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INTERNATIONAL TRADE AND THE INDIAN ECONOMY: CONTEMPORARY ISSUES AND CHALLENGES

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Abstract
The International Monetary Fund (IMF) has identified three main reasons for the global economy to be facing severe challenges: 1. The energy crisis caused by the Russia-Ukraine conflict; 2. The impact of rising inflation on daily life in many developed countries; and 3. China's economic slowdown. But investment entrepreneurs and international trade play a crucial role in India's economic growth. However, small investors, especially small producers, rural entrepreneurs, and small exporters, continue to face structural and policy-related challenges. Furthermore, geopolitical and global circumstances, trade deficits and import dependence, infrastructure and regulatory constraints, inflation and energy shortages, and protectionist policies: Strict trade policies and high tax policies adopted by other countries affect India's export opportunities. These factors have various impacts on the Indian economy, such as stagnation and inflation, global recession, and a slowdown in India's economic growth. Further industry challenges—Micro, Small, and Medium Enterprises (MSMEs) face difficulties in digital transformation, financing, and technological modernization, which affects the quality of India's exports. This explains the foundations of international trade and examines contemporary issues affecting India's foreign trade, such as trade deficit, protectionist trade policies, global supply chain barriers, technological changes, and sustainable development challenges. It also assesses the impact of globalization on agriculture, industry, and service sectors. This will also provide an opportunity to understand the role of international trade in the growth of the Indian economy. And after the 1991 economic reforms, there was trade liberalization and greater integration with world markets. This study examines the theoretical foundations of international trade and contemporary trade issues emerging in the Indian economy.

Key Words: International Trade, Indian Economy, Global Economic Challenges, Small Investors, MSME, Trade Deficit, Protectionist Policies, Globalisation.

Introduction

The International Monetary Fund (IMF) has identified three main reasons for the global economy to be facing severe challenges: 1. The energy crisis caused by the Russia-Ukraine conflict; 2. The impact of rising inflation on daily life in many developed countries; and 3. China's economic slowdown. But investment entrepreneurs and international trade play a crucial role in India's economic growth. However, small investors, especially small producers, rural entrepreneurs, and small exporters, continue to face structural and policy-related challenges. Furthermore, geopolitical and global circumstances, trade deficits and import dependence, infrastructure and regulatory constraints, inflation and energy shortages, and protectionist policies: Strict trade policies and high tax policies adopted by other countries affect India's export opportunities. These factors have various impacts on the Indian economy, such as stagnation and inflation, global recession, and a slowdown in India's economic growth. Further industry challenges—Micro, Small, and Medium Enterprises (MSMEs) face difficulties in digital transformation, financing, and technological modernization, which affects the quality of India's exports. This explains the foundations of international trade and examines contemporary issues affecting India's foreign trade, such as trade deficit, protectionist trade policies, global supply chain barriers, technological changes, and sustainable development challenges. It also assesses the impact of globalization on agriculture, industry, and service sectors. This will also provide an opportunity to understand the role of international trade in the growth of the Indian economy. And after the 1991 economic reforms, there was trade liberalization and greater integration with world markets. This study examines the theoretical foundations of international trade and contemporary trade issues emerging in the Indian economy.

It includes traditional and modern trade theories such as absolute advantage, comparative advantage and Heckscher-Ohlin theory, and is used to compare and understand India's trade performance, its capabilities, etc.

International trade theories ranging from Adam Smith's absolute advantage theories to David Ricardo's comparative advantage theories and Heckscher-Ohlin (HO) factor subsidy models provide a fundamental rationale for global trade in terms of its efficiency, opportunity costs and growth. All these theories explain India's trade patterns and its nuances in manufacturing, especially in the areas of labour-intensive manufacturing (HO), and IT services (competitive advantage) and production, which are increasingly shaped by Porter's diamond model theories and modern theories.

