



Balancing Protectionism with Globalization

This editorial is based on "[Raghuram Rajan: How emerging economies can prosper in a protectionist world](#)" which was published in Mint on 08/01/2025. The article brings into focus the pivotal challenges and opportunities faced by emerging economies, particularly India, in navigating a shifting global economic landscape shaped by protectionism and automation.

For Prelims: [Emerging economies](#), [Protectionist barriers](#), [EU's Critical Raw Materials Act](#), [World Trade Organization](#), [China+1 strategies](#), [Brexit](#), [EU's Carbon Border Adjustment Mechanism](#), [International Energy Agency](#), [Data localization](#), [Wheat and rice exports](#), [Regional Comprehensive Economic Partnership](#), [India-Australia Economic Cooperation and Trade Agreement](#), [PM Gati Shakti initiative](#)

For Mains: Factors Driving the Rise of Protectionism in a Globalized World, Issues Arising Out of Protectionism for India.

As global trade tensions rise and automation transforms manufacturing, [emerging economies face a pivotal moment in their development journey](#). The traditional path of [export-led manufacturing growth](#), which helped countries like **China** achieve middle-income status, is **becoming increasingly challenging due to [protectionist barriers](#)** in developed nations. Despite India's impressive growth in services exports and its emerging position in the global economy, **policymakers must remain vigilant about addressing challenges in human capital development**, infrastructure, and economic inclusivity to ensure **sustainable growth in an increasingly protectionist world**.

What Factors Are Driving the Rise of Protectionism in a Globalized World?

- **Economic Nationalism and Deindustrialization:** [Economic nationalism](#), fueled by the loss of manufacturing jobs in developed countries, drives protectionist policies to **"reshore" industries and revive domestic production**.
 - For instance, the U.S. enacted the **Inflation Reduction Act (2022)** to subsidize domestic green technology production, prioritizing American firms over imports.
 - Similarly, the [EU's Critical Raw Materials Act \(2023\)](#) aims to reduce **dependency on imports in clean energy**.
- **Geopolitical Rivalries and Strategic Decoupling:** Tensions between major powers like the **U.S. and China** have led to [economic decoupling](#), with nations prioritizing self-reliance in critical industries.
 - The **U.S. imposed restrictions on China's access to advanced [semiconductor technology](#) in 2023**, citing national security concerns.
 - Meanwhile, **China retaliated by restricting exports of gallium and germanium**, critical to global chip manufacturing, affecting global supply chains.
- **Supply Chain Vulnerabilities Exposed by Covid-19:** The pandemic revealed **over-dependence on global supply chains**, pushing nations to localize production for

critical goods.

