

## India's global trade position and relations

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### ABSTRACT

Over the past two decades, India's trade has grown faster than its GDP, indicating increasing integration with the global economy. This trend reflects the country's expanding export and import activities, driven by liberalization, globalization, and rising demand for goods and services both domestically and internationally. The faster trade growth highlights India's growing role in global markets, especially in sectors like IT, pharmaceuticals, and engineering. The ratio of international trade to GDP increased from 14% in 1980 to nearly 20% by the end of the 1990s. Given the trends of globalization and liberalization, the openness of Indian economy is expected to grow further in the coming two decades. The more exact magnitude of India's trade in 2020 and its proportion to India's national income would be determined by a variety of factors. Many of these factors are in the nature of external shocks and are beyond the control of national policy making.

One illustration is the recent surge in the crude oil prices in the international market to unprecedented levels that have impacted the country's imports in a significant manner. In addition, the implementation of various WTO agreements is likely to affect the India's trade. India's trade is also likely to be affected by various bilateral/ regional preferential trade arrangements that have been concluded and those that might take shape in the coming years. This study examines the determinants of India's bilateral trade flows with key trading partners—namely China, the United Arab Emirates, the United States, and Japan—over the period 1998 to 2025, employing gravity model framework. Using panel data analysis, the research identifies key factors influencing trade volumes, including political globalization and cultural proximity, both of which are found to significantly enhance trade relationships. Additionally, economic size and shared borders exert a positive influence, underscoring the roles of market scale and geographical proximity. The gravity model effectively captures the dynamics of India's trade interactions, offering valuable insights for policymakers aiming to strengthen economic cooperation. The findings contribute to a deeper understanding of the structural drivers of international trade, particularly in the context of India's major trade partnerships.

### KEYWORD

Globalization, exports Imports, global economy Trade, Tariff and Financial Year 2025.

**Abbreviations:**

GATT: General Agreement on Tariffs and Trade  
WTO: world Trade Organization  
DDA: Doha Development Agenda  
NAMA: Non-Agricultural Market Access  
SSM: Special Safeguard Mechanism  
FY25: Financial Year 2025  
Q3: Third QUARTERLY

**1. INTRODUCTION**

The gravity model in trading is a key instrument in international economics, estimating bilateral trade flows. The model, based on the assumption that trade between nations, is positively connected with economic size and negatively correlated with distance, has been refined over time. Originating from early trade theories, the gravity model posits that larger economies exhibit greater trade potential, leading to increased trade interactions. Conversely, the model recognizes that geographical distance acts as an alternative for the innumerable barriers towards trade, including logistical costs, tariffs, and non-tariff barriers. These impediments reduce the likelihood and degree of trade among countries. The elegance of the gravity model lies in its ability to distil complex trade relationships into a tractable mathematical framework. By focusing on key variables such as economic size and distance, it provides a powerful lens for analyzing and predicting bilateral trade patterns. While brief in its original formulation, the gravity model has been consistently updated to reflect the intricacies of the global economy.

India made its first formal entry into the modern international arena in 1945 at the UN Conference on International Organization, contributing to the drafting of the UN Charter despite being under colonial rule. As a founding member of GATT in 1947, India advocated for the interests of less developed nations, aiming for a more equitable international economic order. Post-independence, India continued to play a significant role in diplomacy, hosting the Asian Relations Conference in 1947 and participating in the Colombo Conference in 1954. India's leadership was further solidified at the Bandung Conference in 1955, promoting unity among newly independent states and advocating against colonialism. The establishment of the Non-Aligned Movement in 1961 epitomized India's commitment to strategic autonomy and multi-polarity, championing decolonization and economic justice while influencing global governance in favor of the developing world.

In 2008, the World Trade Organization (WTO) multilateral trade negotiations, known as the Doha Development Agenda (DDA), continued to struggle for the seventh consecutive year. Initially launched in 2001 to prioritize development in global trade, the DDA aimed to ensure that trade liberalization benefits both advanced and developing nations. However, slow and uneven progress was marked by persistent deadlocks due to skepticism among member countries regarding individual benefits from potential agreements. Major disputes centered on agricultural

liberalization, Non-Agricultural Market Access (NAMA), and services. The July 2008 ministerial talks featured sharp criticisms of the stances of major WTO members, including China, India, and the United States, particularly concerning the Special Safeguard Mechanism (SSM) proposed to protect developing countries' farmers. Other contentious issues included trade in services, where developed nations sought greater access, and unresolved cotton subsidies that affected African nations. The failure to advance the negotiations highlighted the deep divide between developed and developing countries, raising concerns about the credibility of the WTO and the future of the multilateral trading system.