Theoretical foundations of international trade

1. Mercantilism (16th–18th centuries): Early theories that a country's wealth depends on accumulating gold and achieving a trade surplus (higher exports, lower imports).
2. Absolute advantage theories (Adam Smith): A country should be more efficient (using fewer resources) at producing more of a given good than others.
3. Comparative advantage (David Ricardo): A country can benefit from trade even if it is less efficient at producing all goods. A country should also acquire goods when its comparative efficiency is high (lower opportunity cost).
4. Hexer-Ohlin (H-O) theory (factor proportions): Proposes that countries should export goods that use their abundant goods and cheap factors of production (e.g., labor-abundant countries export labor-intensive goods).
5. Modern/New Trade Theories: Economies of scale, network effects, and firms operate at a higher level than country-level resource subsidies (e.g., Porter's diamond model).

Review of Literature

Dr. B.R. Ambedkar (1923), in his major work The Rupee Problem: Its Origin and Solution (1923), critically examined India's monetary and foreign exchange system under British rule. He identified exchange rate instability as a major obstacle to India's participation in international trade. Ambedkar was highly critical of the gold exchange standard, arguing that it weakened India's monetary independence while benefiting Britain. He stressed at the same time that stable exchange rates and proper foreign exchange management were essential to promote international trade and protect national economic interests. Ambedkar also highlighted that an unstable currency and external controls on foreign exchange reserves were limiting India's ability to compete effectively in world markets.

John Maynard Keynes, (1913), In his book Indian Currency and Finance advocated the gold exchange standard. He argued that its operation helped maintain exchange stability for exports and imports and facilitated international trade. However, Keynes focused mainly on administrative efficiency rather than India's long-term economic independence. While Keynes believed that this system supported trade efficiency, Ambedkar argued that it created structural disadvantages for developing countries like India.

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The Reserve Bank of India, in its various annual reports, has emphasized that foreign exchange reserves and exchange rate stability, as well as export competitiveness, are key factors affecting India's international trade performance. Fluctuations in exchange rates affect export growth. Adequate foreign exchange reserves ensure trade stability. Monetary policy plays a key role in maintaining the balance of trade.

Amartya Sen (1999) highlighted that economic growth and international trade are closely linked. He also highlighted that all countries need strong institutions to improve their export-oriented trade performance and that they need to have infrastructure and human capital development. India's Export-Import Policy Statements also identified major international trade challenges. These were, trade deficit due to high imports, global competition from China and other countries, infrastructure and logistics constraints, exchange rate fluctuations, trade barriers and protectionist policies.

Jagadish Bhagwati (1960–1980) Developing countries like India play a major role in exporting primary commodities. Jagadish Bhagwati emphasized that basic infrastructure facilities are needed to face global trade barriers and competitiveness in world markets, and only then can they be faced. He also argued those trade liberalization and export diversifications are necessary to meet the challenges of international trade.

The World Trade Organization (WTO) reports emphasized that developing countries like India face challenges such as tariff barriers, infrastructure, some key barriers, and uncertainty in global economic growth.

Objectives of the Study

1. To examine the theoretical foundations of international trade
2. To analyse India's foreign trade performance
3. To identify major challenges affecting international trade
4. To evaluate the impact of globalization on the Indian economy

Methodology

This study is based on Secondary Data collected from various reliable sources that are:

1. International Monetary Fund Reports
2. World Bank Publications
3. World Trade Organization Statistics
4. Reserve Bank of India Reports
5. Ministry of Commerce and Industry, Government of India
6. Research Journals, Books, and Official Websites

Method of Analysis

1. Descriptive Analysis
2. Comparative Anaysis
3. Statistical and trend Analysis.

Recent Trends (2024–2026)

Positive Trends

1. Growth in services exports

2. Expansion of exports to Middle East and Europe
3. Increase in MSME exports through e-commerce

Indian MSMEs exported over 20 billion through e-commerce platforms, showing strong growth in global trade participation.

Trade Agreements Supporting Export Growth

India signed new trade agreements to expand export opportunities:

- Oman Trade Agreement to boost exports of textiles, pharmaceuticals, and automobiles
- New Zealand Free Trade Agreement to expand bilateral trade.

