



## Emerging Markets Amid Rising Protectionism

This editorial is based on “[Strategies for emerging markets at a time when protectionism is rising](#)” which was published in The Indian Express on 15/09/2025. It explores the multifaceted challenges confronting emerging markets in the context of rising protectionism and underscores the importance of strategic measures to foster sustainable and resilient growth.

**For Prelims:** [India's Atmanirbhar Bharat](#), [EU Critical Raw Materials Act](#), [EU Carbon Border Adjustment Mechanism \(CBAM\)](#), [RCEP](#), [BRICS](#), [Indo-Pacific Economic Framework \(IPEF\)](#).

**For Mains:** Reasons for rising protectionism in a globalized world, Factors Making Emerging economies vulnerable in rising protectionism, India-US Trade Disputes.

**Emerging markets** today find themselves at a **pivotal crossroads**, shaped by the global resurgence of **protectionism**. Having once thrived on the momentum of **globalization** through expansive **trade networks** and steady inflows of **foreign investment**, these economies now confront a delicate interplay of **challenges** and **opportunities** as nations increasingly turn toward **inward-looking economic strategies**.

### Why is Protectionism Rising in a Globalized World?

- **Economic Nationalism and Deindustrialization:** Countries grappling with **manufacturing job losses** are prioritizing **reshoring**.
  - The **U.S. Inflation Reduction Act, 2022** incentivizes **domestic clean energy manufacturing**, while the [EU Critical Raw Materials Act](#) seeks to secure **supply chains** and reduce import dependence.
- **Geopolitical Rivalries and Strategic Decoupling:** Intensifying **U.S.-China tensions** have led to restrictions on firms like **Huawei** and **export controls** on advanced **semiconductor technology**.
  - Similarly, [India's Atmanirbhar Bharat](#) initiative reflects efforts to reduce reliance on **critical imports**.
- **Supply Chain Vulnerabilities Post-COVID-19:** The pandemic exposed **fragile supply chains** for **pharmaceuticals, electronics, and medical supplies**.
  - **China's control over production** of **steel** and **solar panels** has triggered **tariffs** from the **U.S., EU, and India**, aimed at protecting domestic industries from **subsidized imports**.
  - In response, **Japan's supply chain resilience strategy** promotes diversification away from **China**, while the **U.S. CHIPS Act** boosts **domestic semiconductor production**.
- **Rising Inequality and Populism:** **Brexit** illustrates **populist backlash** against globalization, driven by **economic inequality** and demands to protect **local industries**.
  - In the **U.S.**, tariffs on **steel and aluminum** were justified as safeguarding **domestic jobs**,

reflecting **electoral pressures**.

- Countries like **Brazil** and **Argentina** deploy **trade barriers** to protect **agriculture sectors**, signaling **sovereignty in trade negotiations** despite global calls for openness.
- **Environmental and Climate Concerns**: The [EU Carbon Border Adjustment Mechanism \(CBAM\)](#) places **tariffs on high-carbon imports**, compelling exporters to adopt **stricter environmental standards**.

## What Makes Emerging Economies Vulnerable Amid Rising Protectionism?

- **High Trade Dependence**: Growth in EMs like **Vietnam, Thailand, and Bangladesh** is **export-driven**, making tariff and non-tariff barriers particularly damaging.
  - The **U.S. has imposed steep tariffs on Indian exports**, disrupting trade flows and affecting sectors like textiles, pharmaceuticals, and engineering goods.
    - According to a report by **Global Trade Research Initiative (GTRI)**, the **duties** will affect **\$60.2 billion** worth of **Indian exports**, encompassing **textiles, gems and jewellery, shrimp, carpets, and furniture**.
  - Latin American and African EMs suffer when global demand for **oil, copper, or agricultural exports** falls.
- **Trade Diversion and China Shock 2.0**: U.S. tariffs on China have prompted China to redirect excess exports to other EMs, such as **India, Thailand, and Indonesia**, putting pressure on **domestic industries to compete with cheap imports**.
- **Technological Disruption**: Automation and AI are changing the labour market. Labour-abundant countries like India face the challenge of increasing capital-labour ratios, risking job displacement in both blue-collar and white-collar sectors.
  - A **NASSCOM report (2023)** indicates that **AI and automation** could **displace up to 69 million jobs in India by 2030**, particularly in sectors with **repetitive tasks** like **manufacturing and customer service**.
- **Supply Chain Fragility**: Covid-19 disruptions exposed dependence on global supply chains. **India's pharmaceutical sector**, reliant on Chinese **APIs (Active Pharmaceutical Ingredients)**, was hit hard.
- **Weak Domestic Markets**: Unlike developed economies, **EMs often lack robust internal demand to cushion external shocks**.
  - Large young populations in EMs require job creation and skill development; failure to address this can lead to social unrest, as seen in **recent youth protests in South Asia**.

