Impact of Foreign Trade Policy on India's Economic Growth

Abstract

Trade policies play a critical role in shaping the economic trajectories of developing economies. These policies, encompassing tariffs, quotas, export subsidies, and trade agreements, directly influence growth, employment, income distribution, and overall welfare. Developing countries often rely heavily on international trade for economic development; hence, formulating and implementing effective trade policies becomes crucial. While liberalization has opened new markets and spurred growth in many nations, protectionist measures have, in some cases, shielded nascent industries and preserved economic stability. However, poorly designed trade policies can exacerbate inequalities and reinforce dependency on volatile commodity markets. India's foreign trade policy has significantly transformed since economic liberalization in 1991, evolving from protectionism to a dynamic, export-focuse d framework. This paper analyzes the impact of these policies on economic growth, using secondary data (2013–2025) from government reports and academic studies. Key findings include a 67% growth in total exports (2013–14 to 2023–24), driven by manufacturing and services, and a positive correlation between trade liberalization and GDP expansion. However, structural challenges like infrastructure gaps and trade deficits persist. The study underscores the need for sustained policy innovation to achieve India’s $2 trillion export target by 2030. By analyzing empirical evidence and real-world examples, this term paper aims to provide a balanced view of how trade policies impact development and offers policy recommendations for fostering more inclusive and sustainable trade-driven growth.India's journey from a relatively closed economy to an increasingly significant player in global trade represents one of the most remarkable transformations in international economics.

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1. Introduction

Trade policies are a pivotal component of economic strategy for developing economies. As globalization intensifies, the ability of a nation to integrate into international markets largely depends on its trade policies. These policies influence everything from agricultural output and manufacturing growth to technological advancement and poverty alleviation.

India’s trade policy has shifted dramatically from the colonial era’s extractive model to post-independence protectionism and finally to post-1991 liberalization. The Foreign Trade Policy (FTP) 2023 marks the latest phase, emphasizing export-led growth, digitization, and global integration. This paper examines:

- Historical policy shifts and their economic impacts

- Export-import trends (2013–2025)
- Challenges in achieving sustainable trade growth

The paper is organized into several sections. The first section explores the theoretical background of trade policies and their relevance for developing economies. The second section delves into empirical evidence and case studies from specific countries. The third section addresses contemporary challenges and emerging trends. The conclusion summarizes the findings and suggests policy recommendations.

Recent Trade Performance (2022-2024)

India's foreign trade has demonstrated robust growth in recent years, with total trade (merchandise and services) reaching US$1.6 trillion during 2022-2024. The merchandise export sector showed particular strength, recording US$451 billion in exports during 2023-24. Several key sectors led this performance: engineering goods emerged as the top export category with US$112 billion, followed by petroleum products at US$86 billion, and gems and jewellery contributing US$38 billion. On the services front, exports totaled US$340 billion, with IT and IT-enabled services constituting approximately 55% of this figure. However, the trade account registered a deficit of US$240 billion during this period, largely attributable to India's substantial crude oil imports. This persistent trade imbalance highlights the ongoing structural challenges in India's trade composition, particularly its dependence on energy imports, even as the country continues to expand its export capabilities across both goods and services sectors.

Table 1: India's Top 5 Export Destinations (2023)

Rank	Country	Share (%)	Major Exports
1	USA	18.1	Gems, Pharma, IT Services
2	UAE	8.5	Petroleum, Jewellery
3	China	5.9	Iron Ore, Cotton
4	UK	4.7	Garments, Auto Parts
5	Germany	3.8	Machinery, Chemicals

Source: The Economic Times

1. The Evolution of India's Trade Policy: From Protectionism to Liberalization

1.1 Definition and Types of Trade Policies

Trade policies refer to government laws and strategies designed to control and influence international trade (Krugman and Obstfeld 2018). They include measures like tariffs (taxes on imports), quotas (limits on quantities of imports), export subsidies, import licensing, and free trade agreements. Policies can be broadly categorized as protectionist or liberalized.

Protectionist policies aim to shield domestic industries from foreign competition, often essential in the early stages of industrial development (Rodrik 2001). Conversely, liberalized trade policies seek to reduce barriers to trade, promoting greater efficiency and competitiveness.

1.2 Importance of Trade Policies in Development Theory

Classical economists like Adam Smith and David Ricardo emphasized the benefits of free trade based on comparative advantage (Smith 1776; Ricardo 1817). However, modern theories acknowledge that developing economies often require strategic protection to nurture infant industries (Prebisch 1950; Singer 1950).

Empirical studies have shown that early protectionist strategies in countries like South Korea and Taiwan helped build strong industrial bases before transitioning to more open trade regimes (Chang 2002).

https://cleartax.in/s/foreign-trade-policy-2023

1.3 Objectives of the Foreign Trade Policy (FTP)

- Global Integration: The FTP aims to integrate India smoothly into global markets, positioning the country as a reliable trade partner.
- Supportive Ecosystem: The policy focuses on creating a business-friendly environment, in line with initiatives like 'Atma Nirbhar Bharat' and 'Local goes Global'.
- Future Preparedness: It seeks to prepare India for emerging challenges and opportunities, aiming to make India a top exporting nation by 2030.
- Collaboration: Encourages collaboration with state governments and local bodies to promote exports at the grassroots level.
- Export Growth: The policy targets tripling India's goods and services exports to $2 trillion by 2030

Ref: https://cleartax.in/s/foreign-trade-policy-2023

https://www.dgft.gov.in/CP/

1.4 Pre-liberalization Era (1947-1991)

Before the landmark economic reforms of 1991, India maintained a largely protectionist stance toward international trade. The country was "largely and intentionally isolated from world market to protect its economy and achieve self-reliance"[3]. This isolation was implemented through various mechanisms including high import tariffs, export taxes, and stringent quantitative restrictions on imports. Foreign direct investment faced severe limitations through upper limits on equity participation, restrictions on technology transfers, and mandatory export obligations[3].

This inward-looking economic strategy was rooted in the post-independence development philosophy that emphasized self-sufficiency and protection of domestic industries from foreign competition. Consequently, India's trade openness remained extremely limited, with the ratio of total trade to GDP hovering around 13% in the pre-reform period[20].

