Q2

What are the challenges before the Indian economy when the world is moving away from free trade and multilateralism to protectionism and bilateralism? How can these challenges be met?

UPSC Civil Services Mains 2025 · GS III · 10 marks · Indian Economy

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

Core demand of the question

- **Name the shift:** WTO weakness, tariffs, friend-shoring, carbon border taxes
- **State Indian challenges:** exports, intermediates, technology, rupee
- **Give responses:** FTAs, PLI, diversification, domestic demand, WTO voice

Revision summary

The world is shifting from a single WTO bargain toward tariffs, subsidies, friend-shoring and carbon border taxes.

India's risks are weaker Western demand, costly Chinese intermediates, technology denial and rupee shocks.

Goods exports in textiles, engineering and chemicals are exposed.

Responses include wider FTAs, PLI with quality, destination diversification, forex buffers and a defence of WTO rules.

A large domestic market is India's shock absorber, not a reason to close the border entirely.

Introduction

The 1990s taught India to live with **open trade and one WTO rule book**. The 2020s are teaching a harsher lesson. Large countries now use **tariffs, industrial subsidies and security screens**. Multilateralism is not dead, but it is **no longer the default**. India has to grow in that weather.

Body

The world that is arriving

The WTO's **appellate body** has been paralysed for years. The United States has returned to **broad tariffs** and to **export controls** on chips and tools. The European Union's **Carbon Border Adjustment Mechanism** will tax carbon-heavy imports such as steel. Firms **friend-shore** to political partners. **Bilateral and minilateral** deals (IPEF, scattered FTAs) replace a single Doha round. War and Red Sea disruption add **freight risk**. This is protectionism with a security accent, not the 1930s in every detail, but it is not 2005 either.

Challenges for India

India's goods exports still need **US and EU demand**. A tariff wall there hits **textiles, gems, engineering and chemicals**. India also **imports** Chinese intermediates, so a broken China chain raises costs even when Delhi wants to sell a finished phone. **Technology denial** can slow semiconductors and machine tools. **Oil** remains a bill; a fragmented energy market is volatile. A strong dollar bout can **pressure the rupee** and imported inflation. At home, **logistics and quality** still lose some orders to Vietnam or Mexico, who are the other "plus one" factories.

How to meet them

Diversify export destinations toward the Gulf, Africa, ASEAN and Latin America, not only the West. **Finish FTAs** that actually open markets (and read the fine print on agriculture and data). Use **PLI and quality control orders** to deepen domestic value, while not trapping firms in a high-cost island. Stay in the **WTO** and fight for a working dispute system, because a world of only power tariffs will hurt India more than a rule-bound one. Keep **forex reserves** - already in the **six-hundred-billion-dollar** zone in recent years - as a shock pad. Use **domestic demand**, which is India's real scale, so that a foreign tariff is not a full recession.

The challenge is to be **open enough to learn and sell**, and **armed enough** not to be a dumping ground.

Flow diagram

WTO strain -> Tariffs CBAM controls

Tariffs CBAM controls -> Indian export shock

FTAs PLI diversification -> Indian export shock

Domestic demand forex -> Indian export shock

Conclusion

Protectionism and bilateral deals raise tariffs, carbon taxes and tech walls against Indian exports. India can answer with wider markets, deeper manufacturing, a still-alive WTO voice, and a large home demand, not with a fantasy of full autarky.

Facts & figures

WTO appellate paralysis

The dispute body's blockage lets large members lean on unilateral tariffs.

CBAM

The EU plan to price carbon at the border on selected goods, including steel, which will touch Indian exporters.

Forex reserves

India's reserve stock has recently lived in a band around six hundred billion dollars and above, a cushion in a choppy trade world.