

**Cross-border trade, investment and immigration**

Our Prime Minister was the Secretary General of the South Commission before becoming India's Finance Minister in the early 1990s. In his former role, he said in 1989 that "*The South Commission is convinced that the developed countries cannot play the role of the engine of Southern growth. The new locomotive forces have to be found within the South itself*". South-South cooperation did not really progress the way Dr. Singh thought it would, remaining a nice-sounding slogan. Initially at least, the flow of trade and investments remained North South, triggering the latter's growth, and helping bring a billion people above the poverty line over the last two decades. One particular part of the globe which benefited maximum has, of course, been Asia with China now becoming a rival of the US in terms of global influence. The other side is that cheap imports allowed the Anglo Saxon economies to increase consumption even when real wages for most of the people remained stagnant, helping mitigate the political backlash of growing income disparities.

Some recent developments in the global economy make one wonder whether the best days of cross-border trade, direct investment and immigration are over. As growth in Europe remains negative (the last positive number for the euro zone was reported back in Q3 of 2011), and unemployment is in excess of 12% -- much higher in some countries like Spain --, the tendency to blame the outsider, the ethnically different, is growing rapidly. There were anti-immigrant riots recently in Sweden, that idyll of social stability. In the UK, after the murder of a soldier on a London street, public anger against the Muslim community is rising. Chinese students were recently assaulted in France. And, within Europe extreme left and right wing parties opposed to European integration, are gaining electoral ground. To quote one example, the UK's Independent

Party, which is both anti-immigration and anti-Europe, received as much as 25% of the vote in recent local elections. We in India have also seen Saudi Arabia and Kuwait prepare to repatriate a large number of Indian workers, in order to promote local employment.

The anti-globalisation developments are hardly limited to immigration. It is also resulting into a backlash against foreign investment. One of the more popular electronic games recently introduced in France is “Kill Mittal”. The anti-Mittal feelings arise from the fact that Lakshmi Mittal may need to retrench some workers in his French steel plant; Belgium may well nationalise Mittal’s plant in that country, for the same reason. (Mittal himself has called for protection against steel imports in Europe.) Nearer home, Tata Steel has recently taken a big hit on the value of its investment in Corus, a principally European Steel producer. (To be sure, the results of Tata Motors were helped by the good performance of its Jaguar Land rover (JLR) subsidiary.) But Tata’s experience in Europe does not seem to have deterred Indian entrepreneurs from investing abroad. In the last few days alone Apollo Tyres announced the acquisition of a large US tyre company and Mahindras have entered into a large share swap transaction with a Spanish manufacturer of automotive components.

To add to the problems of globalization, many countries seem to be taking trade protectionist measures. The 12<sup>th</sup> Report of the Global Trade Alert team suggests that trade protectionist measures taken by various countries in Q4 of 2012 and Q1 of 2013 were the highest since the economic crisis of 2007-08. Recently the US imposed a tax on imports of Indian shrimp. And, sooner or later, restrictions on B1 visas would surely affect our IT export growth. A major EU China trade dispute seems to be brewing. The EU wants to impose protectionist measures against the import of Chinese solar panels; in retaliation, China has imposed a higher duty on European wines. People’s Daily, the Chinese Communist Party newspaper, recently warned Europeans that “*The change of the times and the shifts of power have failed to change the condescending attitude of*

*some Europeans....China doesn't want a trade war, but trade protectionism cannot but trigger a counterattack."* Simultaneously, developments in both information and manufacturing technologies -- cloud computing, robotics, 3D printing which automates manufacturing, renewable energy, etc. -- could dramatically impact cross-border trade over the longer term.

Another area of potential disputes is the rise of Asia in the global economy, not just in terms of economic output, but even technologically. For one thing, as the yuan has strengthened – it is very close to CNY 6 to a dollar now – Chinese companies are finding it cheaper to acquire western companies. Globally competitive high-tech Chinese companies like telecom giant Huawei are finding increasing opposition to both their acquisitions and products in US and Europe. 'BusinessEurope' has forecast that China would overtake Europe in innovation by 2020. Another sign of technological advancement of Asia is that, recently, Samsung won a suit against Apple, for infringement of its patents.

The recent tragedy in Dhaka in which more than a thousand workers died when a building housing garment export factories collapsed, should not really be blamed on globalization: we in India, certainly in Mumbai, see even residential buildings collapsing with tragic regularity. But this apart, European recession is very useful for our policymakers, providing a good excuse for domestic slowdown! It is always easier to blame outsiders for our domestic woes!

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