Can Trade Liberalization Benefit the Commonwealth in the Current Economic Climate

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Over the decades, liberalization has served as a powerful motive force of global integration and economic development the two enduing pillars that support the present world order Liberalization was interpreted as a universal principle in the free world – a policy orientation that promises economic growth and enables financial resources to percolate down to the lowest levels of society in the form of prosperity.

Unfortunately the waves of recession which impacted the United States (USA) in 2007 first and spread to Europe and the rest of the World within a year and a half have imposed severe constrains on the very scope of Liberalization. The question being put by academician and activist today is not how expeditiously a country should embrace liberalization, but whether trade liberalization should be pursued at all at a time when domestic industry is threatened by a plethora of apparently insurmountable challenges. In fact the very concept of liberalization has undergone a sea change, with some developed countries undertaking protectionist measures and trying to impose extraneous conditions on developing countries in order to protect their own domestic interests.

The Global Financial Crisis :

The global and economic crises has been the result of global regulatory and supervisory mechanisms, excessive speculation and excessive risk taking. This was further aggravated by global imbalances. There is now a general acceptance that the present economic and financial crisis is the worst recession since the great Depression and the first-ever contraction of global GDP in the post war period. Given the magnitude of the crisis and the widespread meltdown, some have dubbed it the 'Great recession'.

The economic slowdown in the United States (USA) in 2007 following the US sub-prime crisis in August 2007 resulted in a fall in GDP growth in US from 2.8 percent in 2006 to 2.0 percent in 2007. The consequent fall in US import growth and Europe including the shadow banking system comprising interalia investment banks, hedge funds, private equity and structural investment vehicles. The simmering crisis aggravated further with the collapse of the M/s Lehman Brothers in September 2008. This resulted in an unprecedented contraction of world growth to 3.2 percent and trade to 3.3 percent with the growth and imports of advanced economies at 0.9 percent and 0.4 percent respectively. This situation worsened in 2009 with world output projected at 1.3 percent and world trade volume at 11.0 percent. The fall in growth and imports of advanced economies was worse with projections at 3.8 percent and 12.1 percent respectively.

India could not insulate itself from the adverse developments in the international financial markets, despite having a banking and financial system that has little to do with investments in structured financial instruments carved out of sub-prime mortgages, whose failure had set off the chain of events cultivating in global crisis. The global slow down impacted the Indian economy on account of the sudden withdrawal of financial resources by Foreign Investment Industries (FII), cancellation of export orders, marked reduction in the number of tourists from the US and Europe etc.

Impact of the global financial crisis on the Indian Economy :

The direct impact of the global financial crisis on India manifested, itself through a marked slow down in growth rate, the contraction in capital flows followed by a fall in the equity market indices, pressure on the rupee and the resultant pressure on domestic liquidity.

The growth rate of Indian economy has come down from nearly 9 percent average growth rate during the last four years to 6.7 percent in 2008-2009. Further money and credit markets have been affected indirectly through dynamic linkages. The drawing up of liquidity– a fallout of repatriation of portfolio investments by Foreign Institutional Investments (FIIs) affected credit markets. This has been compounded by 'risk aversion' of banks to extend credit in the face of general down turn. It has been further observed that structural employment has occurred in the short term.

It has also been noticed that increased domestic economic instability from international trade cycles, as economics became dependent on global markets. In the global financial crisis and recession of 2008-2009 the impact of falling employment meant that protection pressures started to rise in many countries.

In the same way many international banks were saved by Government investment in them and Government provision of capital and loans. Those banks were often pressured is return to lend domestically rather than lend to international business and investors.

International markets are not level playing field as countries with surplus products may dump them on the world markets below cost. Some efficient industries may find it difficult to compete for long periods under such conditions.

Develop on new industries may find it difficult to become established in a competitive environment with no short-term protection policies by Governments Free trade can lead to pollution and environmental problems as companies fail to include these costs in the price of goods. It increases the complexity of the international trading system and can raise transactions costs for business. The negotiation of Regional Trade Agreement is resource intensive and there can be an 'opportunity cost' in devoting resources to bilateral or regional as opposed to multilateral.

Generally speaking it is believed that the Global Financial Institutions and agreements undermine the local decision making methods International Corporations exercise privilege that human citizens cannot :

(a) Moving freely across borders
(b) Extracting desired natural resources
(c) Utilizing a diversity of human resources

They are able to move on after doing permanent damage to the natural capital and biodiversity of a nation.

In India adverse impact is the marked reduction in the demand for Indian goods and services and hence a reduction in the export growth rate. Sectors like general jewellery, tourism, software are witnessing slower growth rates as a result of global slow down. Employment generation has been badly affected as a result of the reduced level of outsourcing.

A recent survey conducted by the Ministry of labour to study the impact of the economic slowdown on employment has shown job loss by more than half million workers between October 2008 and January 2009.

The protectionist policies of the US and Europe have also ensured the reduction in exports of Indian products to these countries and the subsequent reduction in manufacturing of such products in India, causing job losses at various levels and in many sectors of the Indian Economy. It has a deterrent impact on Bihar also. Sachindra Narayan (2008) has mentioned that cottage industries and handicrafts has suffered a huge loss in rural Bihar in terms of employment and economy. The trade liberalization has affected the scheduled casts and scheduled Tribes economy in India most. So far Bihar is concerned I have referred a study done by Professor Sachindra Narayan which reflects huge loss in economy of rural Bihar due to liberalization of trade, local market are flooded with Chinese, Singapore, US goods and our local artisans lost their market as they are unable to compete.

Thus I feel liberalization of trade has created unmanageable loss in Rural/Tribal India and in India in general. We must reconsider here that Trade Liberalization benefit less and harm more to the common man of Asia in general and of India in particular with special reference to Dalits and Maha Dalits Segment.

I would like to conclude with the words of Mahatama Gandhi "I do not believe in the greatest good of the greatest number, nor can I agree that might is right. For human beings, the object in view should be the good of all, with the weak being served first."

JAI HIND, JAI BHARAT.