Indian Economy · GS - III

Assess the implications of tariff uncertainty in major export markets for India's export competitiveness and trade diversification strategy.

EXAM YEAR	PAPER	SUBJECT
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MARKS	WORD LIMIT
15	~250 words

Answer Hint

Export competitiveness, market access, trade uncertainty, global value chains, MSMEs, export diversification, trade agreements, domestic manufacturing

Model Answer

Introduction

Tariffs influence the relative prices of traded goods and can alter international sourcing decisions. Uncertainty over proposed tariff rates in major markets creates additional challenges for export-dependent economies such as India.

Impact on India's Export Economy

1. **Price competitiveness:** Higher import duties can make Indian products more expensive for foreign buyers, potentially shifting demand towards competing suppliers.

2. **Export-sector vulnerability:** Labour-intensive sectors such as textiles, leather, gems and jewellery may face pressure on orders, employment and profit margins.

3. **Investment uncertainty:** Unpredictable trade conditions can discourage firms from making long-term investments in export-oriented manufacturing.

4. **MSME exposure:** Smaller exporters have limited financial capacity to absorb additional duties or rapidly identify alternative markets.

5. **Global value chains:** Persistent tariff barriers may disrupt sourcing networks and weaken India's integration into international production systems.

Strategic Responses

1. **Market diversification:** Expand access to emerging and established markets through trade agreements and stronger commercial partnerships.

2. **Product competitiveness:** Improve logistics, quality standards, technological capabilities and productivity to reduce dependence on price advantages.

3. **Export resilience:** Strengthen export credit, insurance and market intelligence support, particularly for MSMEs.

4. **Negotiating capacity:** Pursue reciprocal trade arrangements while safeguarding sensitive domestic sectors and national economic interests.

Conclusion

India's trade strategy must combine constructive negotiations with structural improvements in domestic competitiveness. Diversified markets, resilient supply chains and stronger manufacturing capabilities can reduce vulnerability to tariff-related uncertainty.

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