## What is the Impact of India-U.S. Trade Disputes on India's Emerging Market Growth?

- **Imposition of High Tariffs**: The U.S. has levied a **25% tariff** on Indian exports, with another **25% hike** scheduled, raising the overall duty to **50%** on several Indian goods.
  - This sharply raises **export costs**, making Indian products less **competitive** in the crucial **U.S. market**, which accounted for about **\$48.2 billion in exports in 2024**.
  - Key **Indian export sectors** such as **seafood (shrimp), organic chemicals, carpets, apparel, jewelry, and industrial goods** face **tariff rates above 50%**, severely impacting **revenue and market share**.
- **Trade Negotiation Stalemate**: Multiple rounds of **trade negotiations** have **stalled**, primarily due to disagreements over **market access** for **U.S. agricultural and dairy products** and **India's continued crude oil imports from Russia**.
  - This prolongs **uncertainty** and disrupts **export growth plans**.
- **Economic Growth Pressure**: The **tariffs** and ongoing **trade tensions** increase **uncertainty** for **Indian exporters**, potentially slowing growth in **export-oriented industries**, impacting **employment, MSMEs, and farmer livelihoods** tied to **export supply chains**.
- **Strategic and Political Fallout**: The **trade dispute** has strained **bilateral relations**, raising concerns in the **U.S.** over future **strategic cooperation** and affecting **investor confidence and trading partners**.

- The tensions complicate **India's balancing act** between its ties with **Russia** and the **West**.

## What Measures has India Taken in Response to the Rising U.S. Tariffs and Trade Tensions in 2025?

- **Measured Non-Retaliatory Approach:** India chose not to **retaliate with tariffs** but adopted a **strategic and calm stance** to maintain **long-term economic relations** while protecting **immediate interests**.
- **Boosting Domestic Manufacturing:** Through **Aatmanirbhar Bharat**, the government accelerated its **self-reliance initiative**, focusing on **domestic manufacturing** to reduce dependence on **volatile external markets**.
- **Structural Reforms and GST Simplification:** Tax reforms, including **GST reductions** on numerous goods, were implemented to boost **domestic consumption** and help **exporters** sustain **competitiveness** amid rising **tariffs**.
- **Launching Export Promotion Missions:** A **₹25,000 crore Export Promotion Mission** was launched to provide **targeted credit** and **financial support** to **labor-intensive sectors** like **shrimp, apparel, jewelry, handicrafts, and carpets**, mitigating **tariff impacts**.
- **Support for MSMEs and Key Sectors:** Special **financial measures** such as **collateral-free loans, subsidized interest rates, and export insurance** were introduced to assist **MSMEs** affected by higher **tariffs**.
- **Diversification of Trade Partnerships:** India intensified efforts to strengthen ties with **global markets** and **regional blocs** such as **BRICS**, reducing reliance on the **U.S. market**.
- **Financial Assistance and Credit Support:** The government facilitated **working capital access** and **export credit** to strengthen **export-oriented sectors** against **tariff-related uncertainties**.
- **Product-Specific Exemptions and Trade Negotiations:** Ongoing **negotiations** sought **exemptions or tariff reductions** on sensitive products to cushion **industries** from disproportionate **tariff burdens**.

## What Strategic Steps Should Emerging Markets like India Adopt Moving Forward?

- **Diversification of Trade Partners:** Reduce reliance on single markets by exploring **regional trade agreements** like **RCEP** and the **Indo-Pacific Economic Framework (IPEF)**.
- **Strengthening Domestic Industries:** Focus on **Make in India-style initiatives**, infrastructure development, and policies supporting **SMEs** to enhance resilience.
- **Investing in Technology and Innovation:** Promote **R&D, digital literacy, and AI adoption** to increase productivity without displacing **labour** disproportionately.
- **Social Safety Nets:** Implement **unemployment benefits, welfare programs, and reskilling initiatives** to protect vulnerable populations.
- **Active Multilateral Engagement:** Strengthen institutions like the **WTO** to ensure a **rules-based trading system**, safeguard EM interests, and resolve disputes effectively.

## Conclusion:

Emerging markets like India are at a **crossroads**, facing the twin challenges of rising **protectionism** and rapid **technological change**. As economist **Dani Rodrik** insightfully notes, *"The impact of **globalization** and **trade policies** is fundamentally **uncertain**, and rising **protectionism** reflects the complexity of balancing **national priorities** with **global economic integration**."* This underscores the need for **adaptable, pragmatic strategies** to advance **emerging economies** in a **fragmented world**.

### Drishti Mains Question:

"Rising protectionism poses significant challenges for emerging economies like India." Discuss the vulnerabilities of India's export sector in this context and evaluate the effectiveness of recent policy responses.

## UPSC Civil Services Examination, Previous Year Questions (PYQs)

### **Prelims**

**Q.**Which of the following has/have occurred in India after its liberalization of economic policies in 1991? (2017)

1. Share of agriculture in GDP increased enormously.
2. Share of India's exports in world trade increased.
3. FDI inflows increased.
4. India's foreign exchange reserves increased enormously.

Select the correct answer using the codes given below:

- (a) 1 and 4 only
- (b) 2, 3 and 4 only
- (c) 2 and 3 only
- (d) 1, 2, 3 and 4

**Ans:** (b)

### **Mains**

**Q.**Do you think that globalization results in only an aggressive consumer culture? Justify your answer.(2025)