1.5 The 1991 Economic Crisis and Reform Process

The year 1991 marked a watershed moment for the Indian economy. Facing a severe balance of payments crisis characterized by dwindling foreign exchange reserves and mounting external debt, India was compelled to fundamentally rethink its economic strategy. As noted by researchers, this was "a critical period for the Indian economy with huge burden of Balance of Payments deficit situation and current account deficit along with a fall in almost all the macro variables of the country determining growth and development"[3].

In response to this crisis, India embraced comprehensive economic reforms under the guidance of then-Finance Minister Dr. Manmohan Singh. These reforms included substantial changes to trade policy, with a progressive dismantling of the complex system of licenses, permits, and quotas that had previously governed imports and exports.

1.6 Post-liberalization Developments

Following the 1991 reforms, India embarked on a path of progressive trade liberalization. This included substantial reductions in tariff barriers, elimination of quantitative restrictions on imports, and simplification of export procedures. The economy responded positively to these measures, with the ratio of total trade to GDP rising significantly in subsequent years[20].

By the early 2000s, India had transformed from a reluctant liberalizer to an increasingly open economy. This transformation is clearly reflected in the trade-to-GDP ratios, which increased dramatically from less than 18% at the end of the 1990s to nearly 40% in 2008-09, and further to a record level of nearly 44% in 2011-12[21]. As of 2023, India's trade openness (exports plus imports as percent of GDP) stood at 45.92%[4].

1.7 Trade Openness and Economic Growth: The Empirical Evidence

Links Between Trade and Growth

Economic theory suggests several channels through which trade openness can enhance economic growth. These include increased market access, technology transfer, economies of scale, enhanced competition leading to productivity improvements, and more efficient resource allocation. The evidence from India largely supports this positive relationship between trade and growth.

Studies focusing on India have found that "the trade liberalization policies pursued in India played a positive role in influencing economic growth"3. This positive impact can be attributed to multiple factors, including wider market access for Indian products, technology transfers from more advanced economies, and enhanced competitive pressures that spurred productivity improvements.

Diagram 1: Scatter Diagram of Export and GDP

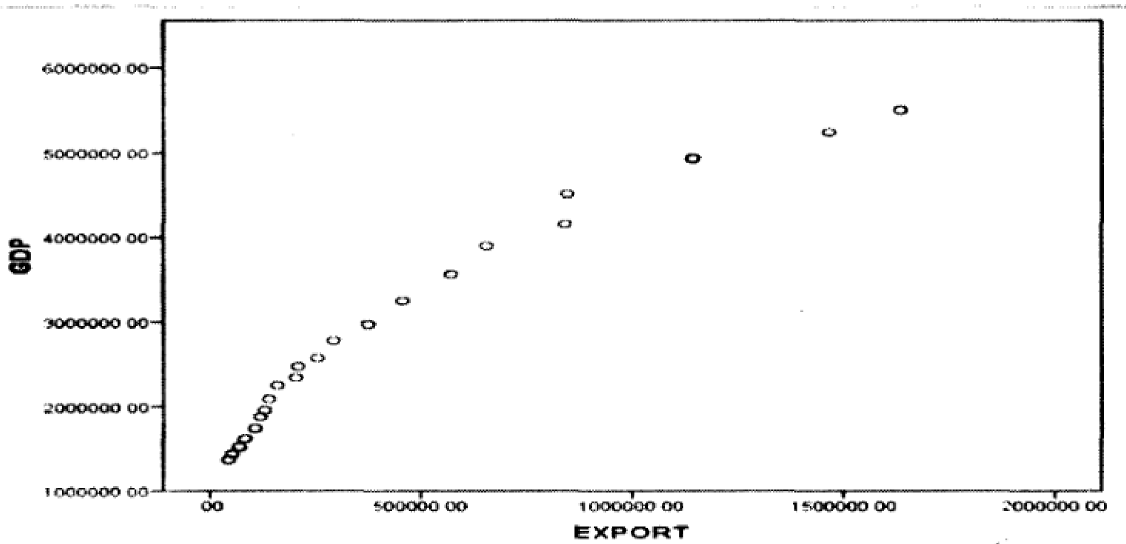
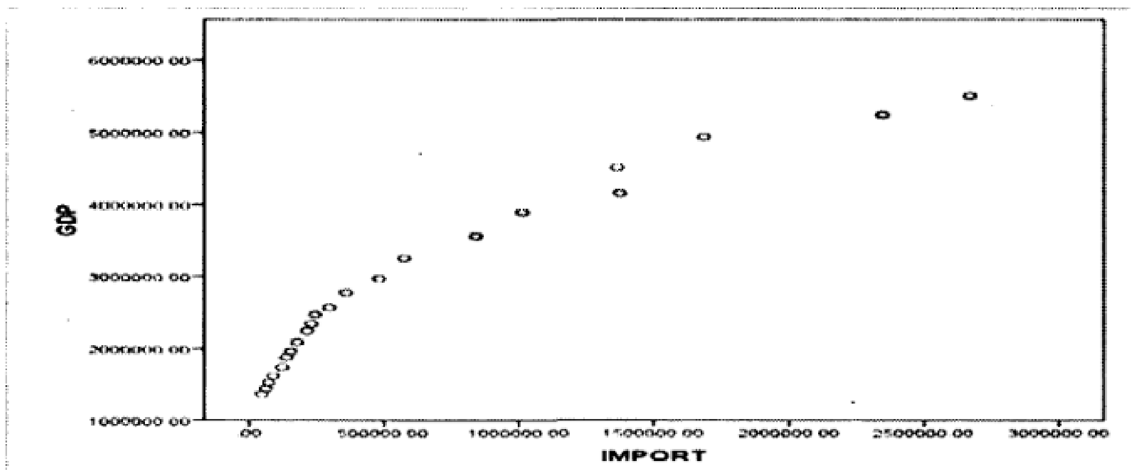


Diagram 2: Scatter Diagram of Import and GDP



Source:
https://managementdynamics.researchcommons.org/cgi/viewcontent.cgi?article=1106&context=journal

1.8 Growth Patterns in the Post-liberalization Period

India's economic growth accelerated notably in the post-liberalization period. After the 1991 reforms, "India achieved 6 to 7 per cent average GDP growth annually"3, significantly higher than the so-called "Hindu rate of growth" of around 3.5% that characterized the pre-reform era. While multiple factors contributed to this growth acceleration, trade liberalization played an important role.

