International Relations · GS - II

Critically examine the implications of unilateral tariff increases by major economies for developing countries and the multilateral trading system.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 25/11/2026	GS - II	International Relations

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Protectionism, WTO principles, trade retaliation, global value chains, consumer welfare, developing economies, trade diversification

Model Answer

Unilateral tariff increases are increasingly used by major economies to protect domestic industries, address trade imbalances and pursue strategic objectives. However, such measures can create economic uncertainty and weaken multilateral trade cooperation.

Implications for developing economies

1. **Export competitiveness:** Higher tariffs reduce the price competitiveness of developing-country exports, affecting sectors such as textiles, pharmaceuticals, engineering goods and services-linked supply chains.
2. **Employment and investment:** Export-oriented industries may face declining orders, production uncertainty and employment pressures.
3. **Trade diversion:** Countries may benefit from redirected trade if competing exporters face higher tariffs, but such gains depend on market access and competitiveness.
4. **Retaliatory escalation:** Counter-tariffs can disrupt supply chains, increase costs for businesses and reduce consumer welfare.

5. **Global value chains:** Unpredictable trade barriers discourage long-term investment and encourage fragmentation of international production networks.

Impact on the multilateral trading system

The WTO promotes non-discrimination through Most-Favoured-Nation treatment and seeks to regulate trade restrictions through agreed rules. Unilateral measures, particularly when inconsistent with WTO commitments, can weaken confidence in rules-based trade governance.

Policy response for India

India should diversify export markets, improve manufacturing competitiveness, negotiate balanced trade agreements and strengthen domestic supply chains. It should also utilise WTO dispute-settlement mechanisms where appropriate while maintaining constructive bilateral engagement.

Conclusion: A rules-based and predictable trading system is essential for developing economies. Trade policy should balance legitimate domestic interests with international cooperation and economic stability.

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