### **3. OBJECTIVES**

India aims to strengthen its global trade position as a rapidly growing economy by 2047, focusing on key objectives outlined in its Foreign Trade Policy (FTP) 2023. These include boosting exports to \$2 trillion by 2030, attracting foreign direct investment (FDI) through liberalization and incentives, diversifying supply chains to reduce import dependency, enhancing the ease of doing business through regulatory reforms, negotiating strategic Free Trade Agreements (FTAs) with partners such as the UAE and the EU, promoting sustainable and inclusive trade, and generating employment in labor-intensive sectors. These initiatives aim to position India as a reliable global economic powerhouse.

### **4. RESEARCH METHODOLOGIES**

Research methodologies in trade analysis encompass both quantitative and qualitative approaches. Quantitative analysis utilizes statistical techniques such as the Gravity Model, time-series econometrics (e.g., Johansen Co-integration Test and VAR models), and various trade indices to assess trade patterns and relationships between trade, GDP, and exchange rates. Descriptive statistics and correlation/regression analysis further help in visualizing and estimating trade dynamics. Conversely, qualitative analysis looks at non-numerical data, including policy document reviews to evaluate trade policies, SWOT analysis for assessing trade relations, case studies on specific agreements or global events, and surveys for gathering expert opinions on trade challenges.

#### **4.1 Trade Policy Reforms in India:**

Trade policy reforms over the last decade have provided an export friendly environment with simplified procedures conducive to enhancing export performance. The focus of these reforms have been on liberalization, openness, transparency and globalization with basic thrust on outward orientation focusing on export promotion activity moving away from quantitative restrictions and improving competitiveness of Indian industry to meet global market requirements. Over the years, significant changes in the EXIM Policy have helped to strengthen the export production base, remove procedural irritants, and facilitate input availability besides focusing on quality and technological up gradation and improving competitiveness. Steps have

also been taken to promote exports through multilateral and bilateral initiatives, identification of thrust areas and focus regions. During the past year, the following trade policy measures have been announced.

## 4.2 TRADE WATCH

### QUARTERLY October-December (Q3) FY25

#### ADVISORY BOARD

S. No.	Board Member	Affiliation
1	Harsha Vardhana Singh	Former Deputy Director, WTO
2	Santosh Kumar Sarangi	<b>Former Additional Secretary &amp; Director General, DGFT</b>
3	Pravin Krishna	Professor, Johns Hopkins University
4	Rupa Chanda	Director, UNESCAP
5	Deepak Mishra	Director and Chief Executive, ICRIER
6	Rakesh Mohan Joshi	Professor and Chairperson, IIFT, Delhi
7	Arpita Mukherjee	Professor, ICRIER
8	James J. Nedumpara	<b>Professor and Head, Centre for Trade and Investment Law (CTIL)</b>
9	Pritam Banerjee	Professor and Head, Centre for WTO Studies
10	C Veeramani	Director, Centre for Development Studies
11	Sanjay Kathuria	Visiting Senior Fellow, CSEP
12	Biswajit Nag	Professor, IIFT
13	Debashis Chakraborty	Professor, IIFT, Kolkata

#### 4.3 HIGHLIGHTS:

- Global trade growth (Q3 FY25): Overall trade in goods and services rose 3.7%  
Goods trade expanded by 2%, Services trade surged by 9%  
Developing economies outpaced developed economies in trade growth.
- India's trade performance (Apr–Dec, FY25): Total trade: \$1290.35 billion (~7% YoY increase).  
Exports: \$606 billion (+6.63% YoY).  
Imports: \$684.4 billion (+7.29% YoY).  
Trade performance remained stable.
- December 2024 (YoY performance): Merchandise exports: \$37.8 bn (↓ \$0.59 bn)  
Merchandise imports: \$58.5 bn (+2.3%) On a volume basis, both exports and imports contracted YoY Q3 FY25 (monthly averages): Exports: \$36.2 bn Imports: \$62.4 bn Q3 FY25 (quarterly totals, YoY growth): Exports: \$108.7 bn (+3%) Imports: \$187.5 bn (+6.5%)

#### 4.4 INDIA'S TRADE ANALYSIS

Global trade in goods and services rose by 3.7% in Q3 FY25, with goods trade expanding by 2% and services by 9%. Developing economies outpaced developed ones in trade growth. India reported stable trade performance from April to December, with total trade reaching \$1290.35 billion, a year-on-year increase of ~7%. Exports grew by 6.63% to \$606 billion, while imports increased by 7.29% to \$684.4 billion.