Research examining BRICS countries, including India, identifies "a positive and significant impact of trade openness on economic growth"19. This research emphasizes "the need for policies promoting trade liberalization and attracting foreign direct investment" to further enhance growth prospects.

However, it's important to note the nuanced impact of different components of trade. While the overall volume of trade has positively affected economic growth, some studies observe that "though import has a negative influence on economic growth, the volume of trade reflected by economic openness has a positive impact on the economic growth of India and its magnitude is increasing continuously"3.

1.9 Sectoral Impacts of Trade Liberalization

Trade liberalization has affected various sectors of the Indian economy differently. The manufacturing sector has faced increased competition from imports but has also benefited from access to advanced technologies and intermediate inputs. According to research, trade liberalization can improve allocative efficiency by forcing firms to lower cost-price mark-ups and move down their average cost curves, thereby raising firm size and scale efficiency[20].

The services sector, particularly IT and IT-enabled services, has emerged as a major beneficiary of trade liberalization. This sector has capitalized on India's comparative advantage in English-speaking skilled labor to become a dominant force in global services trade.

2. Structural Changes in India's Foreign Trade

2.1 Transformation of Export Composition

One of the most significant impacts of trade liberalization has been the transformation of India's export composition. Before liberalization, India's exports were dominated by primary products and simple manufactured goods. However, in the post-liberalization period, there has been a significant shift toward higher value-added products.

According to research, "The composition of India's foreign trade has undergone substantial changes, particularly, after the liberalization and globalization. Our major exports now includes manufacturing goods such as Engineering Goods, Petroleum Products, Chemicals and allied Products, Gems and Jewelleries, Textiles, Electronic Goods, etc. which constitute over 80 per cent of our export basket"[5].

This shift represents a qualitative improvement in India's export profile, reflecting the economy's increasing sophistication and technological capabilities. The diversification into higher value-added exports has helped India reduce its vulnerability to commodity price fluctuations and enhance its export earnings.

2.2 Diversification of Trading Partners

Another important structural change has been the diversification of India's trading partners. While traditional markets like the United States and European countries remain important, India has expanded its trade relationships with emerging economies in Asia, Africa, and Latin America.

According to recent data, the top export partners of India are the United States (17.73%), United Arab Emirates (8.15%), Netherlands (5.12%), China (3.81%), and Singapore (3.30%)[8]. On the import side, the major partners are China (15.06%), Russia (9.10%), United Arab Emirates (7.11%), United States (6.04%), and Saudi Arabia (4.71%)[8].

This geographical diversification has reduced India's vulnerability to economic downturns in specific regions and allowed it to tap into different growth markets. However, it has also created challenges, particularly in terms of the growing trade deficit with China, which reached $41.6 billion during the January-June period of 2024[8].

2.3 Foreign Trade and Export Policy During the British Era

Under British rule, India's trade policy was designed to serve the interests of the British Empire, fundamentally altering the subcontinent's economic landscape. The British imposed a free trade regime for British goods, allowing them unrestricted entry into Indian markets while imposing heavy tariffs on Indian exports to Britain and Europe. This led to the destruction of India's traditional handicraft and textile industries, which could not compete with the influx of cheap, machine-made British products. The colonial administration maintained a monopoly over India's foreign trade, with about half of all trade directed exclusively to Britain and the remainder to a few other countries under British influence. Ref: https://www.drishtiias.com/to-the-points/paper1/british-economic-policy-in-india-1757-1857

India was systematically transformed into a supplier of raw materials-such as cotton, jute, indigo, and opium-for British industries, while becoming a major importer of finished goods from Britain. This one-sided trade relationship led to the deindustrialization of India, the impoverishment of artisans, and the stagnation of local industries. The British also used India's trade surplus to finance the salaries, pensions, and investments of British officials and capital, resulting in a significant "drain of wealth" from India. By the early 20th century, British economic policies had reduced India's share of the world economy from 23% in the 18th century to just 3% at independence.

2.4 Changes in Trade Policy After Independence

After gaining independence in 1947, India shifted its trade policy to prioritize self-reliance and protect domestic industries. The early decades were marked by strong protectionist measures, including high tariffs, import licensing, and strict controls on foreign exchange. This approach was influenced by the colonial experience and a desire to foster indigenous industrialization. Imports were tightly regulated, focusing on developmental and maintenance imports-such as capital goods and raw materials needed for infrastructure and industrial growth-while consumer goods imports were minimized to curb inflation and conserve foreign exchange.

https://takshashila.org.in/research/from-protectionism-to-global-integration-indias-trade-policy-before-and-after-1991

The turning point came in 1991, when a severe balance-of-payments crisis prompted sweeping economic reforms. India liberalized its trade regime by reducing tariffs, dismantling import licensing, and encouraging foreign direct investment. The introduction of the Export-Import (EXIM) Policy in 1992 marked the beginning of a more open, globally integrated trade environment. Subsequent policies have focused on export promotion, creation of Special Economic Zones (SEZs), and integration with global value chains. Export incentives, duty-free imports for exporters, and streamlining of procedures have all contributed to making India a more competitive player in international trade.

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5.6 Impact on India's Economic System

The evolution of trade policy has had a significant impact on India's economic growth and structure. Empirical studies confirm that exports and imports are positively correlated with economic growth, with exports playing a particularly vital role in expanding production, earning foreign exchange, and enhancing international competitiveness. The post-liberalization era has seen India's exports diversify both in terms of products and destinations, with manufactured goods, engineering products, chemicals, and pharmaceuticals emerging as key export sectors.

https://www.ijcrt.org/papers/IJCRT25A4162.pdf

https://managementdynamics.researchcommons.org/cgi/viewcontent.cgi?article=1106&context=journal

Export growth has contributed directly to GDP expansion, job creation, and the modernization of industries. For instance, between 1991 and 2025, India's merchandise exports grew from just over $1 billion in 1948 to nearly $400 billion in 2024-25, with exports adding 2.5 percentage points to GDP growth in recent years. The liberalized trade regime has also facilitated access to advanced technology, capital goods, and intermediate products, further boosting productivity and economic development.

