

Why trade has fallen foul

Pro-trade policy elites across the world have ignored the redistributive impact of trade for too long

One of the biggest challenges facing global policy elites now is to make a convincing case for free trade. The current wave of globalisation was fed by enormous increase in volume of world trade. The increase was not limited to trade among developed countries. Emerging markets, as well as low-income countries, became important actors of global trade.

Commerce expanded rapidly as barriers came down on movement of goods across borders and countries began lifting restrictions on investments. Matters were helped by liberal immigration policies adopted by many countries making the global labour market a great domain of opportunity for many as people began moving rapidly to jobs.

Ironically, it is the labour market that has now become the biggest threat to the legitimacy of global trade. While people moving to jobs has invited socio-cultural repercussions, the reverse—jobs moving to people—has created deep economic imbalances among societies and income groups. Studies point to the steady decline of wages as proportions of national incomes in both industrialised countries and emerging market economies. A considerable part of the decline has come from loss of jobs due to automation, particularly greater use of industrial robots. But a part of the jobs have gone because of trade, too.

Neo-classical theory of comparative advantage argued equalisation of wages among labour markets of the world over time. What it didn't account for was dispersion of produc-

tion itself across labour markets. As global value chains developed, companies took to outsourcing of production and letting cheaper locations do more activities at the expense of the more expensive ones. One of the major implications of these decisions was the loss of jobs in countries with higher wages. As industrialised-country businesses decided to shift bulk of their manufacturing jobs to low-wage locations, workers in several industries in the US and Europe, found themselves out of job.

Proponents of trade theory would argue that loss of jobs in the US and the EU were compensated by more jobs created in low-wage countries, while, at the same time, national incomes of the former as well as the latter expanded due to higher profits made by businesses from both. This might be true. But it is also true that over time, the number of jobs getting lost became larger under the twin pressure of outsourcing and labour-saving innovation. The result has been the emergence of a very angry constituency of jobless workers in industrialised countries. These workers are among the main supporters of Donald Trump, who has attacked trade as the main villain behind the loss of jobs.

Anti-trade sentiments are not confined to supporters of Donald Trump alone. They extend to workers in industries that have been experiencing 'jobless growth' in most parts of the world. They also include workers engaged in 'growth-less jobs'. These typically include workers from industries that are competing with workers from same industries in other countries. Textiles and apparels are relevant examples, where workers from various developing countries of the world are competing with each other for keeping wages low. Similar labour-intensive industries fighting for retaining shares in global markets also have workers in 'growth-less' jobs where wages have hardly increased.

Globally, there is little doubt over efficiency having led to redistribution of income in favour of businesses and corporates at the expense of wage-earners. Trade is only partly responsible for this redistribution. However, it has become an easy target for political attack. It is ironical that the attack against trade is led by many business leaders like Trump who have probably benefitted more from global dispersion of production than others.

At this point in time, global growth is slow, and growth in world trade is



AMITENDU PALIT

It is ironical that the attack against trade is led by many business leaders like Trump who have probably benefitted more from global dispersion of production than others

even slower. Trade is no more a driver of global growth. Low wages are acting as a constraint on consumption of wage goods leading to decline in trade of several categories of products. The overall economic contraction does not offer a conducive background to support of trade as countries hardly have the economic bandwidth for justifying pro-trade measures.

Pro-trade policy elites across the world have ignored the redistributive impact of trade for too long. Trade might have created winners, but at the same time, it has also created many losers. The latter are no more marginal when looked at in the context of labour market. Elections are won or lost on the basis of abilities of politicians and political parties to draw major chunks of the labour market on their sides. Workers comprise much greater political might in this regard than businesses by virtue of their sheer numbers.

The end of the presidential election campaign in the US is unlikely to mean an end for anti-trade sentiments. It is important for pro-trade establishments across the world to understand the importance of making free trade as fair as possible. Barring such efforts, trade is unlikely to capture popular attention any time soon and the world is likely to experience forceful comeback of protectionism.

The author is senior research fellow and research lead (trade and economic policy) at the Institute of South Asian Studies (ISAS) in the National

University of Singapore. Mail: isasap@nus.edu.sg; Twitter: @Amitendu Views are personal

ds 1ppt to the average GST rate

nsus on the tax rates on various items has th's deliberations, it would appear the Centre veering around to a fairly high GST rate way from the benefits of the GST. A fourth of re, for instance, is to be taxed at 26%, on top a surcharge on certain demerit/sin goods— tative list given to state finance ministers) even soaps, mosquito coils and biscuits is ve difficult for the middle-classes. Another ase is to be taxed at 18% which is a significant of this is services which are taxed at e idea of imposing a cess instead of a high- good one, since a cess does not have to be or the finance commission's revenue-share t Centre can use all the cess collections to s a significant step-up in the rate. At an es- 0 crore from this, it adds up to a whopping average rate.

re revenue department has not bought the CEA) view that the compensation amount e GST rate but should be found from within revenue department does not buy the CEA's ll result in more taxes for the Centre, from n their compensation. What makes this all t once the thorny issue of how the compen- was resolved on Tuesday, the states would rates.

rates was to be expected, too many rates will and will also lead to corruption since it gives or instance, several spices—based on the ini- taxed at a 6% rate but if they are sold as mix- 12%, some food items are to be exempt while eed, one of the reasons for the GST rates go- taxable base is not to be taxed—if half the means the other half has to be taxed at dou- is why, as Vijay Kelkar, Satya Poddar and article in *Mint*, the government could have rramid consumers by say a ₹2,000 per annum get the higher tax on items they consumed— ch larger tax base which, in turn, would low- t is still something that is worth fighting for- zen, it will be difficult to lower it, and the ben- me that much more elusive.

m gets a burial

delhi CM needs serious solutions

Chief minister Arvind Kejriwal's add.