Table 1: India's Major Export Countries and Estimated Value:

Rank	Country	Export Value ($ Billion)	Share (%)
1	United States	75-80	17-18
2	UAE	30-35	7-8
3	Netherlands	20-25	5-6
4	China	15-20	4-5
5	Singapore	12-15	3-4
6	United Kingdom	10-12	2-3
7	Germany	10-12	2-3
8	Bangladesh	8-10	2-3
9.	Saudi Arabia	8-10	2
10	Italy	7-9	2

Source: Ministry of Commerce, Government of India

The data shows that the United States is India's largest export destination, contributing about 17–18 percent of total exports, which indicates strong trade relations and high demand for Indian goods. The UAE is the second largest export partner and serves as an important re-export hub connecting India to global markets. European countries such as the Netherlands, United Kingdom, Germany, and Italy are also major export destinations, importing engineering goods, chemicals, and textiles. Asian countries like China, Singapore, Bangladesh, and Saudi Arabia play an important role in regional trade, especially in manufacturing and raw materials. However, India's exports are concentrated in a few major countries, which creates risk during global economic slowdowns or trade restrictions. Therefore, India must diversify its export markets and strengthen competitiveness to ensure sustainable economic growth and stability in international trade.

Table2: India's Major Import Countries and Estimated Value (Recent Data)

Rank	Country	Value (Billion)	Share (%)
1	China	120-125	16-18
2	Russia	65-70	9-10
3	United States	40-45	6-7
4	UAE	35-40	6-7
5	Saudi Arabia	30-35	5
6	Iraq	25-30	4
7	Singapore	15-18	2-3

8	Germany	12-15	2
9	South Korea	12-14	2
10	Indonesia	10-12	1-2

Source: Ministry of Commerce, Government of India; RBI; World Bank Trade Data

The above shows that China is India’s largest import partner, contributing about 16–18 percent of total imports, mainly electronics, machinery, and industrial goods. Russia is the second largest supplier due to increased crude oil imports after the global energy crisis. The United States and UAE are also major import partners, supplying petroleum products, gold, and machinery. Saudi Arabia and Iraq are important sources of crude oil, reflecting India’s dependence on energy imports. Overall, India’s imports are concentrated in energy, electronics, and industrial raw materials, which contributes to the country’s trade deficit and highlights the need to strengthen domestic production and reduce import dependence.

Table 3: Indias Foreign Trade Performance (ExIm- (Billion)

Year	Exports	Imports	Trade Deficit
2020	313	394	-84
2021	422	613	191
2022	453	714	-261
2023	437	678	-241
2024	770	892	-122
2025	445	705	-260

Sources: The Reserve Bank of India, and Ministryof Commerce and Industry, Government of India.

The above shows that India’s imports are consistently higher than exports, resulting in a continuous trade deficit from 2020 to 2025. Exports increased from $313 billion in 2020 to higher levels in later years, but imports also increased significantly due to dependence on crude oil, machinery, and electronic goods. The trade deficit widened sharply in 2021, 2022, and 2025, indicating imbalance in foreign trade. Although 2024 shows improvement with higher exports, the deficit still exists. This indicates that India needs to promote exports and reduce import dependence to achieve trade balance and sustainable economic growth.

Table 4:Export Growth and Import Growth (%)

Year	Export Growth	Import Growth
2021-22	44	55
2022-2023	7	16
2023-2024	-3	-5

Source: Ministry Of Commerce and Industry, Government of India.

The above shows that India’s import growth has been higher than export growth in most years. In 2021–22, exports grew by 44%, but imports increased faster at 55%, widening the trade deficit. In 2022–23, export growth slowed to 7%, while import growth remained higher at 16%, indicating continued import dependence. In 2023–24, both exports and imports showed negative growth due to

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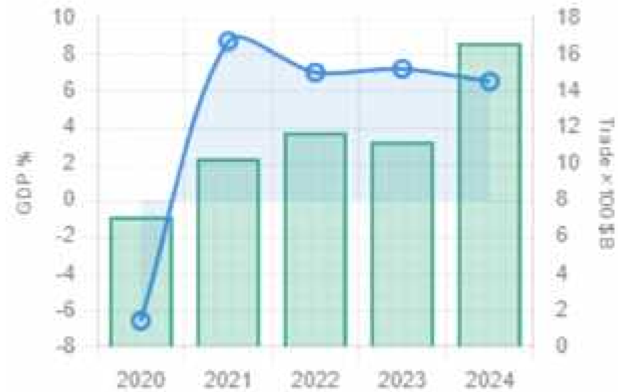
global economic slowdown and reduced trade demand. This indicates instability in India’s foreign trade and highlights the need to strengthen export performance and reduce import dependence.