However, the growth in imports-particularly of petroleum, gold, and electronic goods-has sometimes outpaced exports, leading to trade deficits. Policymakers have responded by focusing on value-added manufacturing, quality standards, and negotiating favorable trade agreements to balance trade and sustain economic growth.

Key Differences: British Era vs. Post-Independence Trade Policy

Aspect	British Era	Post-Independence (till 1991)	Post-1991 Reforms and Beyond
Policy Objective	Serve British interests; drain wealth	Self-reliance, protect domestic industry	Global integration, export-led growth
Trade Direction	Monopoly with Britain and colonies	Limited, mostly with OECD/OPEC	Diversified, global markets
Export Composition	Raw materials	Primary goods, some manufactured goods	Manufactured goods, services, technology

Import Composition	Finished goods from Britain	Capital goods, essential consumer goods	Capital goods, technology, oil, electronics
Tariff Policy	Free entry for British goods, high on Indian	High tariffs, import licensing	Reduced tariffs, liberalized imports
Industrial Impact	Deindustrialization, handicraft decline	State-led industrialization, slow growth	Industrial modernization, FDI inflow
Economic Outcome	Stagnation, poverty, wealth drain	Modest growth, forex shortages	Higher growth, export diversification

Source:
https://www.credlix.com/blogs/how-exim-policies-have-evolved-in-the-last-75-years-in-india

6. Major Changes in Trade Policy

6.1 Shift from Protectionism to Liberalization

After independence, India followed a protectionist trade policy, focusing on import substitution and self-reliance. This changed dramatically with the 1991 economic reforms, which liberalized the economy, reduced tariffs, eased import restrictions, and opened the country to foreign investment. The 1992 Export-Import (EXIM) Policy was a milestone, introducing a comprehensive approach to trade and making importing goods easier.

https://eprajournals.com/IJES/article/11809

6.2 Dynamic, Long-Term Policy Approach

The FTP 2023 marks a departure from the traditional five-year policy cycle, instead adopting a dynamic, flexible framework that allows for ongoing revisions based on industry feedback and global developments. This ensures the policy remains responsive to both domestic and international challenges.

6.3 Focus on Emerging Export Sectors

The new policy emphasizes high-growth sectors such as high-tech manufacturing, pharmaceuticals, and e-commerce. It introduces measures like special economic zones (SEZs), increased R&D subsidies, and support for e-commerce exports, aiming to position India as a leader in these sectors.

https://www.isas.nus.edu.sg/papers/indias-foreign-trade-policy-2023-new-ideas-and-old-challenges/

6.4 Incentive to Remission and Trade Facilitation

There is a shift from direct export incentives to remission-based schemes, such as duty drawback, EPCG (Export Promotion Capital Goods) scheme, and Advance Authorization. These reduce exporters' costs by refunding import duties on inputs used for export production, enhancing competitiveness.

6.5 Merchanting Trade and Internationalization of Rupee

FTP 2023 allows merchanting trade, where goods are shipped from one foreign country to another via an Indian intermediary without entering Indian ports. It also promotes settlement of global trade in Indian rupees, aiming to increase the rupee's international use and reduce dependence on foreign currencies.

https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1912572

6.6 Digitization and Ease of Doing Business

The policy streamlines documentation, introduces single-window digital platforms, and reduces paperwork, making it easier and more cost-effective for businesses to export. These steps are expected to cut down export processing times and improve India's ranking in global ease of doing business indices.

6.7 Quality Control and Non-Tariff Measures

Recent years have seen a rise in product-specific tariff policies and the implementation of Quality Control Orders (QCOs) to ensure Indian products meet global standards. This focus on quality and safety is designed to boost exports and protect domestic consumers.

https://kpmg.com/in/en/blogs/2024/08/indian-trade-tariff-policy-impact-on-international-trade-union-budget-2024.html

6.8 Export Hubs and Grassroots Promotion

The policy identifies new export hubs, including smaller towns, and provides financial and technical assistance to develop their export potential. This decentralized approach is expected to create jobs and stimulate economic growth across regions.

7. Effects of Trade Policy on the Country

7.1 Economic Growth and Export Expansion

Liberalized trade policies have had a significant positive impact on India's economic growth. Empirical studies confirm that exports are strongly correlated with GDP growth, and the post-reform period has seen a substantial increase in both exports and imports. Exports have diversified, and the share of manufactured goods in exports has risen, reflecting India's growing industrial capacity.

https://stax.strath.ac.uk/concern/theses/8s45q881f

7.2 Increased Foreign Investment and Competitiveness

By reducing trade barriers and improving ease of doing business, India has attracted more foreign direct investment (FDI), leading to technology transfer, job creation, and enhanced competitiveness of Indian industries.

7.3 Boost to New Sectors and MSMEs

Support for emerging sectors and e-commerce, along with targeted assistance for MSMEs (Micro, Small and Medium Enterprises), has enabled more businesses to participate in global trade, fostering innovation and entrepreneurship.

7.4 Challenges: Trade Deficit and Global Risks

While exports have grown, imports-especially of crude oil, electronics, and gold-have also risen, sometimes leading to trade deficits. Global economic uncertainties, currency fluctuations, and foreign portfolio outflows remain risks that policymakers must manage to sustain growth.

