

COMMENT

Protectionism, Not Free Trade

Two diametrically opposite ways of facing the global recession are being proposed these days. India along with G-20 and APEC countries has committed to deepen free trade. But the same Government of India is speedily moving towards protectionism.

America is not behind. President-elect Barak Obama has stressed the need to open the world economy for American exports. This is endorsement of free trade. But he has also equally vehemently extended support to the \$17 billion package for US automakers. This package will lower the cost of production of American car manufacturers and help them face competition from cheaper imports. Mr Obama also wants to include labour standards in the World Trade Organization. This is but a form of protectionism. Under labour standards, the United States will have the authority to impose high import duties on goods produced by cheap labour. In other words, he wants to give protection to expensive American labour from cheap foreign labour. Labour is a 'commodity' from the standpoint of economics. The fact that a worker in India is willing to work for a day at a payment of Rs 200 means that the cost of production of one day's labour in India is Rs 200. The cost of production of the same labour in the United States is Rs 5,000. The principle of free trade requires that the world economy use more of cheap Indian labour and less of expensive American labour. Consumers across the globe consume more of Indian Basmati rice because the cost of production is less in India. Similarly, the world economy should use more cheap labour produced in India. That would be the formula of free trade. Thus, Obama's call to impose labour standards and protect expensive American labour from competition from cheap Indian labour is protectionism through the back door.

Other countries are not far behind. A report on CBS News of December 22 tells that Indonesia is to impose import restrictions on 500 items. Russia has imposed new import duties on cars, poultry and meat. France is making a bailout package for domestic companies. Argentina and Brazil are increasing import duties on wine, garments, fruits and leather products. Clearly, irrespective of whatever may be said in international forums, the ground reality is moving fast towards protectionism.

In today's circumstances, free trade may be wholly a win-win situation for poor countries like India. They will obtain benefits from imports of advanced technologies and also from the exports of cheap garments. The loss to poor countries from the free trade came not from free trade itself but from the unnecessary conditions of free flow of foreign investments and protection of patent rights that were attached to free trade agreements.

Presently there is more to gain from free trade if free trade is for real.

Times have changed. The arrogance of technology has been broken.

In all likelihood developed countries will see a dramatic rise in protectionist movements. Their workers will continue to lose their jobs in absence of generation of new technologies. The ability of their governments to artificially

prop up their industries by bailout packages will get exhausted because these packages will have to be paid for soon. □□□ *[contributed]*