Indian Economy · GS - III

Examine the significance of international trade for small and highly open economies. Discuss the opportunities and vulnerabilities associated with high trade dependence.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 10/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Trade-to-GDP ratio, economic openness, global value chains, export competitiveness, import dependence, external shocks, supply-chain resilience, diversification

Model Answer

Introduction

Trade dependence reflects the extent to which an economy is integrated with international markets. The trade-to-GDP ratio, calculated using exports and imports, is an important indicator of this integration.

Significance of Trade Dependence

- **Market access:** International trade allows smaller economies to access larger markets beyond domestic demand.
- **Specialisation:** Countries can focus on competitive sectors and benefit from economies of scale.
- **Investment and employment:** Trade integration attracts foreign investment, creates jobs and facilitates technology transfer.
- **Global value chains:** Economies such as Singapore and Luxembourg benefit from their participation in international production and services networks.

Associated Vulnerabilities

- **External shocks:** Global recessions and geopolitical conflicts can disrupt trade flows.
- **Supply-chain dependence:** Import disruptions may affect essential goods and industrial production.
- **Price volatility:** Changes in international commodity prices can increase inflation and fiscal pressure.
- **Trade concentration:** Dependence on a few markets or products increases economic risks.

Conclusion

High trade dependence can support growth but also increase exposure to global uncertainties. Countries must diversify markets, strengthen domestic capabilities and build resilient supply chains to balance openness with economic security.