https://eprajournals.com/IJES/article/11809

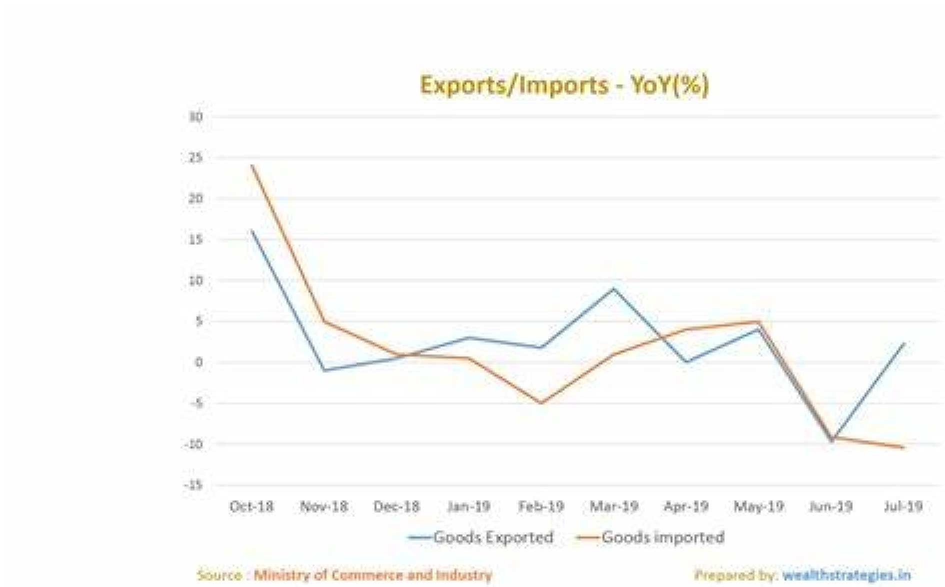
7.5 Improved Balance of Payments

Trade liberalization has generally improved India's current account balance, with periods of surplus driven by export growth and remittance inflows. However, persistent trade deficits in some years highlight the need for further export diversification and competitiveness.

7.6 Quality and Standards

The emphasis on quality control and compliance with international standards has improved the reputation of Indian goods abroad, opening access to premium markets and reducing the risk of trade disputes.

Below image source: https://www.wealthstrategies.in/numbers/



8. Potential risks associated with the new trade policy

8.1 Structural and Policy Limitations

The FTP 2023 has been criticized for not fundamentally addressing the underlying fragility of India’s export sector. While it emphasizes deregulation, ease of doing business, and digital facilitation, it largely follows a WTO-driven framework without adequately focusing on India’s unique socio-economic realities. Key issues such as the lack of high-skilled labor, insufficient investment in research and development (R&D), limited priority-based credit lending, and inadequate advanced training and entrepreneurship support remain unaddressed. This neglect can hinder the development of high-value-added and employment-generating exports, especially in emerging sectors like green technology.

8.2 Infrastructural and Logistical Constraints

Despite improvements, India’s export infrastructure-ports, roads, railways, warehousing, and cold storage-remains a weak link. Congestion at major ports, poor last-mile connectivity, and underdeveloped logistics in landlocked and rural areas lead to delays, increased costs, and missed export opportunities. These bottlenecks undermine the competitiveness of Indian exports compared to those from countries with more efficient logistics networks.

8.3 Regulatory Complexity and Policy Uncertainty

Exporters continue to face a complex web of regulations, compliance requirements, and frequent policy changes. Sudden export bans (e.g., on agricultural products), tariff regime shifts, and cumbersome customs procedures create uncertainty, especially for small and medium enterprises (SMEs). This unpredictability discourages long-term planning and erodes buyer confidence in Indian suppliers.

8.4 Currency Volatility and Financial Constraints

The Indian rupee's fluctuations against major currencies make it difficult for exporters to price their goods competitively and manage profit margins. Many exporters, particularly SMEs, lack access to affordable hedging instruments and face high export finance interest rates-often over 12%-which are uncompetitive compared to those available to exporters in China or Vietnam. Limited access to trade finance restricts the ability of Indian firms to scale up and fulfill large international orders.

8.5 Global Competition and Protectionism

India faces stiff competition from countries like Vietnam and Bangladesh in labor-intensive sectors and from China in technology-driven exports. Global protectionism, including potential tariff hikes in major markets like the US, poses a risk to India's export growth. Stringent quality standards in developed markets also mean that even minor lapses can lead to consignment rejections, as seen in past pharmaceutical recalls.

8.6 Technological Backwardness and Skill Gaps

The rapid digitization of global trade has exposed technological gaps among Indian exporters. Many lack the digital infrastructure and expertise needed to leverage e-commerce and online platforms. Additionally, there is a shortage of skilled professionals in logistics, export-import management, and international marketing-limiting India's ability to respond to evolving global demands.

