

## **Protectionism and Obama**

Mr. Barack Obama's election has been cheered across India and for many good reasons. Once again the US has shown remarkable qualities of social and political regeneration and surprised all of us with the depth and breadth of its democratic traditions. By electing Obama with a clear majority of votes polled, the American people have given the US a fresh opportunity to regain its pre-eminent position in the world, which it has enjoyed since the middle of the last century. An Obama administration, if it does live up to the campaign promise of being less unilateral and more consultative, can restore US' political leadership in countering global terrorism and pushing back the obscurantist forces of fundamentalism. While these may well be the necessary conditions for giving a fresh lease of life to Pax Americana, the sufficient condition must surely be Obama's effective handling of the on going global financial meltdown and reinforcing the positive features of globalization and giving it the much needed human face.

President designate has moved quickly, as he must, to try and reverse the recessionary tide and bring the US economy back on the growth path. But the world will of course be watching with great interest his handling of the multilateral economic and trading regime and his commitment to globalization. Any sign that he is wavering in his support to a liberal and open global economy, will dent the US image perhaps beyond repair. Neither the US nor indeed the rest of the world can afford this sudden diminution of the US role in the global economy as it is not clear if others are yet ready to take it on.

In India, there are genuine concerns that going by his past pronouncements on outsourcing and manufactured imports, an Obama administration has a strong possibility of turning protectionist. Hopefully, retrograde steps like restricting outward investment flows or outsourcing and reducing the number of service visas will be resisted from within by his own economic advisory team comprising as it does of people like Paul Volcker, Larry Summers etc. who have been strong votaries of globalization. The negative effect of such protectionist steps on our software and ITES industry can be significant. Nearly 70 percent of our software exports of close to \$40 billion are destined for the US market and of this a hefty 40 percent are used by the US financial firms that are currently in deep trouble. It will be more pertinent for the Indian delegation to pursue this important issue with Obama's advisory team than to try and take a lead on restructuring the international financial architecture at the forthcoming G-20 meeting in Washington.

I think President designate Obama, while he can of course take the protectionist route, is unlikely to do so for several reasons. First, he appears to be strongly committed to reversing the decline in US's global prestige and leadership that has happened during the Bush presidency and specially over the last four years. He cannot hope to achieve this by leading the US away from globalization and turning his back to US's long standing commitment to free market for goods and services. This will seriously erode the legitimacy that Pax American currently enjoys. A protectionist move by Obama presidency must surely imply the beginning of the end of the US economic hegemony in the world and accelerate the shift away from the Atlantic basin to Asia. Second, US firms

with overseas operations, specially in Asia, will for good reason, resist these moves as their competitiveness and indeed survival will be threatened. The loss of competitiveness and eventual shutting down of these firms will also result in job losses within the US. Third, any unilateral protectionist moves by the US will raise the specter of competitive tariff escalation by its trading partners which will surely exacerbate the current crisis and make a world wide depression that much more possible. There are more than enough people within the US academia and hopefully also within the administration who can hammer home the dangers inherent in such an approach and thus stop the Obama administration from going ahead in the protectionist direction. Fourth and last, higher protection levels will imply ringing the death knell of the Doha Round and effectively also the near complete loss of WTO's credibility and indeed legitimacy. I doubt if any US president can precipitate such an eventuality. These factors will hopefully ensure that while there will be plenty of threats, and perhaps even some calls from voluntary export restraints from the incoming administration, these will not be carried forward to actual imposition of higher tariff or non-tariff walls by the US.

On the other hand, this administration could rely much more on the traditional and admirable American strengths of product innovation, technology upgradation and higher productivity to provide the real thrust for pulling out the US economy from the recession in which it has unmistakably slipped. Mr. Obama has himself emphasized these during his campaign. He will find out very quickly that in this positive approach for handling the global economic downturn, India with its dynamic entrepreneurs and large supply of technical professionals has a lot to offer. A knowledge economy based Indo-US partnership can not only be a win-win for the world's two largest democracies but also have significant positive externalities for the rest of the world.