Indian Economy · GS - III

Distinguish between excess industrial capacity and trade-distorting dumping. How should India address international allegations of manufacturing overcapacity while safeguarding its export interests?

EXAM YEAR	PAPER	SUBJECT
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MARKS	WORD LIMIT
15	~250 words

Answer Hint

Excess capacity, dumping, WTO rules, anti-dumping measures, industrial competitiveness, trade diplomacy, export diversification, rules-based trade

Model Answer

Conceptual Distinction

Excess industrial capacity refers to production potential exceeding current demand or economically viable utilisation. Dumping, however, is a specific trade practice under WTO rules involving exports at less than normal value. Excess capacity alone does not establish dumping or justify trade restrictions.

Implications for India

1. **Export uncertainty:** Allegations of overcapacity can lead to investigations, additional duties and restrictions, affecting Indian manufacturers' access to overseas markets.

2. **Industrial competitiveness:** Sectors with large production capabilities may face scrutiny even when their exports are commercially driven and comply with international trade rules.

3. **Global trade fragmentation:** Unilateral restrictions can encourage retaliatory measures and weaken predictable international supply chains.

4. **Domestic investment:** Uncertainty in market access may discourage export-oriented investment and affect employment, particularly in manufacturing MSMEs.

India's Strategic Response

1. **Evidence-based diplomacy:** India should present credible data on domestic demand, production utilisation, export pricing and market conditions during trade negotiations.

2. **WTO engagement:** Use established dispute settlement and trade-remedy mechanisms to challenge measures inconsistent with multilateral obligations.

3. **Industrial upgrading:** Improve productivity, technology adoption and quality standards to strengthen competitiveness beyond price advantages.

4. **Market diversification:** Expand trade partnerships and reduce excessive dependence on individual export destinations.

5. **Domestic monitoring:** Strengthen sectoral assessments to identify genuine overcapacity and prevent inefficient investment.

Conclusion

India's response should distinguish legitimate trade remedies from protectionist restrictions. A combination of evidence-based negotiations, WTO engagement and stronger manufacturing competitiveness can protect export interests while supporting a rules-based trading system.

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