8.7 Trade Deficit and External Vulnerability

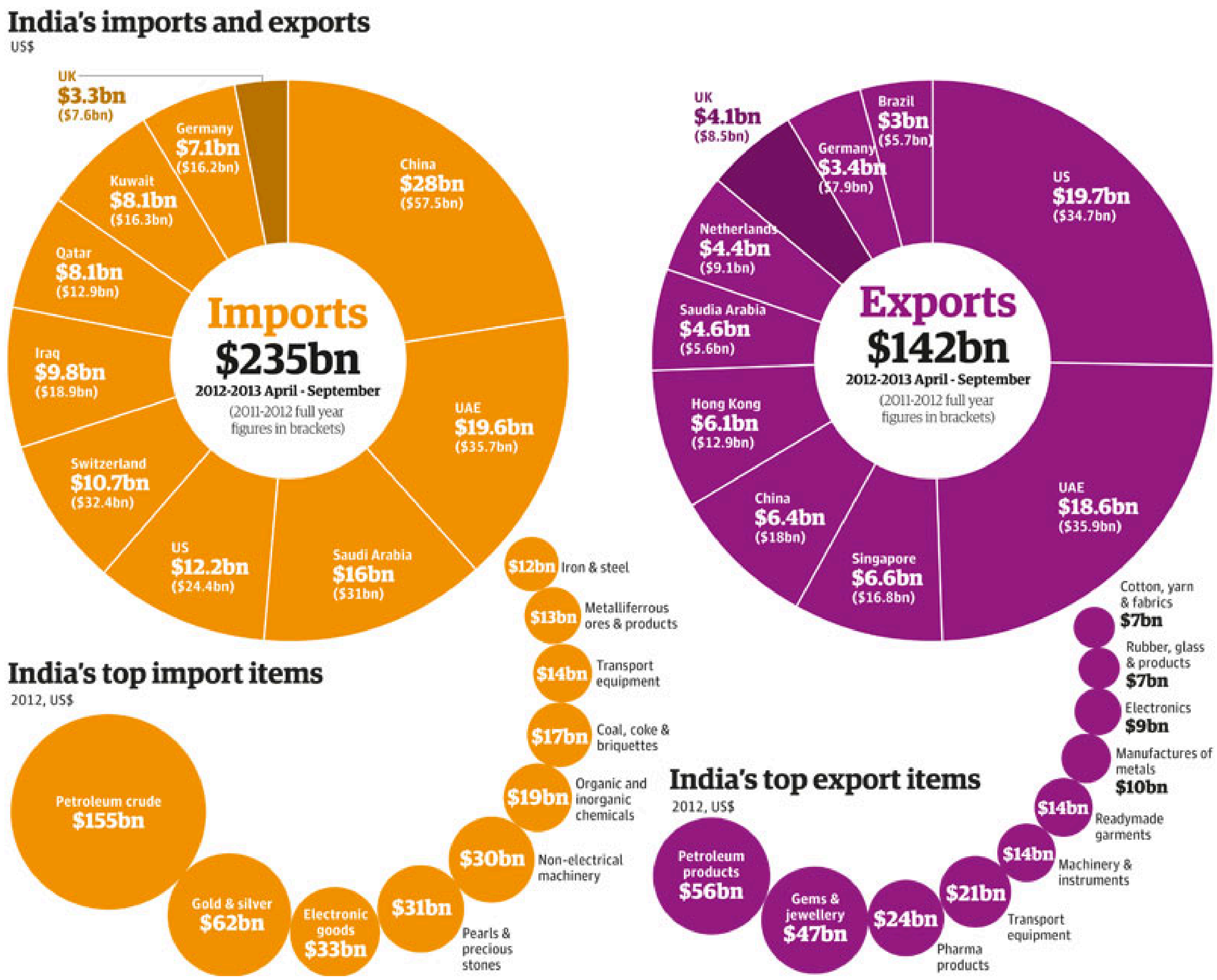
The policy's focus on export growth has not been matched by a corresponding reduction in import dependence, especially for non-oil commodities and high-tech inputs. This imbalance risks widening the trade deficit and increasing vulnerability to external shocks, such as currency depreciation or global demand downturns. A growing trade deficit can put pressure on the current account and the rupee, affecting overall economic stability.

8.8 Limited Support for MSMEs and New Exporters

While the policy mentions export hubs and decentralization, concrete budgetary provisions and timelines for supporting district-level exporters are lacking. Skilling and mentorship initiatives are often limited to established "status holder" firms, rather than building a broad base of skilled exporters at the grassroots level. This could widen the gap between large and small exporters, limiting inclusive export growth.

https://www.mygstrefund.com/Challenges-Indian-Exporters/

https://www.iiiem.in/blog/top-most-challenges-faced-by-exporters-in-2023/



https://www.reddit.com/r/india/comments/1h4flr/an_infographic_on_indias_largest_importsexports/

9. The Rise of Services Trade: A Success Story

9.1 Exponential Growth in Services Exports

Perhaps the most remarkable success story in India's foreign trade has been the extraordinary growth of services exports. According to Goldman Sachs Research, "India's services exports grew from $53 billion to $338 billion between 2005 and 2023 - almost double the rate of the rest of the world - and have come to form nearly a tenth of the national GDP"6.

This growth has outpaced that of merchandise exports, highlighting the comparative advantage India has developed in service sectors. The projection that "India's services exports to touch 11% of GDP by 2030, and to be valued at around $800 billion"6 underscores the continued potential of this sector.

.9.2 IT Services: The Leading Sector

Within services exports, computer services have emerged as the dominant category. In 2023, this category comprised nearly 47% of all services exports6, reflecting India's strength in information technology, software development, and IT-enabled services.

The success of Indian IT companies in global markets has been built on several advantages, including a large pool of skilled English-speaking professionals, cost competitiveness, and the progressive liberalization of the services sector. Companies like Tata Consultancy Services, Infosys, and Wipro have become global players, competing successfully with firms from developed economies.

9.3 Diversification Within Services Exports

Beyond IT services, other service sectors have also shown significant growth. Professional consulting grew at an impressive 17% compound annual growth rate over the 2005-2023 period, making it the fastest-growing category within services exports6.

There is also potential for growth in financial services exports, where "dominant developed market players are gradually losing shares to emerging markets"6. This presents an opportunity for India to increase its market share in this high-value sector.

9.4 **Balance of Trade and Current Account Developments**

Despite the growth in exports, India has consistently faced merchandise trade deficits in the post-liberalization period. According to recent data, India's merchandise trade deficit increased to $79.2 billion in the third quarter of fiscal year 2025 from $71.6 billion during the same period of the previous fiscal year7.

This persistent deficit is largely attributable to India's heavy dependence on imported oil and gold. As one of the world's largest oil importers, India's trade balance is particularly vulnerable to fluctuations in global oil prices. Additionally, the growing imports from China, which increased from $46.2 billion to $50.1 billion in the first half of 20248, have contributed to the widening trade deficit.

9.5 Services Trade Surplus and Remittances

The robust performance of services exports has played a crucial role in offsetting the merchandise trade deficit. The services surplus increased to $51.2 billion in the third quarter of fiscal year 2025, up from $45 billion in the same period of the previous year7. Services exports have risen across major categories such as business services, computer services, transportation services, and travel services.

Additionally, personal transfer receipts, mainly representing remittances by Indians employed overseas, rose to $35.1 billion from $30.6 billion13, providing another important source of foreign exchange that helps mitigate the impact of the merchandise trade deficit.

9.6 Current Account Balance

The current account balance, which encompasses trade in goods, services, and transfers, provides a broader picture of India's external economic relationships. According to recent data, "India's current account deficit (CAD) rose marginally to $11.5 billion, or 1.1 per cent of gross domestic product (GDP), during the October-December 2024 quarter of the ongoing financial year (Q3FY25) from $10.4 billion, or 1.1 per cent of GDP, a year ago"7.

However, there are positive signs as well. India recorded a current account surplus of $5.7 billion in the quarter ending in March 2024, marking the first surplus since mid-202113. This improvement was attributed to the growing services trade surplus and increased remittances.