##### 4.4.1 Merchandise and Services Analysis:

In December 2024, merchandise exports recorded a slight year-on-year decline of \$0.59 bn, reaching \$37.8 bn, while imports registered a 2.3% increase, reaching \$58.5 bn on a volume basis, both exports and imports witnessed a year-on-year contraction. During Q3 FY25, monthly average exports stood at \$36.2 bn, and imports averaged \$62.4 bn. On a quarterly basis, exports rose modestly by 3% year-on-year to \$108.7 bn, whereas imports grew by 6.5% to \$187.5 bn.

In December 2024, India's services exports stood at \$32.7 bn, registering a year-on-year growth of 3.26%, while services imports increased more sharply by 11.96% to approximately \$17.5 bn. During Q3 FY25, services exports witnessed a robust annual expansion of 17%, amounting to \$102.6 bn. Services imports rose by 22.52% to \$52.4 bn during the same period, resulting in a net services trade surplus of \$50.2 bn.

#### 4.5 COMPOSITIONAL ANALYSIS:

##### 4.5.1 Merchandise Exports:

In Q3 FY25, India's leading export commodities included mineral fuels (12.3%), electrical machinery and equipment (11.0%), and nuclear reactors (7.5%). Notably, exports of aircraft, spacecraft, and related parts experienced a steep increase of over 200% year-on-year. Cereals and electrical machinery also recorded annual growth rates of 75.2% and 40.8%, respectively. In contrast, exports of natural and cultured pearls declined by over 14% on year-on-year basis during the same period. Exports of aircraft, spacecraft, and parts registered a sharp increase, driven by heightened demand for commercial aircraft and cargo planes, particularly from Saudi Arabia, the UAE, and the Czech Republic. Electrical machinery exports also saw a strong uptick, primarily due to the surge in smart phone shipments, which rose from approximately \$4 bn in Q3 FY24 to \$7 bn in the Q3 FY25—reflecting a growth of nearly 74%. Within the cereals category, rice exports recorded robust growth following the removal of export restrictions on various rice types in October.

##### 4.5.2 Merchandise Imports:

The leading imports in the third quarter include mineral fuels (29.5%), natural and cultured pearls (13.8%), electric machinery (11.8%), and nuclear reactors (8.7%). Strong import growth was witnessed in animal fats and oils, which increased by 51.4%, followed by natural or cultured pearls, precious and semi-precious stones (18.6%), and electrical machinery (11.4%). In contrast,

iron and steel imports registered a sharp decline of 21%. The sharp rise in imports under the chapter on animal or vegetable fats and oils was primarily driven by increased shipments of crude soybean oil, particularly from Argentina, and palm oil from Indonesia. Imports of natural and cultured pearls, precious and semi-precious stones saw an uptick due to higher inflows of uncut and industrial diamonds from Canada.

#### 4.6 TRADE DIRECTION:

##### 4.6.1 Merchandise Exports:

India's exports to its top markets (USA, UAE, Netherlands, Singapore, UK and China) accounted for about ~42% of Q3 FY 25 exports. Exports to the top ten markets showed a year-on-year increase of 6.54%, with positive export growth recorded in eight of the top ten economies, with Singapore and Australia clocking a year-on-year growth of over 50%. However, declines were recorded with the Netherlands (18.3%) and China (18.35%) compared to Q3 FY24.

Exports to Singapore increased 52% year over year, primarily due to higher shipments of large cargo vessels and petroleum products. Exports to Australia also increased, supported by a rise in petroleum product exports and electrical components.

