International Relations · GS - II

Assess how the use of industrial subsidies and domestic manufacturing incentives can create tensions between national development strategies and the multilateral trading system.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 26/11/2026	GS - II	International Relations

MARKS	WORD LIMIT
15	~ 250 words

Answer Hint

Industrial policy, WTO subsidy rules, strategic autonomy, trade distortions, global value chains, protectionism, policy space

Model Answer

Industrial Policy and Developmental Objectives

Governments use subsidies, tax incentives and production-linked schemes to build domestic manufacturing capacity, generate employment, encourage technological innovation and reduce import dependence. India's Make in India, Atmanirbhar Bharat and PLI initiatives reflect these developmental priorities.

Sources of Trade Tensions

1. **Competitive distortions:** Large subsidies can lower production costs and alter international competition, potentially disadvantaging producers in countries with limited fiscal capacity.
2. **Excess capacity concerns:** State-supported expansion may create production beyond domestic demand, increasing export competition and triggering allegations of market distortion.
3. **Strategic competition:** Governments increasingly support sectors such as semiconductors, electric vehicles, batteries and critical minerals for economic and national security reasons.

4. **Supply-chain dependencies:** Domestic manufacturing programmes may still depend on imported components and raw materials, creating tensions around localisation and global value-chain integration.

Implications for the Multilateral Trading System

The WTO's Agreement on Subsidies and Countervailing Measures distinguishes prohibited subsidies from actionable subsidies. However, disagreements over the interpretation and effects of industrial support can lead to investigations, countervailing duties and retaliatory trade measures.

Unilateral investigations, such as those under Section 301 of US trade law, can further complicate trade relations and increase uncertainty for exporters.

Balancing Development and Trade Obligations

India needs transparent, WTO-consistent incentives, stronger domestic technological capabilities, competitive logistics and diversified supply chains. Multilateral negotiations should also recognise the legitimate developmental needs of emerging economies.

Industrial policy and open trade are not inherently incompatible; their relationship depends on how support measures are designed and implemented.

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