Looking ahead, analysts project that "the current account is expected to witness a surplus of $4-6 billion in Q4FY25, aided by a seasonal uptick in merchandise exports and the resulting moderation in the merchandise trade deficit, as well as healthy services surpluses"7. For the full fiscal year 2025, the current account deficit is estimated to be around 0.8% of GDP, a manageable level given India's substantial foreign exchange reserves of $627.79 billion47.

9.7 Trade Agreements and Regional Integration

India has been actively pursuing bilateral and regional trade agreements to enhance market access for its exports. A recent example is the trade agreement with the European Free Trade Association (EFTA), comprising Iceland, Liechtenstein, Norway, and Switzerland. This agreement, concluded after 21 rounds of negotiations spanning 15 years, is expected to bring investments amounting to $100 billion and create a million direct jobs in India over the next fifteen years9.

Under this agreement, India has offered 82.7% of its tariff lines, covering 95.3% of EFTA exports, while securing commitments in 128 sub-sectors from Switzerland, 114 from Norway, 107 from Liechtenstein, and 110 from Iceland9. The agreement is expected to enhance India's services exports in sectors like IT, business, healthcare, and accounting.

9.8 Strategic Decisions on Regional Blocs

India has also made strategic decisions regarding its participation in regional trade blocs. A notable example is India's decision to exit the Regional Comprehensive Economic Partnership (RCEP), a mega-regional trade agreement involving several Asian countries.

This decision involved complex trade-offs. On one hand, India was "forgoing market access in sectors - such as information technology services and pharmaceuticals - where it enjoys a comparative advantage"[10]. On the other hand, there were concerns about increased import competition, particularly from China, and the potential impact on domestic industries.

Experts have noted that by not participating in RCEP, India risks "trade diversion away from Indian products and services as RCEP members gained preferential access to each other's markets"[10]. This highlights the complex calculus involved in trade policy decisions, balancing the benefits of increased market access against concerns about import competition and domestic industry protection.

9.9 Challenges and Future Prospects

Despite the progress made in expanding and diversifying exports, enhancing competitiveness remains a key challenge for India's foreign trade. This requires addressing various constraints, including infrastructure bottlenecks, regulatory complexities, and labor market rigidities that affect production costs and export performance.

Research suggests that "export pessimism of the past was misplaced and India would do well to pursue export expansion much more vigorously than hitherto. This would require policies aimed at offsetting the earlier anti-export bias, such as an aggressive exchange rate policy, lowering the degree and dispersion of protection further, de-reservation of (removal of reservation status for) the small-scale sector and liberalisation of the agricultural and consumer goods sectors"[3].

9.10 **Managing Trade Deficits**

The persistent trade deficit, particularly with China, remains a concern for India's external sector stability. Addressing this imbalance requires a multi-pronged approach, including enhancing domestic manufacturing capabilities, reducing dependency on imports through appropriate import substitution where feasible, and expanding exports to deficit countries.

The "Make in India" initiative, aimed at boosting domestic manufacturing, represents one approach to addressing this challenge. However, its success will depend on effectively addressing the various factors affecting manufacturing competitiveness, including infrastructure, regulatory environment, labor laws, and access to finance.

9.11 Leveraging Services Trade Potential

The impressive growth of services exports presents significant opportunities for India. With services exports projected to reach $800 billion by 2030[6], this sector is likely to remain a key driver of India's external sector performance.

There are opportunities to diversify into emerging service sectors, such as financial services, healthcare, and education. The potential for India to increase its market share in financial services, where "dominant developed market players are gradually losing shares to emerging markets"6, represents one such opportunity.

9.12 Navigating Global Economic Uncertainties

India's foreign trade faces challenges from global economic uncertainties, including trade tensions between major economies, supply chain disruptions, and fluctuations in commodity prices. The COVID-19 pandemic demonstrated the vulnerability of international trade to such shocks, with India experiencing significant disruptions in both exports and imports.

Developing resilience to such shocks will require diversification of trading partners, products, and supply chains. The ongoing efforts to reduce dependency on specific countries for critical inputs and to develop alternative supply chains represent steps in this direction.

10 Role of Foreign Trade Policy(FTA)

Free Trade Agreements (FTAs) play a pivotal role in India's trade policy formulation and execution, directly shaping the country's approach to global commerce, export growth, and economic development. Their influence is evident in both the design of the Foreign Trade Policy (FTP) and the broader strategic objectives of India's international trade engagement.

10.1. Expanding Market Access and Export Growth

FTAs are central to India's efforts to secure preferential access to foreign markets by reducing or eliminating tariffs and non-tariff barriers. This makes Indian goods and services more competitive abroad, as seen with the India-UAE Comprehensive Economic Partnership Agreement (CEPA), which eliminated duties on over 97% of the UAE's tariff lines for imports from India. As a result, Indian exports to the UAE grew by over 11% in FY23, with significant gains in sectors like gems, jewelry, and engineering goods. Similar agreements with ASEAN, Japan, and South Korea have also boosted India's exports, with the India-ASEAN FTA helping to increase exports to ASEAN countries by 26% and the India-Japan EPA boosting exports to Japan by 20%.

10.2. Enhancing Competitiveness and Attracting Investment

By lowering tariffs-often by 80- 100%, FTAs reduce input costs for Indian manufacturers, making their products more competitive in global markets. This not only benefits large exporters but also supports SMEs and MSMEs by giving them better access to international markets and improving their return on investment. FTAs also facilitate foreign direct investment (FDI), as seen in the TEPA with the European Free Trade Association, which promises $100 billion in investment over 15 years, targeting manufacturing and green technology. Over the last five years, cumulative investment from FTA partner countries reached $89.46 billion.