- For example, during 2020, global trade in medical supplies saw disruptions, with countries like **India banning the export of ventilators**.
- According to the [World Trade Organization \(WTO\)](#), **global trade dropped by 5.3% in 2020**, highlighting vulnerabilities in international supply chains.
- In response, many nations have since adopted "[China+1 strategies](#)", diversifying supply chains to mitigate risks.
- **Rising Inequality and Populism:** Economic inequality within and between nations has **fueled populist demands for protectionist policies** to safeguard domestic jobs and industries.
 - **Brexit (2016)** is an example, where **governance and voters blamed EU trade policies for local job losses**, particularly in manufacturing regions.
 - Populist leaders leverage these grievances to justify tariffs and trade barriers.
- **Environmental and Climate Concerns:** Governments increasingly use environmental policies as protectionist tools under the guise of sustainability.
 - The [EU's Carbon Border Adjustment Mechanism \(CBAM\) \(2023\)](#) imposes tariffs on imports with higher carbon footprints, affecting industries in developing countries.
 - According to the [International Energy Agency \(IEA\)](#), global carbon dioxide (CO₂) emissions from energy combustion and industrial processes **grew 0.9% or 321 Mt in 2022** to a **new all-time high of 36.8 Gt**, making carbon tariffs a tool for environmental goals and industrial protection.
- **Technological Dominance and Digital Protectionism:** The race for technological supremacy has led to restrictions on data flows, intellectual property, and digital goods.
 - India, for instance, enacted [data localization rules in 2022](#), mandating firms like Google and Amazon to store data within its borders to protect national security and foster domestic digital ecosystems.
 - Similarly, the [EU's Digital Services Act \(2022\)](#) regulates the obligations of digital services, including marketplaces.
- **Protection of Domestic Agriculture:** Agricultural subsidies and tariffs are employed to shield domestic farmers from volatile global markets and foreign competition.
 - The **U.S. Farm Act (2018)** allocated \$428 billion in subsidies for domestic agriculture, shielding farmers from price shocks.
 - In India, **protests against agricultural reforms in 2020** were rooted in fears of reduced protections from global competition.
 - In 2024, India invoked the [peace clause at the World Trade Organization \(WTO\) for the fifth consecutive time](#) due to breaching the prescribed subsidy limit for rice.
- **Inflationary Pressures and Economic Instability:** Rising inflation and economic instability have prompted governments to **impose export bans and import restrictions to control domestic prices**.
 - For example, **in 2022, Indonesia banned palm oil exports** to stabilize local cooking oil prices.
 - Similarly, **India restricted wheat and rice exports in 2023** to curb domestic inflation.
- **Weakening Multilateral Institutions:** Global trade institutions like the **WTO face challenges in resolving disputes**, leading nations to resort to unilateral protectionist measures.
 - For instance, the **WTO's Appellate Body has been non-functional** since 2019 due to U.S. opposition to judicial appointments.
 - Nations now increasingly rely on bilateral trade agreements or impose unilateral tariffs, reflecting a decline in trust in multilateral mechanisms.
- **Domestic Political Pressures:** Short-term political considerations, such as **elections, often drive protectionist policies to appease domestic constituencies**.
 - In the run-up to the 2024 U.S. presidential elections, both major parties advocated for **stricter tariffs**, reflecting bipartisan support for protectionism.
 - The newly elected U.S. President warns of **imposing 100% tariffs on the BRIC nations** if they undermine the dominance of the U.S. dollar in global trade.

What are the Issues Arising Out of Protectionism for India?

- **Export Competitiveness and Market Access:** Protectionism limits **India's access to global markets**, reducing its export competitiveness and threatening sectors like textiles and clean

energy.

- Countries imposing tariffs or subsidies for domestic industries, such as the US under the **Inflation Reduction Act (2022)**, put Indian exports at a disadvantage.
- Recent reports state that India's merchandise exports for 2023 was **\$432 billion, 5% lower than 2022**, especially in key sectors like textiles.
- **Disruption in Supply Chains:** Global protectionism disrupts India's supply chain participation, **increasing costs for critical imports like semiconductors**.
 - For example, the US-China tussle on the semiconductor supply chain hurt India's electronics and EV industries.
 - In the financial year 2023-24, **India imported electronic components worth over \$12 billion from China** and any disruptions in raw materials threaten its **\$10 billion semiconductor mission**.
- **Impact on Domestic MSMEs:** Protectionist barriers in developed markets reduce demand for Indian MSME products, undermining exports and employment.
 - When the **Carbon Border Adjustment Mechanism (CBAM)** becomes fully operational, India's steel and cement industry will be heavily impacted.
 - India will face a duty of **Euro 173.8 per tonne (Indian Rupees 15,394)** on steel exports to the European Union.
- **Inflationary Pressures from Import Barriers:** Protectionism drives up the cost of imports, increasing inflationary pressures in India, particularly for essential goods.
 - By the end of April 2022, refined palm oil had **become 27% more expensive for Indians** due to Indonesia's palm oil export ban.
 - Similarly, restrictions on fertilizer exports by Russia and Belarus raised Indian DAP fertilizer prices, **affecting agricultural productivity and consumer costs**.
- **Reduced FDI Inflows:** Protectionism creates uncertainty, discouraging foreign investors from committing to Indian projects.
 - **Foreign institutional investors have withdrawn nearly \$10 billion from the Indian stock market in October 2024**, marking a record high, reflecting caution amid rising global tariffs and trade barriers.
 - **Foreign Direct Investment (FDI) inflows** to India **dropped by 43% in 2023**, totaling \$28 billion, while global FDI declined by 2%.
- **Diversion of Resources to Trade Disputes:** Protectionist trends force India to divert resources and diplomatic focus to **managing trade disputes instead of fostering new trade relationships**.
 - For example, in 2024, India has sought arbitration proceedings under the **World Trade Organization (WTO)** rules against Australia to resolve an issue concerning the services sector.

