

NO ONE CAN DENY THAT there are net gains from free trade (FT). If the most efficient producers are provided access without artificial restrictions (political boundaries), it would optimise the costs for a given level of consumption.

But, how those gains are distributed is an unsettled question. We can have examples of countries losing out due to FT and others gaining at their expense. It is not even difficult to find examples of just one country garnering all the gains and all the others losing.

It is also possible that some gainer(s) gain disproportionately from free trade than others (making the diminished gain a loss). Unless a country is careful about what to avoid, it may end up a heavy loser.

An illustration of this (*see graphic*) seeks to break up the supply curve in the standard demand-supply analysis of microeconomics. The supplying units are arranged from the most efficient to least efficient from left to right. Efficiency is measured by how low the total variable cost is. The thick ridge line running over the top of various bars representing individual units comprises the supply curve. Those to the left of where the demand-curve meets the supply-curve get to supply the market. Those to the right will incur losses since market-price is less than their variable cost. This illustration studies the impact of removal of import duties after FTAs. After removal of import duties, the supply curve accommodates more overseas players to the left and pushes out some domestic suppliers to the right of equilib-

A fatal blow to manufacturing jobs

Opening up our manufacturing without proper employment impact assessment might prove disastrous

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rium pricing which thus face closure.

The net impact (the 'before' and 'after' scenarios) in the illustration is as follows:

- The government has lost whatever import duties it was getting from suppliers already competitive in the market. The entire amount accrued to these suppliers.

- The domestic consumers have benefited from a price reduction of less than 1%. This is most likely from better efficiencies of the overseas suppliers.

- There is a net loss in domestic employment (9%) translating into better employment or capacity utilisation overseas.

This kind of relatively flat demand or supply curves prevail in commodity industries where consumers don't pay much premiums for brand and supply efficiencies come from factor cost differences, scale

economies, cheap labour, patents, etc.

Larger concentration of capacities enabled by FT facilitates mechanisation and results in net loss of employment. These net losses in employment have also to be distributed, and one can end up with a disproportionate share of this unemployment as in the above case where the host country ends up with all the employment loss.

One of the methods oft-used by trade economists to identify industries with export or import competitiveness is the Revealed Comparative Advantage (RCA) and its variants. Essentially, this method calculates the ratio of (i) % of a particular commodity in a country's exports to (ii) the % of global exports of the commodity in world exports. If the ratio is more than 1, then the country is supposedly export competitive.

Before and after FTA - impact of duty reduction