10.3. Supporting Policy Goals: Digital Trade, Services, and Supply Chains

Recent and ongoing FTA negotiations (with the UK, EU, Canada, and others) reflect India's policy shift toward digital trade, services, and securing critical supply chains. The FTP 2023 specifically aligns with these goals, aiming to boost export-oriented sectors, facilitate e-commerce, and promote sustainable development. FTAs are also being leveraged to secure access to critical raw materials (e.g., minerals from Australia) and to attract investment in logistics and infrastructure.

https://www.india-briefing.com/doing-business-guide/india/why-india/india-s-international-free-trade-and-tax-agreements

https://www.leremitt.com/blogs/role-of-ftas-in-trade-economy

11. Atmanirbhar Bharat: Self-Reliance in Trade

Atmanirbhar Bharat, or Self-Reliant India, is a government initiative launched in 2020 to strengthen India's economic resilience and reduce dependence on imports, especially in critical sectors like manufacturing, electronics, and healthcare. The program aims to boost domestic production, encourage innovation, and support local businesses-particularly MSMEs-through reforms, financial incentives, and infrastructure development. It emphasizes building world-class infrastructure, leveraging India's young workforce, and promoting digitalization. While Atmanirbhar Bharat has helped revive key sectors and increased India's global competitiveness, it also faces challenges such as implementation gaps, infrastructure bottlenecks, and concerns about protectionism. Overall, the initiative seeks to make India a stronger, more self-sufficient economy while remaining open to global trade and investment.

Objectives and Vision

The Atmanirbhar Bharat Abhiyan is built on five key pillars

- Economy: Creating a quantum leap in economic growth and resilience.
- Infrastructure: Developing modern, world-class infrastructure.
- System: Building technology-driven, efficient systems and governance.
- Vibrant Demography: Leveraging India's youthful population for growth.
- Demand: Stimulating domestic demand and strengthening supply chains.

The initiative is not about isolation or protectionism, but about strengthening domestic capabilities while engaging with global markets

https://en.wikipedia.org/wiki/Atmanirbhar_Bharat

https://tribal.nic.in/atmanirbhar-bharat.aspx

12. Challenges and Opportunities for Developing Economies in Global Trade

12.1 **Contemporary Challenges and Emerging Trends**

Global Value Chains and Trade Policy

Integration into global value chains (GVCs) has become a key strategy for many developing economies (Baldwin 2016). Participation in GVCs can bring technological transfer and market access, but requires robust trade policies that promote infrastructure, education, and investment climate reforms.

Countries like Vietnam have successfully leveraged trade agreements to attract foreign direct investment (FDI) and integrate into GVCs (Nguyen and Tran 2020).

12.2 Impact of Digitalization

The rise of digital trade introduces new challenges and opportunities. Developing economies with inadequate digital infrastructure risk falling further behind (UNCTAD 2021). Hence, trade policies must adapt to include digital economy strategies.

12.3Trade Policies and Climate Change

Environmental sustainability is becoming integral to trade policy discussions. Carbon border taxes and green trade agreements could impact developing economies that rely on resource-intensive industries (Bacchus 2019).

Thus, aligning trade policies with environmental goals is increasingly essential for long-term competitiveness.

13 Some Recent Global Trade Policies

13.1 The global trade landscape

It has recently been shaken by the renewed escalation of the U.S.-China trade war, with both countries imposing steep tariffs on each other's goods. In early 2025, the United States, under President Trump, reimposed and sharply increased tariffs on Chinese imports-reaching as high as 145%-citing concerns over intellectual property theft, persistent trade imbalances, and China's alleged failure to curb the export of fentanyl to the U.S. China responded with its own retaliatory tariffs, raising duties on U.S. imports to 125% and signaling its readiness to take further countermeasures if necessary. These moves have sparked fears of a global economic slowdown, with the International Monetary Fund revising its 2025 growth forecasts downward and financial markets reacting to the heightened uncertainty (CNN, 2025; Al Jazeera, 2025; Trends Research, 2025).Both countries are leveraging their unique strengths in this economic standoff. The U.S. holds significant influence in advanced technology sectors, such as semiconductors and AI, while China controls the majority of global rare earth mineral supplies-critical for electronics and defense industries. Each side is carefully weighing which sectors to target or exempt in order to maximize pressure while minimizing self-inflicted harm. For example, China has recently considered exempting certain essential U.S. goods from its tariffs to mitigate domestic economic fallout, signaling a possible willingness to de-escalate if reciprocal concessions are made by the U.S. (Reuters, 2025; CBSAustin, 2025).

13.2 Perspectives on the trade war

It remains deeply divided. U.S. policymakers argue that aggressive tariffs are necessary to protect American jobs and counter unfair Chinese practices, but many economists warn that such measures will likely raise consumer prices, disrupt global supply chains, and fail to meaningfully reduce the trade deficit. Conversely, Chinese officials and business leaders view the tariffs as protectionist and illegal under international law, emphasizing the importance of dialogue and mutual respect to resolve disputes. As both countries navigate this high-stakes confrontation, the broader international community faces increased volatility and the risk of further fragmentation in global trade (CEPII, 2025; Al Jazeera, 2025; Trends Research, 2025).

Conclusion

India's foreign trade has undergone a remarkable transformation since the economic reforms of 1991, evolving from a relatively closed economy to an increasingly integrated player in the global market. This transformation has had profound implications for economic growth, industrial development, and external sector stability.

The evidence suggests that trade liberalization has positively impacted India's economic growth, with trade openness contributing to higher growth rates in the post-reform period. The composition of India's foreign trade has shifted significantly, with manufactured goods and services now dominating the export basket. The extraordinary growth of services exports, particularly in IT and professional services, has been a standout feature of India's trade performance, helping to offset the persistent merchandise trade deficit.

Despite these positive developments, challenges remain. The persistent trade deficits, particularly with countries like China, raise concerns about the sustainability of current trade patterns. Domestic constraints continue to affect export competitiveness, while global economic uncertainties pose challenges for India's external sector.

Looking ahead, India's foreign trade is likely to remain a key driver of economic growth and development. The projected growth in services exports, potential benefits from strategic trade agreements, and ongoing efforts to enhance export competitiveness suggest a positive outlook. As noted in research findings, "though import has a negative influence on economic growth, the volume of trade reflected by economic openness has a positive impact on the economic growth of India and its magnitude is increasing continuously"[3].

India's journey from a closed, inward-looking economy to an increasingly open and globally integrated one has contributed significantly to its emergence as one of the world's fastest-growing major economies. As India continues to navigate the complex landscape of global trade, the lessons from its past experience with trade liberalization will be invaluable in shaping its future trade policy to maximize the benefits while minimizing the costs of global economic integration.