Q12

How would the recent phenomena of protectionism and currency manipulations in world trade affect macroeconomic stability of India? (250 Words, 15 Marks).

UPSC Civil Services Mains 2018 · GS III · 15 marks · Indian Economy

Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Core demand of the question

- Explain how protectionism and currency manipulation in world trade affect India's macroeconomic stability
- Cover growth, current account, inflation, capital flows, and policy replies

Revision summary

Foreign protection cuts export demand and investment certainty for India.

A tariff reply that taxes inputs can raise inflation and hurt competitiveness.

Currency undervaluation and dollar shocks weaken the rupee, pull out FPI, and lift oil prices in rupees.

Growth, CAD, and inflation can worsen together in an oil-importing open economy.

Buffers are forex reserves, FDI, a flexible rupee, and targeted-not blanket-trade defence.

Flow diagram

Foreign tariffs barriers -> Indian export demand

Currency undervaluation dollar shock -> Rupee and FPI

Indian export demand -> Current account

Rupee and FPI -> Current account

Rupee and FPI -> Imported inflation

Current account -> Macro stability

Imported inflation -> Macro stability

Reserves FDI targeted trade -> Macro stability

Conclusion

- Keep **tariffs targeted** (dumping, strategic sectors) and avoid a general wall that taxes Indian industry's own inputs.
- Diversify export markets and sign **quality trade pacts** that lock access, while using **WTO** and anti-dumping with evidence.

- Hold **adequate reserves**, a flexible rupee with ordered intervention, and a CAD financed more by **FDI** than by hot FPI.
- Build **oil buffer and strategic stocks**, expand non-dollar invoicing where real, and keep the fiscal deficit from adding a second shock.
- Deepen **domestic bond and hedging** markets so firms are not naked to a currency swing.

Protectionism hits Indian exports and can raise input costs if Delhi copies the wall. Currency manipulation and dollar swings hit the rupee, inflation, and capital flows. Macroeconomic stability then depends on reserves, a flexible but ordered rupee, FDI-heavy financing of the CAD, and open-but-fair trade rather than a tariff spiral.

Facts & figures

Oil import dependence

A large share of crude is imported, so a weaker rupee or a global oil spike quickly shows up in the current account and in prices.

FPI flows

Foreign portfolio investment in stocks and bonds can reverse in a risk-off or stronger-dollar week, unlike slower FDI.

RBI reserves and intervention

The Reserve Bank uses reserves and rupee flexibility to order disorderly moves, not to pick a permanent cheap or dear rupee.

WTO and dumping tools

India uses anti-dumping and safeguard duties, but global tariff wars still sit outside quick legal cure.

CAD financing mix

A current-account deficit financed by FDI is more stable than one financed by short-term portfolio debt.