one and needs to be used by the countries in the manner most suitable to their stage of development.

It is a cause for concern that countries, mainly developed countries, are resorting to newer forms of protectionism that have created new barriers to trade. This tendency has become more acute in the aftermath of the economic crisis and some parts of the developed world have now started looking inwards. This does not augur well for global trade flows.

In the WTO, India and other developing countries have been persistent in their efforts to ensure that the progress achieved so far in the ongoing round of negotiations, the Doha Round, is not lost, and that development, which is at the core of the Round, remains firmly entrenched in all negotiations at the WTO. The Doha Round is very important for the developing countries, particularly the LDCs and the aspirations of the developing world would be met if the Round is concluded as a single undertaking. Unfortunately, some of the issues which are important to only a few members are being picked up for discussion and pressure is mounting through various formal and informal groups to bring new issues to the discussion table. Trade is a wide subject and one that is important for all. However, trade does not only mean more markets for the developed countries; developing countries and the small and vulnerable economies should also be able to benefit from trade. It is in this context that completion of the Doha Development Agenda essential.