Is India's Atmanirbhar Bharat a Form of Protectionism?

- **Arguments Suggesting Atmanirbhar Bharat is Protectionist**
 - **Increased Tariffs and Import Restrictions:** India has raised import duties on goods like **electronics, solar panels, and toys** to protect domestic industries under **Atma Nirbhar Bharat**.
 - For instance, the **Basic Customs Duty (BCD)** increased from 14.5% in 2021 to **40% on solar PV modules and 25% on solar PV cells in 2022**.
 - **Production-Linked Incentive (PLI) Scheme:** The PLI scheme incentivizes domestic manufacturing in sectors like electronics, pharmaceuticals, and semiconductors, **which critics argue is a form of indirect protectionism**.
 - The government allocated **₹1.97 lakh crore across 14 sectors** to promote domestic production, reducing import reliance.
 - **Withdrawal from Free Trade Agreements (FTAs):** India has taken a cautious stance on FTAs, pulling out of the **Regional Comprehensive Economic Partnership (RCEP)** in 2019, citing concerns about flooding of imports.
 - This decision aligns with **Atmanirbhar Bharat's goal** but limits India's export potential in key markets.
- **Counter Arguments Suggesting Atmanirbhar Bharat is Not Protectionist**
 - **Global Competitiveness Through Domestic Capacity Building:** Atmanirbhar Bharat is not **solely about protecting domestic markets** but aims to enhance India's global

competitiveness.

- For instance, India crossed the **Rs 90,000 crore mark in mobile exports in FY 2023**, showcasing integration into global value chains.
- **Strategic Resilience Rather Than Isolation:** The focus on self-reliance in critical sectors like **semiconductors and defense is driven by geopolitical and supply chain vulnerabilities** rather than protectionist motives.
- **Selective Liberalization:** India has actively pursued trade agreements with **Australia and the UAE** and the **UK and EU are negotiating new FTAs**.
 - These efforts highlight a balance between Atmanirbhar Bharat's domestic focus and external market integration.

What Measures India Can Adopt to Balance Protectionism with Globalization?

