



## Beyond The Free Trade Idealism

(This editorial is based on the article ['Beyond The Free Trade Idealism'](#) which appeared in 'The Hindu' on 25th April, 2019. The article talks about the concept of free trade and its associated risks. It also talks about the ways in which India can balance its economic environment.)

India liberalised its economy in 1990s whereby it opened up the sectors hitherto under public operations, invited investors from world over to invest in India and it liberalised the overall economic environment in the economy. It's difficult to assess how far we have reached in our endeavours but India has certainly taken a leap in a right direction.

### Background

While India has significantly opened its trade frontiers, its **policies of favouring domestic producers and businessman often lock horns with the proponents of free trade**. The recent U.S. trade skirmish with India is one such example. The US has objected to India increasing import duties on electronic goods and wants India to reduce duties on U.S.-made motorcycles.

The current atmosphere warrants us to deeply analyse the free trade regimen and how it has the potential to impact the overall macro-economic situation in the country.

### What is Free Trade?

Free trade is a policy to **eliminate discrimination against imports and exports**. Buyers and sellers from different economies may voluntarily trade without a government applying tariffs, quotas, subsidies or prohibitions on goods and services.

Politically, a **free-trade policy may be the absence of any trade policies**, so a government doesn't need to take specific action to promote free trade. This hands-off stance is referred to as "**laissez-faire trade**" or **trade liberalization**.

However, **governments with free-trade agreements do not necessarily abandon all control** of import and export taxation. In modern international trade, few free trade agreements (FTAs) result in completely free trade.

### Advantages and Philosophy

In a free-trade regime, **both economies can experience faster growth rates**. This exchange is no different from voluntary trade between neighbours, towns or states. Free trade enables companies to concentrate on manufacturing goods and services where they have a distinct comparative advantage.

The **most basic philosophy** behind the macro-economic case for free trade is that **if each person would do only what he or she does better than everyone else** and all would trade with each other, **everyone's welfare** will increase.

Proponents of Free trade claims that easy import of products from other countries increases **consumer welfare**. Consumers everywhere welcome a lowering of import barriers because it brings quality products at a very competitive price.

As established by **Milton Friedman**, a Nobel laureate that, in international trade, **exports help companies** and **imports help citizens**. Therefore, resistance to free trade does not come from consumers. Thus, any **restriction in free trade only serves the interest of few capitalist** and is not in the larger interest of masses.

## Challenges in Free Trade

While domestic businesses benefit from a diversified export market, they also suffer from **greater competition**, due to the removal of trade tariffs and inflows of cheap foreign goods. This weighs **negatively on business profits** of domestic companies and constraints business expansion.

It has also been found that tougher competitive pressure **reduces the incentives for companies to implement proper labour standards** and protect the **environment** as they look to cut down any additional expenditure.

Free trade can **contribute to higher income inequality**, especially in high-wage countries, as it promotes cheaper goods from low-wage countries which have been the case in many Asian nations such as China, India, Philippines, and Singapore etc. Also, owners of **intellectual property would receive more of the income gains**, since FTAs often protect patents and copyrights.

Growing trade flows often lead economies to focus more on **export-led growth** instead of **consumption-led growth** as companies emphasises on producing goods that have demand in foreign markets having bigger purse instead of producing what is required in domestic market.

## Will Easing Import Barriers Help India

Argument about consumers benefiting from easy imports cannot be called completely true as even for citizens to buy products they need income. Therefore, they need jobs that will provide them adequate incomes. Any government responsible for the welfare of its citizens has to be concerned about the **growth of jobs** in the country.

More than a free trade regime what India needs is a **good 'industrial policy'** to accelerate the growth of domestic production, by building on its **competitive advantages**; and by developing those capabilities, it can compete with producers in countries that 'developed' earlier.

It is no doubt that India has significantly benefited from liberalising of its economy whereby Indian consumers have access to variety of products from world over, it is also a stated fact that **Indian manufacturing sector has remained a laggard** and has not worked up to its potential.

The manufacturing sector in India and China which began with comparable capabilities and similar footing in 1990, in less than three decades **China has become 10 times larger than India's**, and its capital goods production sector is 50 times larger.

India's **impressive GDP growth has not resulted in generating enough employment** for India's large youth population. Whereas India's economy should have been a powerful job generator, the employment growth — the numbers of jobs created per unit of GDP growth — **remains among the lowest** in the world.

## Suggestions

It has become clear that employment is the most pressing issue for Indian citizens according to all economic surveys. Schemes to augment income of citizens such as through **Universal Basic Incomes can only give temporary respite** as given the population burden these schemes are **not economically sustainable**. Therefore, an ambitious '**Employment and Incomes Policy**' must be the highest priority

for all governments.

While India looks to **capture larger shares of global markets**, India's own billion-plus citizens' economy can act as a stimulus for growth of millions of enterprises. If citizens earn more, they can spend more.

The **'Employment and Incomes Policy'** thus can guide the **Industrial Policy** to where investments are required, and also what is expected from those investments to **produce more income-generating opportunities** for young Indians.

The **scope of 'industry'** should be broadened to include **all sectors** that can build on India's competitive advantages. For example, the tourism and hospitality industry, taking advantage of India's remarkable diversity of cultures and natural beauty, has the potential to support millions of small enterprises in all parts of the country.

India can also build **competitive advantage on its large numbers of trainable youth**, and with digital technologies reach of small enterprises, manufacturing and services can be increased which will provide many domestic and export opportunities that India has so far not achieved.

## Learning from Past

India can also learn from its own history. With the government's insistence in the pre-liberalisation era that production and technology must be indigenised in phased manufacturing programmes, India's automobile sector was able to provide Indian consumers with good products and now provides millions of people with employment. In contrast, the Indian electronics sector languished after India signed the Information Technology Agreement of WTO in 1996 and reduced import duties on IT-related manufactured products to zero.

## Way Forward

The **WTO**, which constantly looks to reduce trade barriers, needs to **overhaul its governance** to promote the welfare of citizens in all countries, especially poorer ones, rather than lowering barriers to exports of companies in rich countries in the guise of free trade idealism.

Indian economists should focus on the **fundamentals of economic growth** — more opportunities to earn incomes from productive work with development of new capabilities.

A robust **'Incomes and Employment Policy'**, supported by an imaginative **Industrial Policy**, therefore can **effectively guide India's trade policy** which will have larger and far positive benefits than solely opening trading regime can provide.