##### 4.6.2 Merchandise Imports:

India's import exposure to its top markets —China, UAE, Russia, and the USA—made up nearly ~38% of total imports. Import growth was experienced in seven out of the top ten import destinations in terms of share of total imports during Q3 FY25. Imports to the top ten economies experienced an 8.5% year-over-year growth, growing from \$103 bn to \$112 bn.

#### 4.7 INDIA'S FOREIGN TRADE FOR THE MONTH OF AUGUST 2025:

The narrowing trade deficit in India is a positive indication for the external sector, driven by lower imports, particularly in volatile categories like gold. Strong performance in electronics and engineering exports shows sectors focused on value addition are improving. The services surplus provides a buffer against challenges in goods trade. However, potential U.S. tariff actions could hinder export growth, prompting India to enhance export diversification and competitiveness in core sectors. The cumulative exports (merchandise & services) during April-August 2025 are estimated at US\$ 349.35 Billion, as compared to US\$ 329.03 Billion in April-August 2024, a growth of 6.18%.

Department of Commerce.					
System on foreign trade Performance analysis					
Report Dated: Thu, Oct 02, 2025			Values in US\$ Millions    (P) Provisional		
Rank	Commodity	Apr- August 2024	Apr- August 2025 (P)	%Growth	%Share

1	U S A	34,210.80	40,354.29	17.96	21.96
2	U ARAB EMTS	14,324.53	15,239.78	6.39	8.29
3	NETHERLAND	11,153.97	8,962.24	-19.65	4.88
4	CHINA P RP	5,804.13	6,944.83	19.65	3.78
5	U K	6,282.13	5,723.35	-8.89	3.11
Total		179,598.72	183,739.86	2.31	100.0

#### 4.8 BRICS2030 ECONOMIC PARTNERSHIP STRATEGY

First adopted under Russia's presidency in 2020, the strategy aims to guide the group's economic cooperation. Its renewal includes five priorities for cooperation among BRICS members over the next five years: the multilateral trading system, digital economy, international trade and investment, financial cooperation, and sustainable trade and development.

Shri Yashvir Singh, Economic Adviser, notes that the issue of WTO reform has been present since the first BRICS debate and will remain relevant during India's BRICS presidency in 2026.

#### 4.9 WTO REFORM:

Shri Yashvir Singh, Economic Adviser (Department of Commerce, Government of India), emphasized that the declaration underlines the importance of promoting an inclusive, equitable, transparent, and non-discriminatory rules-based multilateral trading system. "Since major reforms are not being easily implemented — especially the restoration of the WTO Appellate Body — we have proposed some incremental reforms to improve the functioning of the organization, its committees, and councils," said the minister. In the declaration, the BRICS trade ministers expressed concern over the increase in unilateral tariff and non-tariff measures, as they distort trade and are inconsistent with WTO rules. According to the Indian minister, the issue will continue to be addressed in 2026, during India's presidency of BRICS, with an emphasis on the reform of The Appellate Body of the World Trade Organization

#### 4.10 UNITED STATES TRADE WITH INDIA:

##### 4.10.1 India Trade Summary:

U.S. goods and services trade with India totaled an estimated \$212.3 billion in 2024, up 8.3 percent (\$16.3 billion) from 2023. U.S. total goods trade (exports plus imports) with India was an estimated \$128.9 billion in 2024. U.S. goods exports to India in 2024 were \$41.5 billion, up 3.0 percent (\$1.2 billion) from 2023. U.S. goods imports from India in 2024 totaled \$87.3 billion, up 4.5 percent (\$3.8 billion) from 2023. The U.S. goods trade deficit with India was \$45.8 billion in 2024, a 5.9 percent increase (\$2.6 billion) over 2023.

U.S. total services trade (exports plus imports) with India totaled an estimated \$83.4 billion in 2024. U.S. services exports to India in 2024 were \$41.8 billion, up 15.9 percent (\$5.7 billion) from 2023. U.S. services imports from India in 2024 were \$41.6 billion, up 15.4 percent

(\$5.6 billion) from 2023. The U.S. services trade surplus with India was \$102 million in 2024, compared to a services trade deficit of \$76 million in 2023.