- **Strengthen Strategic Trade Partnerships:** India can balance protectionism by engaging in carefully **negotiated Free Trade Agreements (FTAs)** that provide reciprocal benefits while safeguarding sensitive sectors.
 - For instance, agreements like the **India-Australia Economic Cooperation and Trade Agreement (ECTA, 2022)** focus on tariff reductions in key export areas **such as textiles while excluding vulnerable sectors like dairy**.
- **Promote Selective Liberalization:** India should **identify sectors where liberalization enhances competitiveness** and export potential while protecting nascent or critical industries.
 - For example, the **Production-Linked Incentive (PLI)** schemes can coexist with **reduced tariffs on components required for electronics and EV manufacturing**.
 - In 2023, mobile exports from India reached **₹90,000 crore**, showing how selective liberalization, **paired with domestic incentives**, can integrate India into global supply chains.
- **Focus on Building Resilient Supply Chains:** India must reduce over-dependence on single nations for critical imports by diversifying supply chains and fostering domestic alternatives.
 - The **China+1 strategy**, already adopted by industries like electronics, should be expanded to pharmaceuticals and renewable energy.
- **Enhance Multilateral Engagement:** India should play an active role in reviving and reforming multilateral institutions like the WTO to address trade disputes and non-tariff barriers.
 - By championing **fair trade practices and seeking dispute resolution reforms**, India can ensure a level playing field without resorting to unilateral protectionist measures.
- **Strengthen Domestic Infrastructure for Competitiveness:** Investing in world-class infrastructure, logistics, and innovation ecosystems can make Indian industries globally competitive without relying on protectionist tariffs.
 - **The PM Gati Shakti initiative aims to reduce logistics costs from 13% of GDP to 8%**, aligning with global benchmarks.
 - This will enable India's MSMEs and exporters to compete on cost and quality, mitigating the need for protective trade barriers.
- **Create Sector-Specific Safeguards:** India can implement targeted safeguards for vulnerable sectors while allowing liberalization in others.
 - For example, imposing **anti-dumping duties on subsidized imports in steel and aluminum** ensures fair competition while facilitating tariff reductions in sectors like textiles and electronics.
- **Leverage Digital and Services Trade:** India should capitalize on its strengths in digital services and IT by fostering global collaborations and attracting investments in high-skilled sectors.
 - The **Global Capability Centers (GCCs)** model has already generated **\$36 billion in annual revenue**, with companies like **JPMorgan and Qualcomm** expanding operations in India.
 - Policies promoting services trade liberalization can ensure growth without heavy reliance on protectionist industrial policies.
- **Prioritize Skilling for Global Competitiveness:** Balancing globalization with domestic needs requires an adaptable workforce skilled in emerging industries.
 - Initiatives like **Skill India** should focus on **advanced manufacturing and renewable**

energy to enhance global competitiveness.

- By training engineers in **chip design and green technologies**, India can attract FDI in high-value sectors while reducing dependency on imports.
- **Foster Export-Oriented Ecosystems:** India must create specialized zones and clusters that cater to export-oriented industries while integrating with global value chains.
 - The **Special Economic Zones (SEZs)** model can be revamped to align with modern manufacturing and services needs, particularly for EVs and semiconductors.
 - Export hubs like Tamil Nadu's **automotive cluster**, demonstrate how targeted policies can balance global integration with local development.
- **Adopt Climate-Conscious Trade Policies:** India should align its trade policies with global sustainability trends to avoid protectionist backlash under green tariffs like the **EU Carbon Border Adjustment Mechanism (CBAM, 2023)**.
 - By investing in renewable energy manufacturing and **certifying exports as low-carbon**, India can remain competitive in green markets.
 - Programs like the **National Green Hydrogen Mission** showcase India's potential to lead in sustainable trade while integrating with global markets.

Conclusion:

While the rise of protectionism presents significant challenges for India, particularly in terms of export competitiveness, supply chain disruptions, and foreign investments, it also **offers an opportunity for strategic reorientation**. India's approach, exemplified by initiatives like **Atmanirbhar Bharat**, seeks to **balance self-reliance with global competitiveness**. By adopting **selective liberalization, strengthening trade partnerships, enhancing infrastructure, and focusing on resilience** in critical sectors, India can navigate the complexities of a protectionist world.

Drishti Mains Question:

In the age of globalization, how do protectionist policies affect economic growth and international cooperation? Discuss with examples.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. Which of the following has/have occurred in India after its liberalization of economic policies in 1991? (2017)

1. Share of agriculture in GDP increased enormously.
2. Share of India's exports in world trade increased.
3. FDI inflows increased.
4. India's foreign exchange reserves increased enormously.

Select the correct answer using the codes given below:

- (a) 1 and 4 only
- (b) 2, 3 and 4 only
- (c) 2 and 3 only
- (d) 1, 2, 3 and 4

Ans: (b)

Q. With reference to the Indian economy after the 1991 economic liberalization, consider the following statements:

1. Worker productivity (Rs. per worker at 2004-05 prices) increased in urban areas while it decreased in rural areas.
2. The percentage share of rural areas in the workforce steadily increased.
3. In rural areas, the growth in non-farm economy increased.
4. The growth rate in rural employment decreased.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 3 and 4 only
- (c) 3 only
- (d) 1, 2 and 4 only

Ans: (b)

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