Hypothesis

i. international trade does not significantly affect India's economic growth.



All p-values (0.144–0.431) exceed α = 0.05. There is insufficient statistical evidence to conclude that international trade significantly affects India's GDP growth in this sample. While imports show the strongest correlation ($r = 0.75$, $R^2 = 0.56$), the result is not statistically significant — largely due to the very small sample size ($n = 5$), which severely limits statistical power.

Major Export Items of India

Petroleum Products,IT Services, Pharmaceuticals, Engineering Goods, Agricultural Products

Major Import Items:Crude Oil, Gold, Electronic Good Machinery India's merchandise trade deficit narrowed significantly to 24.53 billion from a record high of 41.68 billion in October. The improvement was driven by lower imports of gold, oil and coal. The government's efforts and trade talks with the US are supporting economic stability.

India's trade deficit narrowed in November, a relief for the economy

India's merchandise trade deficit narrowed significantly to 24.53 billion in November, a significant decline from the previous month's record of 41.68 billion. According to government data released last month, the significant improvement was mainly driven by lower import costs of key commodities such as gold, oil and coal. Amidst the ongoing global trade uncertainties and domestic economic challenges, the development bodes well for the Indian economy.

Main Issues

A trade deficit is when a country imports more than it exports. This deficit, if sustained and widening, puts pressure on a country's currency and increases its dependence on foreign goods.

India's deficit narrowed, indicating an improvement in the balance of trade, a key indicator of economic health. It indicates that the value of goods sold by India to other countries was equal to or greater than the value of goods it bought from them.

The impact of the decline in imports has had direct financial implications, with imports of commodities such as gold, oil and coal falling. Lower oil imports have eased pressure on India's current account deficit and helped the Indian rupee appreciate against major currencies. Similarly, the decline in imports of gold, which is a major component of India's imports due to consumer demand, is

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contributing to foreign exchange reserves. Economists had forecast a deficit of around 32 billion, a positive surprise over the actual figure and better-than-expected import management.

Government Actions and Trade Diplomacy

In response to global economic challenges, including the imposition of steep tariffs by the US, the central government has actively implemented a number of measures. These include consumer tax reforms to stimulate domestic demand, an incentive package for exporters to increase international sales, and key labour reforms to improve trade competitiveness. Moreover, our Prime Minister engaged in direct discussions with former US President Donald Trump. The high-level conversation followed the visit of a US trade delegation as New Delhi seeks more favourable terms on key Indian export tariffs.

US Trade Demands

Meanwhile, the US has been pressing India for reciprocal trade concessions. Washington is asking New Delhi to reduce tariffs and non-tariff barriers on US goods entering the Indian market. A key focus of these discussions is opening up the Indian agriculture sector to US products such as soybeans and grain maize, which has been a key point of contention between the two countries

Perspectives

The narrowing trade deficit, coupled with proactive government policies and ongoing diplomatic engagements, has created a cautious optimism for India’s economic future. Sustained efforts to manage import dependency while improving export competitiveness will be crucial. The outcome of trade negotiations with key partners such as the European Union will significantly shape India’s trade trajectory in the coming quarters. Investors will be closely watching the sustainability of these import reductions and the success of export promotion strategies.

India's Trade Dynamics Against the backdrop of the economic policies pursued by the Indian government over the past several years—specifically, a scenario in which the volume of imports consistently exceeds that of exports—India continues to face a persistent trade deficit. As a consequence of the country's import policy, the nation relies heavily on the large-scale importation of essential commodities—such as oil, electronic goods, and machinery—which serve as indispensable raw materials for industrial and economic activities. In contrast, India's export basket is largely concentrated in petroleum products, information technology services, and pharmaceuticals. Although these sectors contribute significantly to export earnings, the lack of sufficient diversification in export products—coupled with a heavy reliance on imports—continues to create structural imbalances in India's foreign trade.