#### 4.11 NEWS

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- India calls trade talks with US 'positive' as it looks to close deal amid steep tariffs- FOX 16/09/25
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- India's exports to China climb for 7 straight months in FY26, help New Delhi soften US tariff blow – The Economic times 22/11/25
- Excessive dependence: On India's external trade landscape-THE HINDU 19/11/25

#### 5. KEY FINDINGS

India's trade landscape shows a growing trade deficit, particularly with countries like China, while maintaining a trade surplus with the U.S. Key points include strong growth in both merchandise and service exports, and a solid trade relationship with North America and the EU. Strategic Free Trade Agreements with partners such as the UAE and Australia aim to enhance trade. However, challenges persist, such as infrastructure deficiencies and inconsistent agricultural policies, which hinder global competitiveness. In FY24, the trade deficit narrowed to \$238.3 billion, with a 5.45% increase in total trade in Q1 FY25 compared to 2023.

#### 6. DISCUSSION

India and USA-India and the US are actively negotiating a comprehensive Bilateral Trade Agreement (BTA), nearing completion of the first phase, with aims to resolve tariff disputes and market access issues by the end of 2025. The US is India's largest trading partner, with bilateral goods trade over \$131.84 billion in FY 2024-25. India maintains a goods trade surplus of approximately \$40.82 billion. The US imposes a 50% tariff on most Indian goods, affecting exports, particularly in textiles and leather. Key exports from India include electrical machinery and pharmaceuticals, while major imports to India consist of mineral fuels and machinery.

India and Russia's trade relationship is a strategic partnership marked by record high trade volumes, reaching USD 68.7 billion in FY 2024-25. This relationship faces a significant trade imbalance, with India importing USD 63.84 billion from Russia, mainly discounted crude oil, while exporting only USD 4.88 billion. Key imports include fertilizers, coking coal, and precious stones. Indian exports consist of pharmaceuticals, organic chemicals, engineering goods, and agricultural products like rice, tea, and coffee. Both nations are exploring ways to balance this trade and enhance economic cooperation.

France and India are enhancing their trade relationship, particularly in defense, digital technology, renewable energy, and smart cities, with bilateral trade approximating €12.92 billion in FY 2024-25. India's exports are increasing, while imports from France largely consist of aircraft and spacecraft parts. Both countries are focused on fostering private sector engagement, developing digital public infrastructure, and advancing an EU-India free trade agreement. India's international trade has experienced robust growth, particularly in services and engineering goods, surpassing global export growth rates. In 2023-24, India recorded significant overall exports and a reduced trade deficit, largely due to a strong services sector, which generated over USD 320 billion, primarily from IT and professional services. The country's export portfolio has diversified, including engineering, electronics, and pharmaceuticals. Government initiatives, such as the Foreign Trade Policy 2023, are enhancing competitiveness. India's strategic location in the Indian Ocean bolsters its trade connections, and it seeks a leadership role in reforming the WTO to improve digital and green trade opportunities.

## 7. CONCLUSION

India's trade landscape demonstrates notable growth in services and specific merchandise sectors while grappling with a substantial merchandise trade deficit due to high energy imports. The country boasts a strong services trade surplus and is a key global exporter in pharmaceuticals, engineering goods, electronics, and refined petroleum products. Despite the necessity to import most crude oil and natural gas, merchandise exports, particularly in non-petroleum and non-gems & jewellery categories, continue to grow. Additionally, India's Logistics Performance Index has seen improvements, particularly in international shipments and customs efficiency.

India faces significant challenges in merchandise trade, highlighted by a large deficit largely due to reliance on imported crude oil (83%) and natural gas (45%). The country has notable trade deficits with partners like China and Russia, while maintaining a surplus with the U.S. In response, the government is implementing the Foreign Trade Policy 2023 to enhance trade by streamlining procedures and negotiating Free Trade Agreements to improve market access. Additionally, India aims to reduce import dependency by boosting domestic production and renewable energy development for energy security.

India's trade relations are growing strongly in both merchandise and services due to strategic policies, despite facing global uncertainties and trade imbalances. The country is enhancing its global standing through trade agreements and infrastructure improvements, emphasizing high-tech manufacturing and exports for economic development and job creation, while managing risks from cheaper imports. Key strengths include strong export performance in sectors like electronics and services, government-backed support for exporters, aspirations to reach a \$5 trillion economy by 2029, strengthened partnerships through trade agreements, and improved logistics efficiency reflected in its Logistics Performance Index (LPI) score.

## 8. REFERENCES

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5. United States Trade Representative

### 8.2 Link:

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