

NOTE

India and Obama

B J writes :

US President Obama had a portrait of Mahatma Gandhi hanging in his office. He has also called India and America 'natural allies'. But these are superficial words. Obama's main agenda is to pull the American economy out of recession. Such effort would be beneficial for India in normal circumstances. Economic growth in America would create demand for Indian goods. But it may have the opposite effect in times of recession. Obama may try to revive the American economy by shutting out imports from India. An inward-looking American economy will not be good for India.

First, the good news though. Obama wants to increase investment in infrastructure such as roads and digital lines. This will create demand for machineries and iron and steel that India may supply for road making, Indian IT engineers will get jobs in laying the digital lines. Obama is creating a stimulus package to revive the American economy. At the time of writing this article, the design of this package was under discussion. A similar stimulus package was implemented by George Bush earlier. Refund cheques were mailed to taxpayers with the idea that they will spend this money and buoy the demand in the markets. Such a package will have positive effect on India. American consumers will have more purchasing power to buy goods like skirts and shoes produced by Indian workers.

Obama's other economic policies will have an opposite effect, however. This will become clear by comparing Obama's policies with those of George Bush. The former President was an ardent supporter of free trade. He felt that import of cheap goods produced in other countries should be allowed into America because it helped raise the standard of living of American people. He wanted American businesses to compete with cheap imports by using advanced technologies and raising productivity of their workers.

But this policy failed to provide relief to American workers, however. The problem was inherent in globalization. American companies have made available their most advanced technologies to low-wage countries like India and China. Technologies developed by American companies no longer provide an edge to American producers.

Obama wants to protect jobs of the American people. Protect jobs from whom? Answer is from India and China. Obama wants to impose higher taxes on the US automakers that manufacture cars in India and import into America. He wants to raise taxes on companies that are sending jobs to foreign countries. A condition has been attached to the stimulus package being negotiated in the US Congress to the effect that companies availing of relief under the package will not outsource jobs to foreign countries. This policy will be clearly harmful for Indian exporters. Large number of jobs are being created in Gurgaon, Mysore and Chennai in outsourcing of services like legal research, processing of insurance claims, clinical trials, medical transcription, etc. Obama wants to stop these jobs from going to India.

The bailout package for US automakers will have a similar effect. The US Government will provide low-cost loans to the domestic automakers. This will artificially reduce their cost of production.

The stimulus package under negotiation is likely to provide a similar facility to a large number of American industries. Certainly Indian exporters in these areas will lose their competitive edge just as Indian farmers are unable to export to the US because of agricultural subsidies. Obama wants to create 'green' jobs such as improving the insulation in American homes and reducing the cost of heating. These jobs will almost

wholly be created in America. American workers alone will be able to install insulation in American homes.

India may face difficulty in an altogether different area. Gorge Bush was focused on economic growth. He resisted efforts of the world community to force the US reduce carbon emissions by the American economy. He did not ask India to reduce her carbon emissions either. Obama is more inclined towards the environmental agenda. He may agree to some reduction in carbon emissions. That will lead the world community to seek a parallel reduction from India. □□□