Implications

The narrowing of the merchandise trade deficit is a positive development for the Indian economy. It will lead to greater currency stability, reduce potential inflation due to lower import costs, and improve investor sentiment for India. Businesses in import-dependent sectors such as jewellery or fuel may see some cost reforms. The government’s proactive stance indicates a commitment to managing economic challenges, which may be viewed favourably by the markets.

International Trade and Contemporary Challenges in the Indian Economy

The International Monetary Fund (IMF) has identified three major factors contributing to the severe challenges facing the global economy:

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1. The energy crisis resulting from the Russia-Ukraine conflict,
2. Inflation affecting daily life in many developed countries, and
3. China’s economic slowdown.

These global developments have significantly affected international trade, investment flows, and economic stability worldwide.

In this global context, India has emerged as an important developing country economy where investment, entrepreneurship, and international trade play a key role in economic growth. However, small investors, rural entrepreneurs, small producers, and small exporters continue to face structural, institutional, and policy-related challenges. Investment constraints persist. These include inadequate infrastructure, technological constraints, and regulatory barriers that limit their ability to compete effectively in global markets.

Moreover, geopolitical tensions, trade deficits and India’s dependence on imports, especially in the energy and technology sectors, are creating vulnerabilities in the external sector. Protectionist trade policies, stringent regulatory standards and increasing tariff and non-tariff barriers imposed by developed countries are further reducing India’s export opportunities. These global and domestic challenges are contributing to inflationary pressures, economic slowdown and reduced competitiveness in international markets.

In addition, micro, small and medium enterprises (MSMEs), which are the backbone of India’s industrial sector, face significant difficulties in digital transformation, access to credit, technological modernization and integration into global value chains. These limitations directly affect export quality, productivity and overall trade performance.

Since the economic reforms of 1991, India has adopted trade liberalization policies and increased its integration with the world economy. These reforms have improved India’s participation in international trade and contributed to growth in agriculture, industry and services sectors. However, emerging global challenges such as supply chain disruptions, technological changes, sustainability requirements, and global economic uncertainty continue to impact India's foreign trade dynamics.

Government Initiatives In response to the challenges facing India, the government has undertaken various policy measures aimed at strengthening international trade. Export promotion schemes have been introduced to support exporters and enhance trade competitiveness. To expand market access and boost exports, the government has also entered into numerous trade agreements with various nations. Furthermore, policy reforms aimed at facilitating the ease of doing business—coupled with intensive diplomatic negotiations—are being implemented; these initiatives help foster a favorable trade environment and dismantle global trade barriers.

Findings

This study reveals that while India's exports have recorded steady growth, imports have increased at a slightly faster pace; this has led to a widening of the trade deficit. This imbalance continues to persist as a significant challenge for the Indian economy. The study further finds that, despite the growing contribution of Micro, Small, and Medium Enterprises (MSMEs) to the export sector, they continue to face structural and financial hurdles. Furthermore, global economic uncertainties—including geopolitical tensions and shifting market demands—are exerting a significant impact on India's trade performance.

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Recommendations

To enhance India's international trade performance, it is essential to promote exports through various means, such as by manufacturing new products and expanding market reach. Strengthening the Micro, Small, and Medium Enterprises (MSME) sector—by providing improved access to finance, technology, and infrastructure support—is of paramount importance. Priority must be accorded to reducing import dependency, particularly in key sectors such as energy and electronics, by emphasizing domestic production and domestic investment. Furthermore, upgrading infrastructure and logistics will boost trade efficiency and competitiveness. Finally, strengthening trade agreements and forging strategic global partnerships will help India secure a more stable and favorable position in international trade.

Conclusion

The data shows that India’s exports are growing steadily, with the USA remaining the largest export destination. Services exports play a major role in reducing the trade deficit. However, global trade barriers, geopolitical tensions, and infrastructure constraints continue to challenge export growth. Strengthening trade agreements, supporting MSMEs, and improving export competitiveness are essential for enhancing India’s position in international trade.

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