

## Jobs, exports and the trade pacts link.

India needs to shed its exaggerated fears of trade agreements to create new jobs — the country's biggest challenge



India's economy contracted by 23.9% in the first quarter of 2020-21. According to the Reserve Bank of India (RBI), the Indian economy will further contract by 10% in the July-September quarter. This is technically defined as a recession by economists. India is in an economic recession for the first time in its independent history. 'India is in a recession' means very little to the average Indian. The headline numbers too matter little to most people. The average Indian 'feels' the economic despair when her older child has lost his job or when her younger one cannot find a job despite her impressive educational qualifications. She 'sees' the pall of gloom when many workshops in her town are closed or when trucks remain idle or when trains do not run or when restaurants do not have customers.

### JOBS ARE THE FIRST CASUALTY

Thousands of people lost their jobs due to the slowing economy in 2018-19 and 2019-20. Unemployment had reached a 45 year high. Then, in March 2020, COVID-19 struck India and a total national lockdown was announced. By one estimate, more than 2 crore people lost their jobs during the lockdown. They included all kinds of jobs — regular salaried, non contractual, casual, daily wage, and self employment. When jobs were lost, incomes were lost too. Millions of people found that they did not have a roof over their heads or money to feed their families.

In any country, the ultimate economic test is, are there sufficient jobs, incomes and livelihoods for all in the workforce? The single biggest challenge confronting India today is jobs. When people are poor, hungry and desperate, any job will be a blessing. The job that requires hard, manual work and pays the lowest daily wage is the work provided under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) scheme. During the seven month lockdown period, there were 11 crore people who asked for work under MGNREGA. That is 20 times more than the total number of persons employed by all the companies listed on the stock exchange. The only meaningful conversation about the economy that we ought to have is how to recover the jobs that were lost and create new well paying jobs.

Let us suppose that the government makes available Rs.10 lakh as a loan to four companies for capital investment. The first company, a steel manufacturing company, will create one new job with this amount. The second, an automobile manufacturer, will create three new jobs. The third, a producer of leather goods, will create 70 new jobs. And the fourth, an apparel and garment maker, will create 240 new jobs including 80 for women (Economic Survey 2016-17).

### WHERE THE JOBS ARE

Large numbers of good quality jobs can be created only in sectors that are labour intensive, and where India has a comparative advantage, such as apparel, leather goods, value added agriculture and so on. These job creating sectors depend not only on the domestic market but, significantly, on export markets. More than one half of the leather goods and one third of the apparel produced in India are exported to other countries. India, therefore, needs to find more export markets, nurture them, and sustain them amid intense global competition. Merchandise exports also create supporting jobs in warehousing, transport, stevedoring, container stations, shipping, ship chandling, ports and export financing. It is therefore very important to encourage and incentivise exports to be able to create many new jobs in the country.

A recent research study by Arvind Subramanian and Prof. Shoumitro Chatterjee shows how exports were the most significant factor that drove the Indian economy in the 'boom years' of 2003-2012 (<https://bit.ly/39fRNCX>). Contrary to popular perception, Subramanian and Chatterjee have shown that during the period since 1995, India did exceptionally well not only in exports of services such as information technology but also in the exports of manufactured goods and other merchandise. India was the third fastest growing exporter of manufactured goods in this period with 12% annual growth, after Vietnam and China. There is irrefutable evidence that India's new trade policy, unveiled first in 1991-92, and taken forward by every subsequent government until 2014, has paid rich economic dividends in generating jobs, incomes and consumption.

### EXPORTS AND AGREEMENTS

Unfortunately, despite the "Make in India" hype, export volumes have languished in the last six years. Merchandise goods exports were \$314 billion in 2013-14 and remained stagnant for the next five years touching \$313 billion in 2018-19. The reason for this (other than the disruption of export supply chains due to demonetisation and Goods and Services Tax) is the

complete reversal in the direction of India's foreign trade policy with higher tariffs, non tariff barriers, quantitative limits, the return of licensing, border country restrictions and the appreciating value of the rupee.

For nearly two decades, the countries of the world invested in a rule based trading order. The age of trade agreements — both bilateral and multilateral — was born. There were more winners than losers because of trade agreements. Some historic trade agreements were the Association of Southeast Asian Nations (ASEAN), North American Free Trade Agreement (NAFTA) and the Southern Common Market (MERCOSUR). Halfhearted and hesitant agreements like the South Asia Free Trade Agreement (SAFTA) failed. Whether we like it or not, the harsh truth is that exports are linked to trade agreements. The member countries of a trade agreement promote trade among themselves with easy rules but restrict trade with nonmembers with hard rules. Many countries rushed to conclude bilateral agreements (free trade agreements or FTA) because they realised the benefits to members. Nonmembers suffered.

### **BREAK DOWN THE WALL**

It is true that FTA provisions were also misused by some countries to question the foreign investment policies and tax policies of other countries, usually recipients of foreign direct investment (FDI) like India. Purely trade and commercial disputes were dragged to international arbitral tribunals on the pretext of violating FTA provisions. India decided to keep FTAs in abeyance until we could agree with our partner countries, on a model FTA that built in safeguards against abuse. Unfortunately, under the current government, that has turned into an anti FTA policy and has further metamorphosed into an anti free trade policy. To put it bluntly, we are just a few steps away from full protectionism that kept India a closed and struggling economy for three decades. Decades ago, Manmohan Singh, in his doctoral thesis at Oxford University, pleaded for India to shed its export pessimism. Today, we need to shed exaggerated fears of trade agreements. India cannot 'protect' its domestic industry with high trade barriers while aspiring for bilateral trade treaties to promote exports. This 'have the cake and eat it too' approach is naive and detrimental. Most manufacturing today has a long supply chain that cuts across many countries. To be able to export goods, India must import raw materials or equipment or technology from other countries in the supply chain. Hence, we must relearn to engage with other countries and negotiate favourable trade agreements through the bilateral and multilateral routes. Otherwise, countries bound by trade agreements among themselves will shut the doors on India's exports. Besides, it is common sense that no country will allow import of Indian goods and services unless that country is able to export its goods and services to India on reasonable and fair terms. The art of survival in a fiercely competitive world is engagement and negotiation.

India's economy is in a shambles. Exports are one of the main engines to revive economic growth and create many new jobs. Subramanian and Chatterjee estimate that India has the immediate opportunity to export goods worth \$60 billion in labour intensive sectors which can then create lakhs of new jobs. To revive exports, India needs greater and frictionless access to global markets. Protectionism and autarky will take us back several decades. Wisdom lies in learning from the past, being smart and resilient in the present and securing our prosperity in the future.

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