

An open economy

Prime Minister Narendra Modi's robust defence of global trade in his Davos speech came at almost the same time that US President Donald Trump increased tariffs on imported washing machines and solar panels. These two parallel developments highlight the fact that India has to defend the global economic system that has helped pull millions of people out of poverty.

It is tempting to argue that the warnings Modi gave about protectionism were just one of his rhetorical flourishes. However, there are deeper strategic realities that need attention. Few realize that India is now one of the most open economies in the world—albeit in the context of trade rather than capital flows. The ratio of international trade to gross domestic product is a good indicator. The Indian ratio is now higher than not only the US and the European Union, but China as well.

In that sense, protectionism can hurt India more than most other major economies, even though it has failed to plug into the global value chains that dominate trade between nations.

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