Indian Economy · GS - III

To what extent can preferential tariff arrangements improve India's export competitiveness while exposing its industries to external trade uncertainties?

EXAM YEAR	PAPER	SUBJECT
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MARKS	WORD LIMIT
15	~250 words

Answer Hint

Preferential market access, tariff competitiveness, export diversification, global value chains, trade dependence, MSMEs, trade negotiations, WTO framework

Model Answer

Preferential tariff arrangements can improve the relative competitiveness of Indian exports by reducing duties in major international markets. However, their benefits depend on market access conditions, domestic competitiveness and the stability of trade relations.

Opportunities for Indian exporters

1. **Price competitiveness:** Lower tariffs can reduce the landed cost of Indian products, improving their position against competing exporters from other countries.

2. **Export expansion:** Labour-intensive sectors such as textiles, apparel and home furnishings can gain greater access to overseas markets, supporting employment and manufacturing.

3. **Global value chains:** Predictable trade arrangements can encourage foreign investment and help Indian firms integrate into international production networks.

4. **Market diversification:** Preferential access can support expansion into new markets and reduce excessive dependence on a limited number of trading partners.

Risks and structural vulnerabilities

1. **Policy uncertainty:** Sudden tariff changes can disrupt export contracts, investment decisions and supply-chain planning.

2. **Sectoral exposure:** Export-oriented firms, particularly MSMEs, may face reduced margins and order cancellations when market access becomes uncertain.

3. **External dependence:** Excessive reliance on one export destination exposes domestic industries to geopolitical and trade-policy shifts.

4. **Competitiveness constraints:** Tariff concessions cannot compensate fully for high logistics costs, inadequate technology, quality gaps and weak productivity.

Strategic response

India should negotiate stable and reciprocal trade arrangements, strengthen export infrastructure, diversify destinations and improve domestic manufacturing capabilities. WTO-consistent trade remedies can also address unfair trade practices.

Conclusion: Preferential tariffs can provide an important competitive advantage, but sustainable export growth requires stronger domestic capabilities and resilience against external policy shocks.

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